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INCOME TAX LAW PART – II

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CHAPTER - 4

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

4.1 CLUBBING OF INCOME – AN INTRODUCTION

Under the Income-tax Act, 1961, an assessee is generally taxed in respect of his own income. However, there are certain cases where an assessee has to pay tax in respect of income of another person. The provisions for the same are contained in sections 60 to 64 of the Act. These provisions have been enacted to counteract the tendency on the part of the tax-payers to dispose of their property or transfer their income in such a way that their tax liability can be avoided or reduced.

These provisions can be categorized as follows:

- Income of other persons included in an assessee's total income [Sections 60-63]
- Income of other persons included in an Individual's total income [Section 64]

Note - In the case of individuals, income-tax is levied on a slab system on the total income. The tax system is progressive i.e. as the income increases, the applicable rate of tax increases. Some taxpayers in the higher income bracket have a tendency to divert some portion of their income to their spouse, minor child etc. to minimize their tax burden. In order to prevent such tax avoidance, clubbing provisions have been incorporated in the Act, under which income arising to certain persons (like spouse, minor child etc.) have to be included in the income of the person who has diverted his income for the purpose of computing tax liability.

4.2 INCOME OF OTHER PERSONS INCLUDIBLE IN ASSESSEE'S TOTAL INCOME

4.2.1 Transfer of income without transfer of asset [Section 60]

- (i) If any person transfers the income from any asset without transferring the asset itself, such income is to be included in the total income of the transferor.
- (ii) It is immaterial whether the transfer is revocable or irrevocable and whether it was made before the commencement of this Act or after its commencement.

Example : Mr. A confers the right to receive rent in respect of his house property to his wife, Mrs. A, without transferring the house itself to her. In this case, the rent received by Mrs. A will be clubbed with the income of Mr. A.

ILLUSTRATION 1

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

SOLUTION

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

4.2.2 Income arising from revocable transfer of assets [Section 61]

All income arising to any person by virtue of a revocable transfer of assets is to be included in the total income of the transferor.

Meaning of revocable transfer [Section 63]

Transfer is deemed to be revocable if—

- (a) it contains any provision for the retransfer, directly or indirectly, of the whole or any part of the income or assets to the transferor, or
- (b) it gives, in any way to the transferor, a right to reassume power, directly or indirectly, over the whole or any part of the income or the assets.

Clubbing provision will operate even if only part of income of the transferred asset had been applied for the benefit of the transferor. Once the transfer is revocable, the entire income from the transferred asset is includible in the total income of the transferor.

Exception where clubbing provisions are not attracted even in case of revocable transfer [Section 62]

Section 61 will not apply to any income arising to any person if there is –

- (i) a transfer by way of trust which is not revocable during the life time of the beneficiary; and
- (ii) any other transfer, which is not revocable during the life time of the transferee.

In the above cases, the income from the transferred asset is not includible in the total income of the transferor, provided the transferor derives no direct or indirect benefit from such income.

If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the life time of the beneficiary or transferee, as the case may be.

As and when the power to revoke the transfer arises, the income arising by virtue of such transfer will be included in the total income of the transferor.

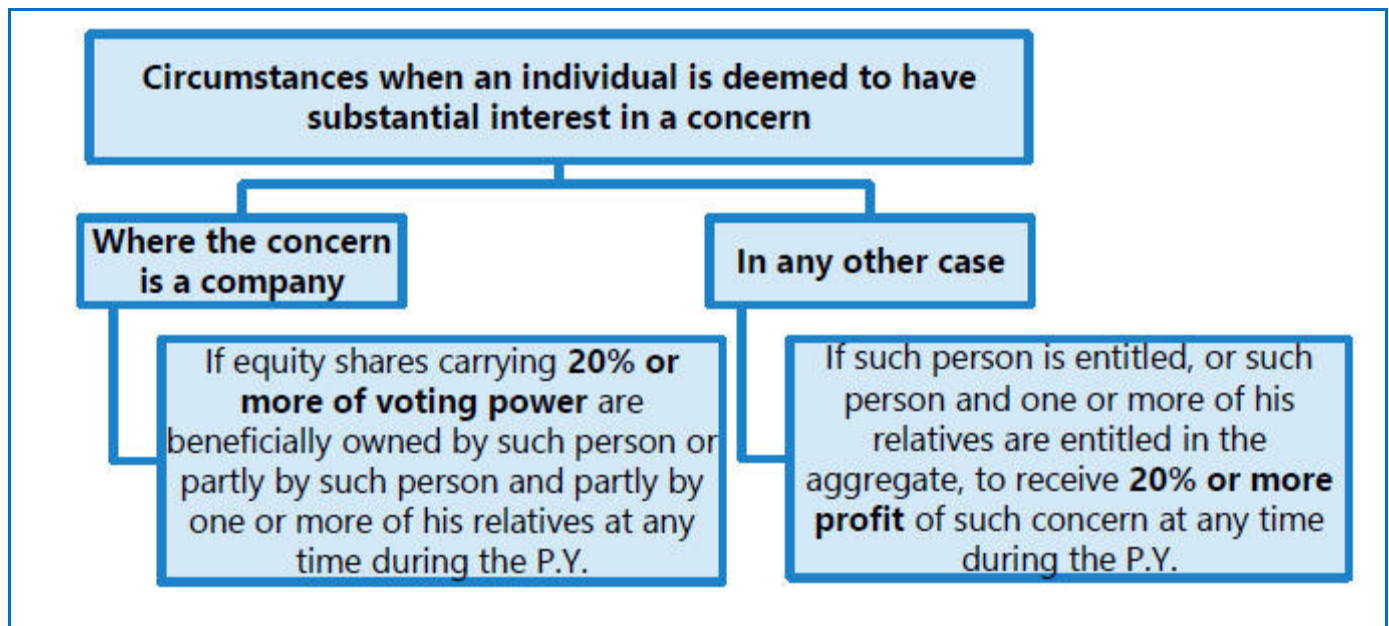
Example : Mr. Rajesh transfers his house property to a trust for the benefit of Mr. Ramesh till his death. This is a situation of irrevocable transfer till the death of Mr. Ramesh. Hence, till then, the income from house property would be taxable in the hands of the transferee i.e., the trust. However, after the death of Mr. Ramesh, the income from house property would be included in the total income of Mr. Rajesh as on that date, the transfer has become revocable.

4.3 INCOME OF OTHER PERSONS INCLUDIBLE IN INDIVIDUAL'S TOTAL INCOME**4.3.1 Clubbing of Income Arising to Spouse**

- (I) **Income by way of remuneration from a concern in which the individual has substantial interest [Section 64(1)(ii)]**

- (i) **Remuneration in cash or kind to spouse from a concern in which the individual has a substantial interest to be clubbed:** In computing the total income of any individual, all such

income which arises, directly or indirectly, to the spouse of such individual by way of salary, commission, fees or any other form of remuneration, whether in cash or in kind, from a concern in which such individual has a substantial interest shall be included.



The term '**relative**' in relation to an individual means the husband, wife, brother or sister or any lineal ascendant or descendant of that individual [Section 2(41)].

- (ii) **Clubbing provisions will not apply where remuneration is received on account of technical or professional qualifications:** Clubbing provisions, however, does not apply where the spouse of the said individual possesses technical or professional qualifications and the income to the spouse is solely attributable to the application of his/her technical or professional knowledge or experience. In such an event, the income arising to such spouse is to be assessed in his/her hands.
- (iii) **Both husband and wife have substantial interest in a concern:** Where both husband and wife have substantial interest in a concern and both are in receipt of income by way of salary etc. from the said concern, such income will be includible in the hands of that spouse, whose total income, excluding such income is higher.

Where any such income is once included in the total income of either spouse, income arising in the succeeding year shall not be included in the total income of the other spouse unless the Assessing Officer is satisfied, after giving that spouse an opportunity of being heard, that it is necessary to do so.

ILLUSTRATION 2

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2024-25.

SOLUTION

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A ($\text{₹ } 30,000 \times 12$)	3,60,000	
Less: Standard deduction under section 16(ia)	50,000	3,10,000
Other Income		7,00,000
Gross total income		10,10,000

The gross total income of Mrs. A is ₹ 4,00,000.

ILLUSTRATION 3

Will your answer be different if Mrs. A was qualified for the job?

SOLUTION

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000 [Other income].

Gross total income of Mrs. A = Salary received by Mrs. A [$\text{₹ } 30,000 \times 12$] less ₹ 50,000, being the standard deduction under section 16(ia) plus other income [$\text{₹ } 4,00,000$] = ₹ 7,10,000

ILLUSTRATION 4

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2024-25.

SOLUTION

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head "Salary" of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
Gross total income	3,74,000

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary		
[Clubbed in the hands of Mr. B]		Nil
Income from house property		
Gross Annual Value [$\text{₹ } 6,000 \times 12$]	72,000	

Particulars	₹	₹
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of ₹ 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

(II) Income arising to the spouse from an asset transferred without adequate consideration [Section 64(1)(iv)]

- (i) Transfer of asset (other than house property):** Where there is a transfer of an asset (other than house property), directly or indirectly, from one spouse to the other, without adequate consideration or otherwise than in connection with an agreement to live apart, any income arising to the transferee-spouse from the transferred asset, either directly or indirectly, shall be included in the total income of the transferor-spouse.
- (ii) Transfer of house property:** In the case of transfer of house property, the provisions are contained in section 27. If an individual transfers a house property to his spouse, without adequate consideration or otherwise than in connection with an agreement to live apart, the transferor shall be deemed to be the owner of the house property and its annual value will be taxed in his hands.
- (iii) Income from accretion of the transferred asset:** It may be noted that any income from the accretion of the transferred asset is not to be clubbed with the income of the transferor. i.e., the income arising on transferred assets alone have to be clubbed. Income earned by investing such income (arising from transferred asset) cannot be clubbed.
- (iv) Meaning of adequate consideration:** It is also to be noted that natural love and affection do not constitute adequate consideration. Therefore, where an asset is transferred without adequate consideration, the income from such asset will be clubbed in the hands of the transferor.
- (v) Transferred asset invested in business:** Where the assets transferred, directly or indirectly, by an individual to his spouse are invested by the transferee in the business, proportionate income arising to the transferee from such investment is to be included in the total income of the transferor. If the investment is in the nature of contribution of capital, proportionate interest receivable by the transferee from the firm will be clubbed with the income of the transferor.

Such proportion has to be computed by taking into account the value of the aforesaid investment **as on the first day of the previous year** to the total investment in the business or by way of capital contribution in a firm as a partner, as the case may be, by the transferee as on that day.

ILLUSTRATION 5

Mr. Vaibhav started a proprietary business on 01.04.2022 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2023-24. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

SOLUTION

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2023 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2023	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2023 (3:5)	1,50,000 $\left(4,00,000 \times \frac{3}{8}\right)$	$\left(4,00,000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is ₹ 2,50,000.

In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

(III) Transfer of assets for the benefit of spouse [Section 64(1)(vii)]

All income arising directly or indirectly to any person or association of persons, from the assets transferred, directly or indirectly, to such person or association of persons by an individual without adequate consideration is includible in the income of the individual to the extent such income is used by the transferee for the immediate or deferred benefit of the transferor's spouse.

4.3.2 Clubbing of income arising to son's wife**(I) Income arising to son's wife from the assets transferred without adequate consideration by the father-in-law or mother-in-law [Section 64(1)(vi)]**

- (i) Asset transferred without adequate consideration:** Where an asset is transferred, directly or indirectly, by an individual to his or her son's wife without adequate consideration, the income from such asset is to be included in the total income of the transferor.
- (ii) Asset transferred invested in the business:** For this purpose, where the assets transferred directly or indirectly by an individual to his or her son's wife are invested by the transferee in the business, proportionate income arising from such investment is to be included in the total income of the transferor. If the investment is in the nature of contribution of capital, the proportionate interest receivable from firm will be clubbed with the income of the transferor.

Such proportion has to be computed by taking into account the value of the aforesaid investment **as on the first day of the previous year** to the total investment in the business or by way of capital contribution in a firm as a partner, as the case may be, by the transferee as on that day.

(II) Transfer of assets for the benefit of son's wife [Section 64(1)(viii)]

All income arising directly or indirectly, to any person or association of persons from the assets transferred, directly or indirectly, without adequate consideration, to such person or association of persons by an individual will be included in the total income of the individual to the extent such income is used by the transferee for the immediate or deferred benefit of the transferor's son's wife.

Where any asset is transferred by a person to any other person without consideration or for inadequate consideration, the provisions of 56(2)(x) would get attracted in the hands of transferee, if conditions specified thereunder are satisfied.

ILLUSTRATION 6

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property. Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

SOLUTION

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

Note – If the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

4.3.3 Clubbing of minor's income [Section 64(1A)]

- (i) All income of a minor is to be included in the income of his or her parent.
- (ii) However, the income derived by the minor from manual work or from any activity involving his skill, talent or specialised knowledge or experience will not be included in the income of his parent.
- (iii) The income of the minor will be included in the income of that parent, whose total income, excluding minor's income, is greater.
- (iv) Once clubbing of minor's income is done with that of one parent, it will continue to be clubbed with that parent only, in subsequent years. The Assessing Officer, may, however, club the minor's income with that of the other parent, if, after giving the other parent an opportunity to be heard, he is satisfied that it is necessary to do so.
- (v) Where the marriage of the parents does not subsist, the income of the minor will be includible in the income of that parent who maintains the minor child in the relevant previous year.

- (vi) However, the income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the hands of the parent but shall be assessed in the hands of the child.
- (vii) It may be noted that the clubbing provisions are attracted even in respect of income of minor married daughter.

Exemption in respect of clubbed income of minor [Section 10(32)]

In case the income of an individual (i.e. the parent) includes the income of his minor child in terms of section 64(1A), such parent shall be entitled to exemption of ₹ 1,500 in respect of each minor child. However, if income of any minor so includible is less than ₹ 1,500, then, the entire income shall be exempt.

Exemption under section 10(32) would be available to the parent only if he/she exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The same would not be available to him/her under the default tax regime where he/she computes his/her total income as per section 115BAC and pays tax at the concessional rates provided thereunder.

- (viii) In case the asset transferred to a minor child (not being a minor married daughter) without consideration or for inadequate consideration is a house property, then, by virtue of section 27(i), the transferor-parent will be the deemed owner of the house property. Therefore, the income from house property will be taxable in the hands of the transferor-parent, being the deemed owner and not in the hands of the minor child. Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of such income, due to which the benefit of exemption u/s 10(32) (discussed above) cannot be availed against such income.

However, if the house property is transferred by a parent to his or her minor married daughter, without consideration or for inadequate consideration, then, section 27(i) is **not** attracted. In such a case, the income from house property will be included u/s 64(1A) in the hands of that parent, whose total income before including minor child's income is higher; and benefit of exemption u/s 10(32) can be availed by that parent in respect of the income so included if he/she exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 7

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2023 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

SOLUTION

Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt under section 10(32) [₹ 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. A		1,000

Note – As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000] would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

ILLUSTRATION 8

Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2023 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required.

SOLUTION

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

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

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		

Particulars	₹	₹
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less : Exemption under section 10(32)	1,500	1,500
Gross Total Income		4,05,000

4.4 CROSS TRANSFERS

In the case of cross transfers also (e.g., A making gift of ₹ 50,000 to the wife of his brother B for the purchase of a house by her and a simultaneous gift by B to A's minor son of shares in a foreign company worth ₹ 50,000 owned by him), the income from the assets transferred would be assessed in the hands of the deemed transferor if the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, in the instant case, the transfers have been made by A and B to persons who are not their spouse or minor child so as to circumvent the provisions of this section, showing that such transfers constituted consideration for each other.

The Supreme Court, in case of CIT v. Keshavji Morarji [1967] 66 ITR 142, observed that if two transactions are inter-connected and are parts of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. Accordingly, the income arising to Mrs. B from the house property should be included in the total income of B and the dividend from shares transferred to A's minor son would be taxable in the hands of A, assuming that Mr. A's income is higher than that of Mrs. A. This is because A and B are the indirect transferors to their minor child and spouse, respectively, of income-yielding assets, so as to reduce their burden of taxation.

ILLUSTRATION 9

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2023. On 12-7-2023, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2023 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

SOLUTION

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2023 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2023. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142.

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife

would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

4.5 CONVERSION OF SELF-ACQUIRED PROPERTY INTO THE PROPERTY OF A HINDU UNDIVIDED FAMILY [SECTION 64(2)]

Section 64(2) deals with the case of conversion of self-acquired property into property of a Hindu undivided family.

- (i) Where an individual, who is a member of the HUF, converts at any time after 31-12-1969, his individual property into property of the HUF of which he is a member or throws such property into the common stock of the family or otherwise transfers such individual property, directly or indirectly, to the family otherwise than for adequate consideration, the income from such property shall continue to be included in the total income of the individual.
- (ii) Where the converted property has been partitioned, either by way of total or partial partition, the income derived from such converted property as is received by the spouse on partition will be deemed to arise to the spouse from assets transferred indirectly by the individual to the spouse and consequently, such income shall also be included in the total income of the individual who effected the conversion of such property.
- (iii) Where income from the converted property is included in the total income of an individual under section 64(2), it will be excluded from the total income of the family or, as the case may be, of the spouse of the individual.

4.6 INCOME INCLUDES LOSS

As per the Explanation 2 to section 64, 'income' would include 'loss'. Accordingly, where the specified income to be included in the total income of the individual is a loss, such loss will be taken into account while computing the total income of the individual. It is significant to note that this Explanation applies to clubbing provisions under both sections 64(1) and 64(2).

4.7 DISTINCTION BETWEEN SECTION 61 AND SECTION 64

It may be noted that the main distinction between the two sections is that section 61 applies only to a revocable transfer made by any person while section 64 applies to revocable as well as irrevocable transfers made only by individuals.

Clubbing provisions are attracted in respect of income arising from the assets transferred, however, income arising on accretion of income arising from transferred asset, would not be clubbed except in case of minor child.

Example : Mr. X transferred debentures of ₹ 50,000 carrying 10% p.a. interest to his wife. The interest income of ₹ 5,000 would be clubbed in the hands of Mr. X. However, in case his wife deposited ₹ 5,000 in fixed deposits @8% p.a., the interest income of ₹ 400 arising on FDR would not be clubbed in the hands of Mr. X.

LET US RECAPITULATE

Section	Income to be clubbed	Content
60	Income transferred without transfer of asset	When a person transfers the income accruing from an asset without the transfer of the asset itself, such income is to be included in the total income of the transferor, whether the transfer is revocable or irrevocable.
61	Income arising from revocable transfer of assets	Such income is to be included in the hands of the transferor. A transfer is deemed to be revocable if it – (i) contains any provision for re-transfer of the whole or any part of the income or assets to the transferor; or (ii) gives right to re-assume power over the whole or any part of the income or the asset.
64(1)(ii)	Income arising to spouse by way of remuneration from a concern in which the individual has substantial interest	Such income arising to spouse is to be included in the total income of the individual. However, if remuneration received is attributable to the application of technical or professional knowledge and experience of spouse, then, such income is not to be clubbed.
64(1)(iv)	Income arising to spouse from assets transferred without adequate consideration	Income arising from an asset (other than house property) transferred otherwise than for adequate consideration or not in connection with an agreement to live apart, from one spouse to another shall be included in the total income of the transferor. However, this provision will not apply in the case of transfer of house property, since the transferor-spouse would be the deemed owner as per section 27.
64(1)(vi)	Income arising to son's wife from an asset transferred without adequate consideration	Income arising from an asset transferred otherwise than for adequate consideration, by an individual to his or her son's wife shall be included in the total income of the transferor.
64(1)(vii)/ 64(1)(viii)	Income arising from transfer of assets for the benefit of spouse or son's wife	All income arising to any person or association of persons from assets transferred without adequate consideration is includible in the income of the transferor, to the extent such income is used by the transferee for the immediate or deferred benefit of the transferor's spouse or son's wife.
64(1A)	Income of minor child	All income arising or accruing to a minor child (including a minor married daughter) shall be included in the total income of his or her parent. The income of the minor child shall be included with the income of that parent, whose total income, before including minor's income, is higher.

Section	Income to be clubbed	Content
		Where the marriage of the parents does not subsist, the income of the minor will be includible in the income of that parent who maintains the minor child in the relevant previous year. The parent, in whose total income, the income of the minor child or children are included, shall be entitled to exemption of such income subject to a maximum of ₹ 1,500 per child under section 10(32). Exemption under section 10(32) would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The following income of a minor child shall, however, not be clubbed in the hands of his or her parent – (a) Income from manual work done by him or activity involving application of minor's skill, talent or specialized knowledge and experience; and (b) Income of a minor child suffering from any disability specified in section 80U. In case the asset transferred to a minor child (not being a minor married daughter) without consideration or for inadequate consideration is house property, then, by virtue of section 27(i), the transferor-parent will be the deemed owner of the house property. Therefore, the income from house property will be taxable in the hands of the transferorparent, being the deemed owner and not in the hands of the minor child. Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of such income, due to which the benefit of exemption u/s 10(32) cannot be availed against such income. However, if the house property is transferred by a parent to his or her minor married daughter without consideration or for inadequate consideration, then, section 27(i) is not attracted. In such a case, the income from house property will be included u/s 64(1A) in the hands of that parent, whose total income before including minor child's income is higher; and benefit of exemption u/s 10(32) can be availed by that parent in respect of the income so included if he/she exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
64(2)	Conversion of self-acquired property into the property of a HUF	Where an individual, who is a member of the HUF, converts his individual property into property of the HUF of which he is a member, directly or indirectly, to the family otherwise than for adequate consideration, the income from such property

Section	Income to be clubbed	Content
		shall continue to be included in the total income of the individual. Where the converted property has been partitioned, either by way of total or partial partition, the income derived from such converted property as is received by the spouse on partition shall also be included in the total income of the individual who effected the conversion of such property.

Note: As per Explanation 2 to section 64 'income' includes 'loss'. Therefore, clubbing provisions would be attracted in all the above cases, even if there is a loss and not income.

TEST YOUR KNOWLEDGE

- Mr. Sharma has four minor children - 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- During the previous year 2023-24, the following transactions occurred in respect of Mr. A.
 - Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2023 to 31-3-2024 to the savings bank account of Mr. B, son of his brother, to help him in his education.
 - Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
 - Mr. A gifted a flat to Mrs. A on April 1, 2023. During the previous year 2023-24, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
 - Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
 - Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

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

- A proprietary business was started by Smt. Rani in the year 2021. As on 1.4.2022 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2022 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2022-23, ₹ 1,50,000 and Financial year 2023-24 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2024-25 with reasons.

5. Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(i)	Income from B's profession	45,000
(ii)	Mrs. B's salary as fashion designer	76,000
(iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv)	Minor daughter P's earnings from sports	95,000
(v)	D's winnings from lottery (gross)	1,95,000

Examine the tax implications in the hands of Mr. and Mrs. B.

ANSWERS

1. As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma

	Particulars	₹
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt under section 10(32) (₹ 1,500 + ₹ 1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

- (1) The income does not accrue or arise to the minor children on account of any manual work done by

them or activity involving application of their skill, talent or specialized knowledge and experience;

- (2) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (3) This is the first year in which clubbing provisions are attracted.

2. Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2024-25

Particulars	Mr. A (₹)		Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"				
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000×12)		1,20,000	-	
Less: Standard deduction under section 16(ia)		50,000	50,000	
		70,000	1,90,000	
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son under section 64(1A)		1,92,000	1,90,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his father.

- (5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of ₹ 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

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

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

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

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

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

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

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

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

4. Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is computed as under:

Particulars	Smt. Rani's Capital Contribution ₹	Capital Contribution Out of gift from husband ₹	Total ₹
Capital as at 1.4.2022	3,00,000	-	3,00,000
Investment on 10.04.2022 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2022	1,50,000		1,50,000
Capital employed as at 1.4.2023	4,50,000	2,00,000	6,50,000
Profit for F.Y.2023-24 to be apportioned on the basis of capital employed as at 1.4.2023 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is ₹ 1,20,000.

5. Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

- (i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- (ii) Salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- (iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

- (iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.



CHAPTER - 5

AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

5.1 AGGREGATION OF INCOME

In certain cases, some amounts are deemed as income in the hands of the assessee though they are actually not in the nature of income. These cases are contained in sections 68, 69, 69A, 69B, 69C and 69D. These are discussed in detail in Chapter 1. The Assessing Officer may require the assessee to furnish explanation in such cases. If the assessee does not offer any explanation or the explanation offered by the assessee is not satisfactory, the amounts referred to in these sections would be deemed to be the income of the assessee. Such amounts have to be aggregated with the assessee's income.

5.2 CONCEPT OF SET-OFF AND CARRY FORWARD OF LOSSES

Specific provisions have been made in the Income-tax Act, 1961 for the set-off and carry forward of losses. In simple words, "Set-off" means adjustment of losses against the profits from another source/head of income in the same assessment year. If losses cannot be set-off in the same year due to inadequacy of eligible profits, then such losses are carried forward to the next assessment year for adjustment against the eligible profits of that year. The maximum period for which different losses can be carried forward for set-off has been provided in the Act.

5.3 INTER SOURCE ADJUSTMENT [SECTION 70]

- (i) **Inter-source set-off of losses:** Under this section, the losses incurred by the assessee in respect of one source shall be set-off against income from any other source under the same head of income, since the income under each head is to be computed by grouping together the net result of the activities of all the sources covered by that head. In simpler terms, loss from one source of income can be adjusted against income from another source, both the sources being under the same head.

Example : Loss from one house property can be set off against the income from another house property.

Example : Loss from one business, say textiles, can be set off against income from any other business, say printing, in the same year as both these sources of income fall under one head of income. Therefore, the loss in one business may be set-off against the profits from another business in the same year.

- (ii) **Impermissible inter-source set-off:** Inter-source set-off, however, is not permissible in the following cases -

(a) Long-term capital loss [Section 70(3)]

Short-term capital loss is allowed to be set off against both short-term capital gain and long-term capital gain. However, long-term capital loss can be set-off only against long-term capital gain and not against short-term capital gain.

(b) Speculation loss [Section 73(1)]

A loss in speculation business can be set-off only against the profits of any other speculation business and not against any other business or professional income.

However, losses from other business can be adjusted against profits from speculation business.

(c) Loss from the activity of owning and maintaining race horses [Section 74A(3)]

Such loss can be set-off only against income from the activity of owning and maintaining race horses.

(d) Losses from Specified business [Section 73A(1)]

In case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), loss in any specified business referred in section 35AD can be set-off only against any other specified business.

However, losses from other business can be set-off against profits from specified business.

Loss from an exempt source cannot be set-off against income from a taxable source of income.

5.4 INTER HEAD ADJUSTMENT [SECTION 71]

Loss under one head of income can be adjusted or set off against income under another head. However, the following points should be considered:

- (i) Loss under any head other than capital gains:** Where the net result of the computation under any head of income (other than "Capital Gains") is a loss, the assessee can set-off such loss against his income assessable for that assessment year under any other head, including "Capital Gains".
- (ii) Loss under the head "Profits and gains from business or profession":** Where the net result of the computation under the head "Profits and gains of business or profession" is a loss, such loss cannot be set off against income under the head "Salaries". It shall be allowed to set off from income under any other head except "Salaries".
- (iii) Loss under the head "Capital Gains":** Where the net result of computation under the head 'Capital Gains' is a loss, whether short term or long term, such capital loss cannot be set-off against income under any other head.
- (iv) Loss under the head "Income from house property":** The loss under the head "Income from house property" would not be allowable to be set-off against income under the other head if the assessee pays tax at concessional rate u/s 115BAC.

However, if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) and there is a loss under the head "Income from house property" and the assessee has income assessable under any other head of income, the maximum loss from house property which can be set-off against income from any other head is ₹ 2 lakhs. In other words, in such case, the amount of such loss exceeding ₹ 2 lakhs would not be allowable to be set-off against income under the other head.

- (v) Speculation loss and loss from the activity of owning and maintaining race horses** cannot be set off against income under any other head.
- (vi) Losses from Specified business u/s 35AD:** In case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), loss from specified business referred to in section 35AD can be set off only against income from any other specified business. Such loss cannot be set off against income under any other head.

If the income from a source is exempt from tax, loss from that exempt source cannot be set off against taxable income from a different source or taxable income under a different head.

5.5 CARRY FORWARD & SET-OFF OF LOSS FROM HOUSE PROPERTY [SECTION 71B]

(i) Set-off and Carry Forward & Set-off of losses

- (a) **If the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A):** In any assessment year, if there is a loss under the head “Income from house property”, such loss will first be set-off against income from any other head to the extent of ₹ 2,00,000 during the same year. The unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head “Income from house property”.
- (b) **If the assessee pays tax at concessional rate u/s 115BAC:** The loss under the head “Income from house property” would not be allowable to be set-off against income under any other head. The unabsorbed loss will be carried forward to the following assessment year to be set-off against income under the head “Income from house property”.

(ii) Maximum period for carry forward & set-off of losses:

The loss under the head “Income from house property” is allowed to be carried forward upto 8 assessment years immediately succeeding the assessment year in which the loss was first computed.

Once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming assessment years.

ILLUSTRATION 1

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

- (i) He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
(ii) He pays tax under the default tax regime.

SOLUTION

- (i) 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 71(3A)	(-) 2,00,000	2,00,000

Particulars	Amount (₹)	Amount (₹)
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. Therefore, the loss of ₹ 2,20,000 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.

5.6 CARRY FORWARD AND SET-OFF OF BUSINESS LOSSES [SECTIONS 72]

Under the Act, the assessee has the right to carry forward the loss from business and profession in cases where such loss cannot be set-off due to the absence or inadequacy of income under any other head in the same year. The loss so carried forward can be set-off against the profits of subsequent previous years.

Section 72 covers the carry forward and set-off of losses arising from a business or profession.

Conditions

The assessee's right to carry forward business losses under this section is, however, subject to the following conditions:

- (i) The loss should have been incurred in business, profession or vocation.
- (ii) The loss should not be in the nature of a loss in the business of speculation.

(iii) Loss from one business can be carried forward & set-off against the income from any other business:

The loss may be carried forward and setoff against the income from business or profession though not necessarily against the profits and gains of the same business or profession in which the loss was incurred.

However, a loss carried forward cannot, under any circumstances, be set-off against the income from any head other than "Profits and gains of business or profession".

(iv) Person who incurred the loss alone is entitled to carry forward & set-off the loss:

The loss can be carried forward and set off only against the profits of the assessee who incurred the loss. That is, only the person who has incurred the loss is entitled to carry forward & set off the same. Consequently, the successor of a business cannot carry forward & set off the losses of his predecessor except in the case of succession by inheritance.

(v) Maximum period for carry forward & set-off of losses:

A business loss can be carried forward for a maximum period of 8 assessment years immediately succeeding the assessment year in which the loss was incurred.

ILLUSTRATION 2

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?

SOLUTION

Total income of Mr. B for the A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		

Particulars	Amount (₹)	Amount (₹)
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:

- (i) 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. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any.
- (ii) 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.
- (iii) 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.
- (iv) 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.

5.7 LOSSES IN SPECULATION BUSINESS [SECTION 73]

The meaning of the expression 'speculative transaction' as defined in section 43(5) and the treatment of income from speculation business has already been discussed under the head "Profits and gains of business or profession".

- (i) Set-off and carry forward & set-off of loss from speculation business:** Since speculation is deemed to be a business distinct and separate from any other business carried on by the assessee, the losses incurred in speculation business can neither be set off in the same year against any other nonspeculation income nor be carried forward and set off against other income in the subsequent years.

Therefore, if the losses sustained by an assessee in a speculation business cannot be set-off in the same year against any other speculation profit, they can be carried forward to subsequent years and set-off only against income from any speculation business carried on by the assessee. Loss from the activity of trading in derivatives, however, is not to be treated as speculative loss.

(ii) Maximum period for carry forward & set-off of losses: The loss in speculation business can be carried forward only for a **maximum period of 4 years** from the end of the relevant assessment year in respect of which the loss was computed.

(iii) When a business of a company deemed to be carrying on a speculation business: The Explanation to this section provides that where any part of the business of a company consists in the purchase and sale of the shares of other companies, such company shall be deemed to be carrying on speculation business to the extent to which the business consists of the purchase and sale of such shares.

However, this deeming provision does not apply to the following companies –

- (1) A company whose gross total income consists of mainly income chargeable under the heads “Interest on securities”, “Income from house property”, “Capital gains” and “Income from other sources”;
- (2) A company, the principal business of which is –
 - (i) the business of trading in shares; or
 - (ii) the business of banking; or
 - (iii) the granting of loans and advances.

Thus, these companies would be exempted from the operation of this Explanation. Accordingly, if these companies carry on the business of purchase and sale of shares of other companies, they would not be deemed to be carrying on speculation business.

5.8 CARRY FORWARD & SET OFF OF LOSSES OF SPECIFIED BUSINESSES [SECTION 73A]

- (i) Set-off and Carry forward & set-off of losses of specified business:** An assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and carrying on specified business, can claim deduction u/s 35AD in respect of capital expenditure (other than land, goodwill and financial instruments) incurred in respect of such business, subject to fulfillment of specified conditions. Any loss computed in respect of the specified business referred to in section 35AD can, however, be set off only against profits and gains, if any, of any other specified business. The unabsorbed loss, if any, will be carried forward for set off against profits and gains of any specified business in the following assessment year and so on.
- (ii) Loss can be set-off indefinitely:** There is no time limit specified for carry forward and set-off and therefore, such loss can be carried forward indefinitely for set-off against income from specified business.

Under the optional tax regime, the loss of an assessee claiming deduction under section 35AD in respect of a specified business can be set-off against the profit of another specified business under section 73A, irrespective of whether the latter is eligible for deduction under section 35AD. An assessee can, therefore, set-off the losses of a hospital or hotel which begins to operate after 1st April, 2010 and which is eligible for deduction under section 35AD, against the profits of the existing business of operating a hospital (with atleast 100 beds for patients) or a hotel (of two-star or above category), even if the latter is not eligible for deduction under section 35AD.

5.9 LOSSES UNDER THE HEAD ‘CAPITAL GAINS’ [SECTION 74]

Carry forward & set-off of losses: Section 74 provides that where, for any assessment year, the net result under the head ‘Capital gains’ is short term capital loss or long term capital loss, the loss shall be carried forward to the following assessment year to be set off in the following manner:

- (i) **Short-term capital loss:** Where the loss so carried forward is a short-term capital loss, it shall be set off against any capital gains, short term or long term, arising in that year.
- (ii) **Long-term capital loss:** Where the loss so carried forward is a long-term capital loss, it shall be set off only against long term capital gain arising in that year.
- (iii) **Loss under head capital gains:** Net loss under the head capital gains cannot be set off against income under any other head.
- (iv) **Maximum period for carry forward & set-off of loss:** Any unabsorbed loss shall be carried forward to the following assessment year up to a maximum of 8 assessment years immediately succeeding the assessment year for which the loss was first computed.

Long-term capital gain exceeding ₹ 1,00,000 arising on sale of equity shares or units of equity oriented fund or unit of business trust on which STT is paid

- in respect of equity shares, both at the time of acquisition and sale and
- in respect of units of equity oriented fund or unit of business trust, at the time of sale is taxable under section 112A@10%. Long-term capital loss on sale of such shares/units can, therefore, be set-off and carried forward for set-off against longterm capital gains by virtue of section 70(3) and section 74.

ILLUSTRATION 3

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?

SOLUTION

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.

5.10 LOSSES FROM THE ACTIVITY OF OWNING AND MAINTAINING RACE HORSES [SECTION 74A(3)]

- (i) **Set-off and Carry forward & set-off of loss:** According to the provisions of section 74A(3), the losses incurred by an assessee from the activity of owning and maintaining race horses cannot be set-off against the income from any other source other than the activity of owning and maintaining race horses.
- (ii) **Maximum period for carry forward & set-off of losses:** Such loss can be carried forward for a maximum period of 4 assessment years for being setoff against the income from the activity of owning and maintaining race horses in the subsequent years.
- (iii) **Meaning of certain terms:**

Term	Meaning
Amount of loss incurred by the assessee in the activity of owning and maintaining racehorses	(i) In case assessee has no income by way of stake money – Amount of revenue expenditure incurred by the assessee wholly & exclusively for the purpose of maintaining race horses. (ii) In case assessee has income by way of stake money - The amount by which such income by way of stake money falls short of the amount of revenue expenditure incurred by the assessee wholly & exclusively for the purpose of maintaining race horses. i.e., Loss = Stake money – revenue expenditure for the purpose of maintaining race horses.
Horse race	A horse race upon which wagering or betting maybe lawfully made.
Income by way of stake money	The gross amount of prize money received on a race horse or race horses by the owner thereof on account of the horse or horses or anyone or more of the horses winning or being placed second or in any lower position in horse races.

ILLUSTRATION 4

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?

SOLUTION**Total income of Mr. D for the A.Y. 2024-25**

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2025-26		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	50,000	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be setoff against any other source/head of income.

5.11 ORDER OF SET-OFF OF LOSSES

As per the provisions of section 72(2), brought forward business loss is to be setoff before setting off unabsorbed depreciation. Therefore, the order in which setoff will be effected is as follows -

- Current year depreciation [Section 32(1)];
- Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
- Brought forward loss from business/profession [Section 72(1)];
- Unabsorbed depreciation [Section 32(2)];
- Unabsorbed capital expenditure on scientific research [Section 35(4)];
- Unabsorbed expenditure on family planning [Section 36(1)(ix)].

ILLUSTRATION 5

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.

SOLUTION

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.

5.12 SUBMISSION OF RETURN OF LOSSES [SECTION 80]

As per section 80,

- business loss under section 72(1),
- speculation business loss under section 73(2),
- loss from specified business under section 73A(2), in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A),
- loss under the head “Capital Gains” under section 74(1) and
- loss from activity of owning and maintaining race horses under section 74A(3),

which has not been determined in pursuance of a return filed under section 139(3) can not be carried forward and set-off. Thus, the assessee must have filed a return of loss under section 139(3) in order to carry forward and set off of such losses. Such a return of loss should be filed within the time allowed under section 139(1).

This condition does not apply to a loss from house property carried forward under section 71B and unabsorbed depreciation carried forward under section 32(2).

LET US RECAPITULATE

Inter-source and Inter-head set-off of losses [Sections 70 & 71]

Section	Provision	Exceptions
70	Inter-source set-off of losses under the same head of income Any loss in respect of one source shall be set-off against income from any other source under the same head of income. For example, • loss from textile business can be set-off against profit from printing business.	(i) Loss from speculation business can be set-off only against profits from another speculation business. (ii) Long term capital loss (LTCL) can be set-off only against Long term capital gains (LTCG). (iii) Loss from the activity of owning and maintaining race horses can be set-off only

Section	Provision	Exceptions
	- loss from one house property can be set-off against income from another house property. - short-term capital loss (STCL) can be set-off against both STCG and LTCG.	against income from the activity of owning and maintaining race horses. (iv) An assessee carrying on specified business u/s 35AD and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), would be eligible for deduction u/s 35AD. In such a case, loss from specified business under section 35AD can be set-off only against profits from any other specified business.
71	Inter head adjustment Loss under one head of income can be set-off against income assessable under any other head of income. For example, business loss can be set-off against income from house property.	(i) Loss under the head “Profits and gains of business or profession” cannot be set off against income under the head “Salaries” (ii) Loss under the head “Capital gains” cannot be set-off against income under any other head. (iii) Speculation loss and loss from the activity of owning and maintaining race horses cannot be set-off against income under any other head. (iv) In case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and claiming deduction u/s 35AD, loss from specified business u/s 35AD cannot be set off against income under any other head. (v) The loss under the head “Income from house property” would not be allowable to be set-off against income under the other head if the assessee pays tax at concessional rate u/s 115BAC. However, if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), loss from house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs. The remaining loss can be carried forward for set-off against income from house property of the succeeding year(s).

Losses which cannot be set-off or carried forward Loss from gambling, betting, card games etc.

Loss from an exempt source [for example, share of loss of partnership firm cannot be set-off against any other business income]

Maximum period of carry forward of losses & Manner of set-off of brought forward losses

Section	Nature of loss to be carried forward	Income against which the brought forward loss can be set-off	Maximum period [from the end of the relevant assessment year] for carry forward of losses
32(2)	Unabsorbed depreciation	Income under any head other than salaries	Indefinite period
71B	Unabsorbed loss from house property	Income from house property	8 assessment years
72	Unabsorbed business loss	Profits and gains from business or profession	8 assessment years
73	Loss from speculation business	Income from any speculation business	4 assessment years
73A	Loss from specified business u/s 35AD, in case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A)	Profit from any specified business, irrespective of whether such business is eligible for deduction u/s 35AD.	Indefinite period
74	Long-term capital loss	Long-term capital gains	8 assessment years
	Short-term capital loss	Short-term/Long-term capital gains	8 assessment years
74A	Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses.	4 assessment years

Order of set-off of losses

1. Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
2. Brought forward loss from business/profession [Section 72(1)]
3. Unabsorbed depreciation [Section 32(2)]
4. Unabsorbed capital expenditure on scientific research [Section 35(4)].
5. Unabsorbed expenditure on family planning [Section 36(1)(ix)]

Note - As per section 80, filing of loss return under section 139(3) within the due date specified under section 139(1) is mandatory for carry forward of the above losses except loss from house property and unabsorbed depreciation.

TEST YOUR KNOWLEDGE

1. 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

Particulars	₹
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)

2. 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).

3. 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:

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2021-22 - ₹ 25,000.
- (ii) 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.

4. 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 forward depreciation relating to A.Y. 2022-23	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).

5. 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).

6. 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.

7. 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).

8. 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:
- Compute the total income; and
 - 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

9. Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2024:

- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, being dividend income on listed equity shares of domestic companies.
- (vi) Brought forward business loss of A.Y. 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.

10. 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

Sl. No.	Particulars	₹
(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.

ANSWERS

1. 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 setoff against long-term capital gains, if any, during A.Y.2025-26.

2. 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 ironore 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).

3. 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 setoff 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.

4.

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:

1. **Income from retail trade:** Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.

2. **Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be ₹ 7,500 × 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

5. 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 setoff against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	

Particulars	₹	₹
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 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).	20,000
Loss from specified business Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000
Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2026-27, in this case, as specified under section 74A(3).	2,000

6. 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 [Shortterm 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.	

7. 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

Particulars	₹	₹
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.

8. 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:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be setoff against long-term capital gains of that year.

9. 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

Particulars	₹
Less: B/f business loss of A.Y. 2022-23 ₹ 12,50,000 to be setoff to the extent of ₹7,50,000	7,50,000
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	Nil
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000
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
Gross Total Income	3,06,000

Notes:

- Balance brought forward business loss of assessment year 2022-23 of ₹ 5,00,000 has to be carried forward to the next year.
- 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 longterm capital gain on sale of land as per section 70(3).

10. **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

Particulars	₹	₹
(b) Income from speculative business	12,000	Nil
Less : B/f loss of ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000	12,000	
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

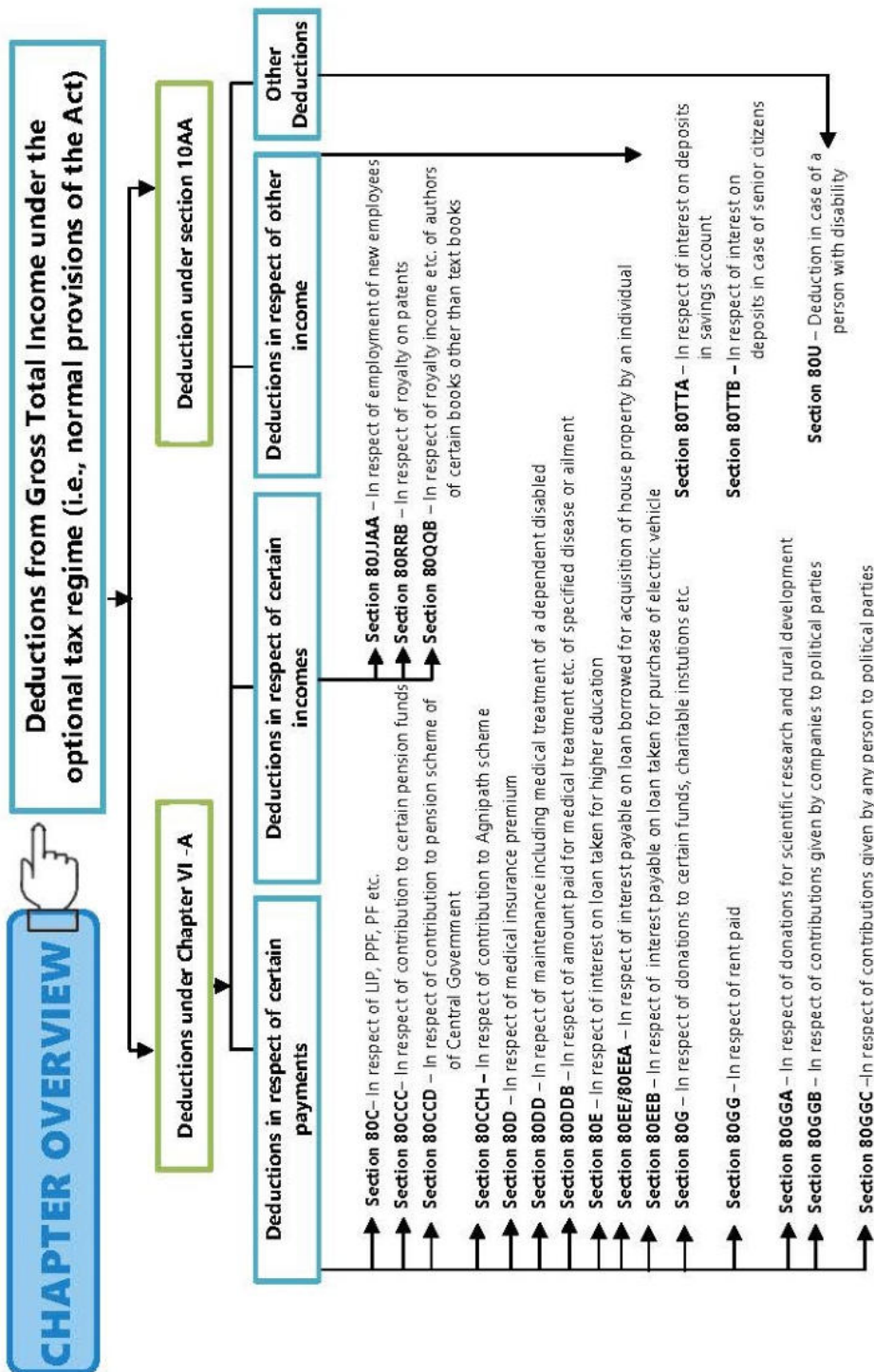
- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 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 - 6

DEDUCTIONS FROM GROSS TOTAL INCOME

DEDUCTIONS FROM GROSS TOTAL INCOME



Note – Only deductions u/s 80CCD(2) [Employer's contribution to pension scheme of Central Government], 80CCH(2) [Central Government's contribution to assessee's account in Agniveer Corpus Fund] and section 80JJAA would be available if the eligible assessee pays tax at concessional rates of tax u/s 115BAC under the default tax regime.

6.1 GENERAL PROVISIONS

The various items of income referred to in the different clauses of section 10 are excluded from the total income of an assessee. These incomes are known as exempted incomes. “**Exemption**” means exclusion. A particular income exempt from tax under section 10 shall not enter into the computation of taxable income. However, there are certain items of income referred to in section 10 which are not exempted if the assessee pays concessional rates of tax under the default tax regime u/s 115BAC, namely,

10(5)	Leave travel concession
10(13A)	House Rent Allowance
10(14)	Special Allowances except - (a) Travelling allowance (b) Daily allowance (c) Conveyance allowance (d) Transport allowance to blind/deaf and dumb/orthopedically handicapped employee
10(17)	Daily allowance/Constituency allowance received by any Member of Parliament or of State Legislatures
10(32)	Exemption in respect of income of minor child included in assessee's total income

- “**Deduction**” in relation to Chapter VI-A and section 10AA refers to the amount that is reduced from gross total income to arrive at the total income. There are incomes which are included in gross total income but are wholly or partly allowed as deduction under Chapter VI-A in computation of total income, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and pays tax as per the optional tax regime under the normal provisions of the Act.
- Deduction is allowed on specific investments or expenses incurred by the taxpayer to promote the culture of savings and investments. This could include medical expenditure, donations made to charities, investments made in specific avenues such as Public Provident Fund (PPF), National Pension Scheme (NPS) etc.
- However, if the assessee pays concessional rates of tax under default tax regime u/s 115BAC, only deduction in respect of employer's contribution to NPS u/s 80CCD(2), Central Government's contribution to Agnipath Scheme u/s 80CCH(2) and deduction in respect of employment of new employees u/s 80JJAA would be allowed to the assessee. He cannot claim deduction under any other provision in Chapter VI-A under the default tax regime.
- Section 10AA also provides for a deduction in respect of units established in SEZ from the total income of the assessee. It is available only if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). This deduction is not available if the assessee pays concessional rates of tax under the default tax regime u/s 115BAC.
- The tax liability is calculated on the “total income” which is arrived after reducing permissible deductions from gross total income.
- Students should note this very important difference between exemption under section 10 and the deduction under Chapter VI-A/10AA.

Difference between Deduction under Chapter VI-A & section 10AA and Exemption under section 10		
Particulars	Deduction (in relation to Chapter VI-A and section 10AA)	Exemption (contained in section 10)
Meaning	Investments/ contributions in certain instruments (as prescribed under the Income-tax Act). Payments made for certain purposes.	The incomes which are exempt under section 10 will not be included in computing gross total income.
Relevant Sections	Sections 80C to 80U in Chapter VI-A and section 10AA of the Income-tax Act.	Section 10 of the Income-tax Act.
Manner of treatment	First included in the Gross Total Income and then deductions will be allowed from Gross Total Income.	Not included in the Gross Total Income.

- The important point to be noted here is that if there is no gross total income, then no deductions will be permissible. This Chapter contains deduction under Chapter VI-A which includes deductions in respect of certain payments, deductions in respect of certain incomes, deductions in respect of other income and other deductions. It also includes deduction under section 10AA.

Section 80A :

- Section 80A(1) provides that in computing the total income of an assessee, there shall be allowed from his gross total income, the deductions specified in sections 80C to 80U *if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)*.
- According to section 80A(2), the aggregate amount of the deductions under this chapter shall not, in any case, exceed the gross total income of the assessee. Therefore, the total income after deductions will either be positive or nil. It cannot be negative due to deductions.
An assessee cannot have a loss as a result of the deduction under Chapter VI- A and claim to carry forward the same for the purpose of set-off against his income in the subsequent year.
- Section 80A(3) provides that in the case of AOP/BOI exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), if any deduction is admissible under section 80G/80GGA/80GGC¹, no deduction under the same section shall be made in computing the total income of a member of the AOP or BOI in relation to the share of such member in the income of the AOP or BOI.
- The profits and gains allowed as deduction under section 10AA or under any provision of Chapter VI-A under the heading "C.-Deductions in respect of certain incomes" in any assessment year, shall not be allowed as deduction under any other provision of the Act for such assessment year [Section 80A(4)].
- The deduction, referred to in (iv) above, shall not exceed the profits and gains of the undertaking or unit or enterprise or eligible business, as the case may be [Section 80A(4)].
- No deduction under any of the provisions referred to in (iv) above, shall be allowed if the deduction has not been claimed in the return of income [Section 80A(5)].
- The transfer price of goods and services between such undertaking or unit or enterprise or eligible business and any other business of the assessee shall be determined at the market value of such goods or services as on the date of transfer [Section 80A(6)].

(viii) For this purpose, the expression "market value" has been defined to mean,-

- (a) in relation to any goods or services sold or supplied, the price that such goods or services would fetch if these were sold by the undertaking or unit or enterprise or eligible business in the open market, subject to statutory or regulatory restrictions, if any;
 - (b) in relation to any goods or services acquired, the price that such goods or services would cost if these were acquired by the undertaking or unit or enterprise or eligible business from the open market, subject to statutory or regulatory restrictions, if any;
- (ix) Where a deduction under any provision of this Chapter under the heading “C – Deductions in respect of certain incomes” is claimed and allowed *to an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A)*, in respect of the profits of such specified business for any assessment year, no deduction under section 35AD is permissible in relation to such specified business for the same or any other assessment year.

In short, once the assessee has claimed the benefit of deduction under section 35AD for a particular year in respect of a specified business, he cannot claim benefit under Chapter VI-A under the heading “C.-Deductions in respect of certain incomes” for the same or any other year and *vice versa*. Further, if the assessee pays tax under default tax regime under section 115BAC, neither deduction under section 35AD nor deductions under Chapter VI-A under the heading “C.-Deductions in respect of certain incomes” would be available to him.

Section 80AB :

Deductions specified in Chapter VI-A under the heading “C.-Deductions in respect of certain incomes”, shall be allowed only to the extent such income computed in accordance with the provisions of the Income-tax Act, 1961 is included in the gross total income of the assessee.

Section 80AC :

Furnishing return of income on or before due date mandatory for claiming deduction under Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”

- (i) 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 benefit of deductions under any provision of Chapter VI-A under the heading “C. – Deductions in respect of certain incomes”.

Table showing the deductions contained in Chapter VI-A under the heading “C. – Deductions in respect of certain income”

Section	Deduction
80-IA	Deductions in respect of profits and gains from undertakings or enterprises engaged in infrastructure development/ operation/ maintenance, generation/ transmission/ distribution of power etc.
80-IAB	Deduction in respect of profits and gains derived by an undertaking or enterprise engaged in development of SEZ
80-IAC	Deduction in respect of profits and gains derived by an eligible start-up from an eligible business
80-IB	Deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings
80-IBA	Deduction in respect of profits and gains from housing projects/rental housing projects

80-IE	Deduction in respect of profits and gains from manufacture or production of eligible article or thing, substantial expansion to manufacture or produce any eligible article or thing or carrying on of eligible business in North-Eastern States
80JJA	Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste
80JJAA	Deduction in respect of employment of new employees
80LA	Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre
80M	Deduction in respect of certain inter-corporate dividends
80P	Deduction in respect of income of co-operative societies
80PA	Deduction in respect of certain income of Producer Companies
80QQB	Deduction in respect of royalty income, etc., of authors of certain books other than text books
80RRB	Deduction in respect of royalty on patents

- (ii) The effect of this provision is that, in case of failure to file return of income on or before the stipulated due date, the undertakings would lose the benefit of deduction under these sections.

Note : The deductions under section 80-IA to 80-IE, 80JJA, 80LA, 80M, 80P and 80PA in respect of certain incomes will be dealt with in detail at the Final Level.

ILLUSTRATION 1 :

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).

SOLUTION :

- 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.

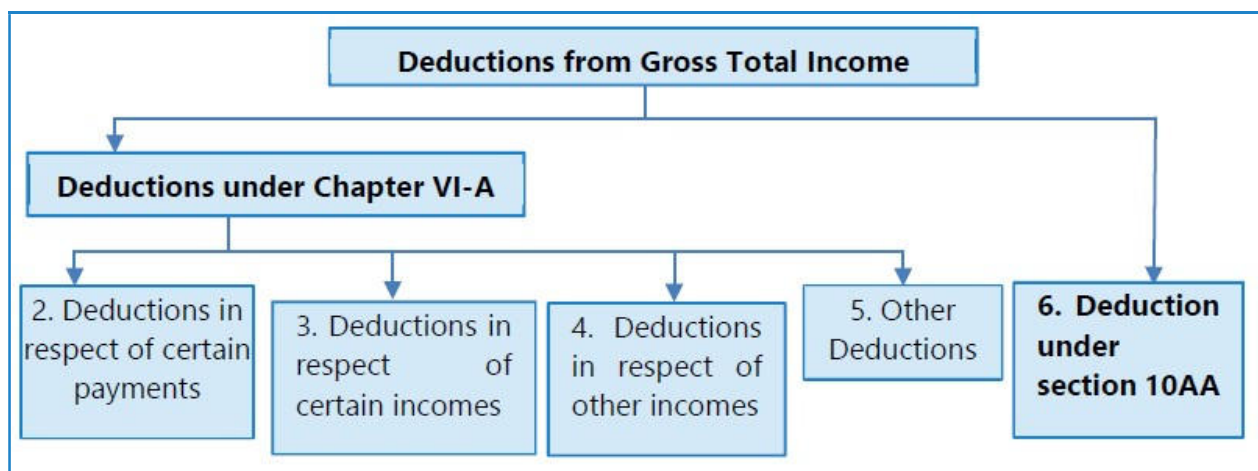
Section 80B(5) :

“Gross total income” means the total income computed in accordance with the provisions of the Act without making any deduction under Chapter VI-A. “Computed in accordance with the provisions of the Act” implies—

- that deductions under appropriate computation section have already been given effect to;
- that income of other persons, if includible under sections 60 to 64, has been included;

- (c) the intra head and/or inter head losses have been adjusted; and
- (d) that unabsorbed brought forward business losses, unabsorbed depreciation etc., have been set-off.

Two types of deductions are allowable from Gross Total Income - Deductions under Chapter VI-A and deduction under section 10AA which are discussed in this chapter.



6.2 DEDUCTIONS IN RESPECT OF CERTAIN PAYMENTS

6.2.1 Deduction in respect of investment in specified assets [Section 80C]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(i) Deduction in respect of investment / contributions

Section 80C provides for a deduction from the Gross Total Income of savings in specified modes of investments. *The deduction under section 80C is available only to an individual or HUF exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). It is not allowable under the default tax regime under section 115BAC.*

The maximum permissible deduction under section 80C is ₹ 1,50,000. The following are the investments/contributions eligible for deduction –

- (1) Contribution in Unit-linked Insurance Plan 1971 :** Contributions in the name of the individual, his or her spouse or any child of the individual for participation in the Unit-linked Insurance Plan 1971. In case of a HUF, the contribution can be in the name of any member.
- (2) Contribution in Unit-linked Insurance Plan of LIC Mutual Fund :** Contributions in the name of the individual, his or her spouse or any child of the individual for participation in any Unit linked Insurance Plan of the LIC Mutual Fund. In case of a HUF, the contribution can be in the name of any member.
- (3) Premium paid in respect of Life Insurance policy :** Premium paid on insurance on the life of the individual, spouse or any child (minor or major) and in the case of HUF, any member thereof. This will include a life policy and an endowment policy.

The following is a tabular summary of the deduction allowable under section 80C *vis-à-vis* the date of issue of such policies –

	Deduction u/s 80C
In respect of policies issued before 31.3.2012	Premium paid to the extent of 20% of “actual capital sum assured”.

In respect of policies issued on or after 1.4.2012 but before 1.4.2013	Premium paid to the extent of 10% of “actual capital sum assured” i.e., minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account – (i) the value of any premium agreed to be returned; or (ii) any benefit by way of bonus or otherwise over and above the sum actually assured, which is to be or may be received under the policy by any person.
In respect of policies issued on or after 1.4.2013	(a) Where the insurance is on the life of a person with disability or severe disability as referred to in section 80U or a person suffering from disease or ailment as specified under section 80DDB. Premium paid to the extent of 15% of “actual capital sum assured” [has the same meaning as described above].
	(b) Where the insurance is on the life of any person, other than mentioned in (a) above Premium paid to the extent of 10% of “actual capital sum assured” [has the same meaning as described above].

ILLUSTRATION 2 :

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

SOLUTION :

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2023-24 (₹)	Deduction 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	

ILLUSTRATION 3 :

What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC ?

SOLUTION :

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

(4) Premium paid in respect of a contract for deferred annuity

Premium paid to effect and keep in force a contract for a deferred annuity on the life of the individual and/or his or her spouse or any child, provided such contract does not contain any provision for the exercise by the insured of an option to receive cash payments in lieu of the payment of the annuity.

It is pertinent to note here that a contract for a deferred annuity need not necessarily be with an insurance company. It follows therefore that such a contract can be entered into with any person.

(5) Any sum deducted from the salary payable of a Government employee for securing a deferred annuity

Amount deducted by or on behalf of the Government from the salary of a Government employee in accordance with the conditions of his service for securing a deferred annuity or making provision for his spouse or children. The excess, if any, over one-fifth of the salary is to be ignored.

(6) Contribution to SPF/PPF/RPF

Contributions to any provident fund to which the Provident Funds Act, 1925 applies and recognized provident fund qualifies for deduction under section 80C.

Contribution made to any Provident Fund set up by the Central Government and notified in his behalf (i.e., the Public Provident Fund established under the Public Provident Fund Scheme, 1968) also qualifies for deduction under section 80C. Such contribution can be made in the name of the individual, his spouse and any child of the individual; and any member of the family, in case of a HUF. The maximum limit for deposit in PPF is ₹ 1,50,000 in a year.

ILLUSTRATION 4 :

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) ?

SOLUTION : 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

(7) Contribution to approved superannuation Fund :

Contribution by an employee to an approved superannuation fund qualifies for deduction under section 80C.

(8) Any sum paid or deposited in Sukanya Samriddhi Account

Subscription to any such security of the Central Government or any such deposit scheme as the Central Government as may notify in the Official Gazette. Accordingly, Sukanya Samriddhi Scheme has been notified to provide that any sum paid or deposited during the previous year in the said Scheme, by an individual in the name of –

- (a) any girl child of the individual; or
- (b) any girl child for whom such individual is the legal guardian would be eligible for deduction under section 80C.

Exemption on payment from Sukanya Samriddhi Account [Section 10(11A)]

Section 10(11A) provides that any payment from an account opened in accordance with the Sukanya Samriddhi Account Rules, 2014, made under the Government Savings Bank Act, 1873, shall not be included in the total income of the assessee. Accordingly, the interest accruing on deposits in, and withdrawals from any account under the said scheme would be exempt.

(9) Subscription to National Savings Certificates VIII

Subscription to any Savings Certificates under the Government Savings Certificates Act, 1959 notified by the Central Government in the Official Gazette (i.e. National Savings Certificate (VIII Issue) issued under the Government Savings Certificates Act, 1959).

(10) Contribution to approved annuity plan of LIC

Contributions to approved annuity plans of LIC (New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I and New Jeevan Akshay I, II and III) or any other insurer as the Central Government may, by notification in the Official Gazette, specify in this behalf.

(11) Subscription towards notified units of mutual fund or UTI

Subscription to any units of any mutual fund or from the Administrator or the specified company under any plan formulated in accordance with such scheme notified by the Central Government;

(12) Contribution to notified pension fund set up by mutual fund or UTI

Contribution by an individual to a pension fund set up by any Mutual Fund or by the Administrator or the specified company as the Central Government may specify (i.e., UTI-Retirement Benefit Pension Fund set up by the specified company referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 as a pension fund).

(13) Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008

Subscription to any deposit scheme or contribution to any pension fund set up by the National Housing Bank i.e., National Housing Bank (Tax Saving) Term Deposit Scheme, 2008.

(14) Subscription to notified deposit scheme

Subscription to any such deposit scheme of

- a public sector company which is engaged in providing long-term finance for construction, or purchase of houses in India for residential purposes; or

- any such deposit scheme of any authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both.

The deposit scheme should be notified by the Central Government, for example, public deposit scheme of HUDCO.

(15) Payment of tuition fees to any university, college, school or other educational institution within India for full-time education for maximum 2 children

Payment of tuition fees by an individual assessee at the time of admission or thereafter to any university, college, school or **other educational institutions within India** for the purpose of full-time education of any two children of the individual. This benefit is only for the amount of tuition fees for full-time education and shall not include any payment towards development fees or donation or payment of similar nature and payment made for education to any institution situated outside India.

(16) Repayment of housing loan including stamp duty, registration fee and other expenses

Any payment made towards the cost of purchase or construction of a new residential house property. The income from such property –

- should be chargeable to tax under the head “Income from house property”;
- would have been chargeable to tax under the head “Income from house property” had it not been used for the assessee’s own residence.

The approved types of payments are as follows:

- Any instalment or part payment of the amount due under any self- financing or other schemes of any development authority, Housing Board or other authority engaged in the construction and sale of house property on ownership basis; or
- Any instalment or part payment of the amount due to any company or a cooperative society of which the assessee is a shareholder or member towards the cost of house allotted to him; or
- Repayment of amount borrowed by the assessee from :
 - The Central Government or any State Government;
 - Any bank including a co-operative bank;
 - The Life Insurance Corporation;
 - The National Housing Bank;
 - Any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes which is eligible for deduction under section 36(1)(viii);
 - Any company in which the public are substantially interested or any cooperative society engaged in the business of financing the construction of houses;
 - The assessee’s employer, where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act;
 - the assessee’s employer where such employer is a public company or public sector company or a university established by law or a college affiliated to such university or a local authority or a co-operative society.
- Stamp duty, registration fee and other expenses for the purposes of transfer of such house property to the assessee.

Inadmissible payments : However, the following amounts do not qualify for rebate :

- (A) admission fee, cost of share and initial deposit which a shareholder of a company or a member of a co-operative society has to pay for becoming a shareholder or member; or
- (B) the cost of any addition or alteration or renovation or repair of the house property after the issue of the completion certificate in respect of the house property or after the house has been occupied by the assessee or any person on his behalf or after it has been let out; or
- (c) any expenditure in respect of which deduction is allowable under section 24.

(17) Subscription to certain equity shares or debentures

Subscription to equity shares or debentures forming part of any eligible issue of capital approved by the Board on an application made by a public company or as subscription to any eligible issue of capital by any public financial institution in the prescribed form.

A lock-in period of three years is provided in respect of such equity shares or debentures. In case of any sale or transfer of shares or debentures within three years of the date of acquisition, the aggregate amount of deductions allowed in respect of such equity shares or debentures in the previous year or years preceding the previous year in which such sale or transfer has taken place shall be deemed to be the income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

A person shall be treated as having acquired any shares or debentures on the date on which his name is entered in relation to those shares or debentures in the register of members or of debenture-holders, as the case may be, of the public company.

(18) Subscription to certain units of mutual fund

Subscription to any units of any mutual fund and approved by the Board on an application made by such mutual fund in the prescribed form.

It is necessary that such units should be subscribed only in the eligible issue of capital of any company.

(19) Investment in five year term deposit

Investment in term deposit

- (i) for a period of not less than five years with a scheduled bank; and
- (ii) which is in accordance with a scheme framed and notified by the Central Government in the Official Gazette qualifies as an eligible investment for availing deduction under section 80C.

The maximum limit for investment in term deposit is ₹ 1,50,000. Scheduled bank **means** -

- (1) the State Bank of India (SBI)
- (2) a subsidiary bank of SBI, or
- (3) a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act
- (4) any other bank, being a bank included in the Second Schedule to the Reserve Bank of India (RBI) Act, 1934.

(20) Subscription to notified bonds issued by NABARD

Subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) qualifies for deduction under section 80C.

(21) Investment in five year Post Office time deposit :

Investment in five year time deposit in an account under Post Office Time Deposit Rules, 1981 qualifies for deduction under section 80C.

(22) Deposit in Senior Citizens Savings Scheme Rules, 2004 :

Deposit in an account under the Senior Citizens Savings Scheme Rules, 2004 qualifies for deduction under section 80C.

(23) Contribution to additional account under NPS

Contribution by a Central Government employee to additional account under NPS (specified account) referred to in section 80CCD for a fixed period of not less than 3 years and which is in accordance with the scheme notified by the

Central Government for this purpose qualifies for deduction under section 80C. It may be noted that only the contribution to the additional account under NPS will qualify for deduction under section 80C.

There are two types of NPS account i.e., Tier I and Tier II, to which an individual can contribute. Section 80CCD provides deduction in respect of contribution to individual pension account [Tier I account] under the NPS [referred to in section 20(2)(a) of the Pension Fund Regulatory and Development Authority Act, 2013 (PFRDA)] whereas deduction under section 80C is allowable in respect of contribution by Central Government employee to additional account [Tier II account] of NPS [referred to in section 20(3) of the PFRDA], which does not qualify for deduction under section 80CCD. **Thus, Tier II account is the additional account under NPS, contribution to which would qualify for deduction under section 80C only in the hands of a Central Government employee.**

(ii) Termination of Insurance Policy or Unit Linked Insurance Plan or transfer of House Property or withdrawal of deposit :

Where, in any previous year, an assessee :

- (1) terminates his contract of insurance referred to in (3) above, by notice to that effect or where the contract ceases to be in force by reason of not paying the premium, by not reviving the contract of insurance, -
 - (a) in case of any single premium policy, within two years after the date of commencement of insurance; or
 - (b) in any other case, before premiums have been paid for two years; or
- (2) terminates his participation in any Unit Linked Insurance Plan referred to in (1) or (2) above, by notice to that effect or where he ceases to participate by reason of failure to pay any contribution, by not reviving his participation, before contributions in respect of such participation have been paid for five years, or
- (3) transfers the house property referred to in (16) above, before the expiry of five years from the end of the financial year in which possession of such property is obtained by him, or receives back, whether by way of refund or otherwise, any sum specified in (16) above, then, no deduction will be allowed to the assessee in respect of sums paid during such previous year and the total amount of deductions of income allowed in respect of the previous year or years preceding such previous year, shall be deemed to be income of the assessee of such previous year and shall be liable to tax in the assessment year relevant to such previous year.

Further, where any amount is withdrawn by the assessee from his account under the Senior Citizens Savings Scheme or under the Post Office Time Deposit Rules before the expiry of a period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be the income of the

assessee of the previous year in which the amount is withdrawn. Accordingly, the amount so withdrawn would be chargeable to tax in the assessment year relevant to such previous year. The amount chargeable to tax would also include that part of the amount withdrawn which represents interest accrued on the deposit.

However, if any part of the amount relating to interest so received or withdrawn has been subject to tax in any of the earlier years, such amount shall not be taxed again.

If any amount has been received by the nominee or legal heir of the assessee, on the death of such assessee, the amount would not be chargeable to tax. However, if the amount relating to interest on deposit was not included in the total income of the assessee in any of any earlier years, then, such interest would be chargeable to tax.

Summary of investment/ contributions eligible for deduction u/s 80C :

S. No.	Investment/ contributions
(i)	Contribution in Unit-linked Insurance Plan 1971 In case of individual – in the name of individual, his or her spouse or any child of the individual In case of HUF – in the name of any member of HUF
(ii)	Contribution in Unit-linked Insurance Plan of LIC Mutual Fund In case of individual – In the name of individual, his or her spouse or any child of the individual In case of HUF – In the name of any member of HUF
(iii)	Premium paid in respect of Life Insurance policy In case of individual – on the life of individual, his or her spouse or any child of the individual In case of HUF – on the life of any member of HUF
(iv)	Premium paid in respect of a contract for deferred annuity In case of individual – on the life of individual, his or her spouse or any child of the individual
(v)	Any sum deducted from the salary payable of a Government employee for securing a deferred annuity [excess over 1/5 th of the salary to be ignored]
(vi)	Contribution to PPF In case of individual – in the name of Individual, his or her spouse or any child of the individual In case of HUF – In the name of any member of HUF
(vii)	Contribution to SPF/RPF
(viii)	Contribution to approved superannuation Fund
(ix)	Paid or deposited in Sukanya Samriddhi Account (a) for any girl child of the individual; or (b) for any girl child for whom such individual is the legal guardian

S. No.	Investment/ contributions
(x)	Subscription to National Savings Certificates VIII
(xi)	Contribution to approved annuity plan of LIC or any other notified insurer
(xii)	Subscription towards notified units of mutual fund or UTI [ELSS]
(xiii)	Contribution to notified pension fund set up by mutual fund or UTI
(xiv)	Contribution to National Housing Bank (Tax Saving) Term Deposit Scheme, 2008
(xv)	Subscription to notified deposit scheme of public sector co. or authority constituted in India in relation to housing. For example, public deposit scheme of HUDCO.
(xvi)	Tuition fees to by an individual to any university, college, school or other educational institution within India for full-time education for maximum 2 children of the individual.
(xvii)	Repayment of housing loan for purchase/ construction of house property including stamp duty, registration fee and other expenses for transfer
(xviii)	Subscription to certain equity shares or debentures forming part of any approved eligible issue of capital by a public company or by any public financial institution
(xix)	Units of mutual fund subscribed only in eligible issue of capital of any company
(xx)	Investment in five year term deposit with a scheduled bank
(xxi)	Subscription to notified bonds issued by NABARD
(xxii)	Investment in five year Post Office time deposit
(xxiii)	Deposit in Senior Citizens Savings Scheme Rules, 2004
(xxiv)	Contribution to additional account under NPS (Tier II account), in case of Central Government employee

6.2.2 Deduction in respect of contribution to certain pension funds [Section 80CCC]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) **Eligible assessee** : Where an assessee, being an individual, has in the previous year paid or deposited any amount out of his income chargeable to tax to effect or keep in force a contract for any **annuity plan of LIC** of India or any **other insurer** for receiving pension from the fund set up by LIC or such other insurer, he shall be allowed a deduction in the computation of his total income.

For this purpose, the interest or bonus accrued or credited to the assessee's account shall not be reckoned as contribution.

Note : Where any amount paid or deposited by the assessee has been taken into account for the purposes of this section, a deduction under section 80C shall not be allowed with reference to such amount.

- (ii) **Maximum Deduction** : The maximum permissible deduction is ₹ 1,50,000 (Further, the overall limit of ₹ 1,50,000 prescribed in section 80CCE will continue to be applicable i.e. the maximum permissible deduction under sections 80C, 80CCC and 80CCD(1) put together is ₹ 1,50,000).

- (iii) **Deemed Income** : Where any amount standing to the credit of the assessee in the fund in respect of which a deduction has been allowed, together with interest or bonus accrued or credited to the assessee's account is received by the assessee or his nominee on account of the surrender of the annuity plan in any previous year or as pension received from the annuity plan, such amount will be deemed to be the income of the assessee or the nominee in that previous year in which such withdrawal is made or pension is received. It will be chargeable to tax as income of that previous year.

6.2.3 Deduction in respect of contribution to pension scheme notified by the Central Government [Section 80CCD]

- (i) **Pension Scheme of Central Government** : It is mandatory for persons entering the service of the Central Government on or after 1st January, 2004, to contribute 10% of their salary every month towards their pension account. A matching contribution is required to be made by the Government to the said account. The benefit of this scheme is also available to individuals employed by any other employer as well as to self-employed individuals.
- (ii) **Deduction** : Section 80CCD provides deduction in respect of contribution made to the pension scheme notified by the Central Government.

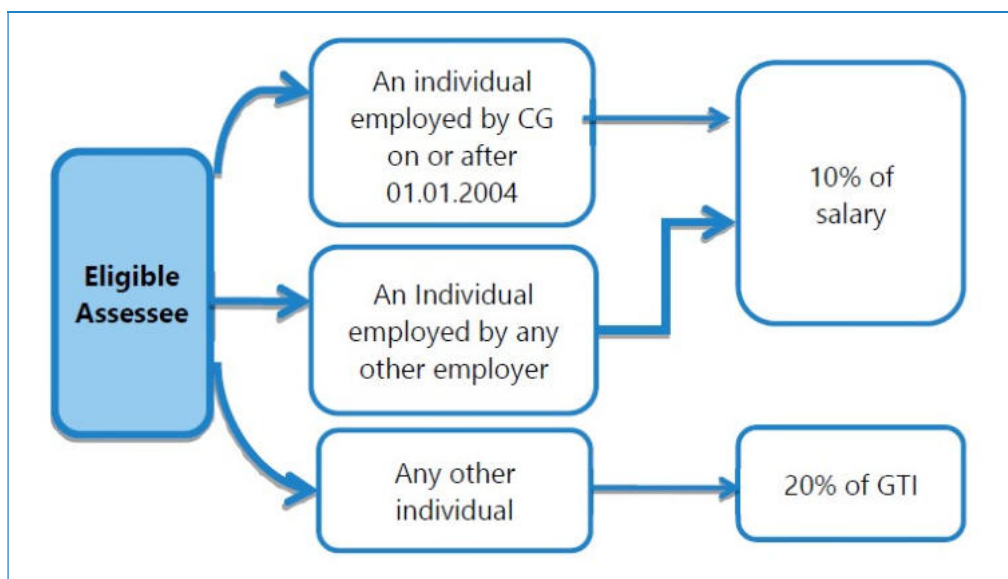
Accordingly, the Central Government has notified the 'Atal Pension Yojana (APY)' as a pension scheme, contribution to which would qualify for deduction under section 80CCD in the hands of the individual.

(iii) Quantum of deduction :

- (a) Section 80CCD(1) provides a deduction for the amount paid or deposited by an employee in his pension account subject to a maximum of 10% of his salary. The deduction in the case of a self-employed individual would be restricted to 20% of his gross total income in the previous year.

Deduction u/s 80CCD(1) would be available to an assessee only if he exercises the option of shifting out of the default tax regime u/s 115BAC(1A) (i.e., if he pays tax under the optional tax regime – the normal provisions of the Act).

DEDUCTION UNDER SECTION 80CCD(1)



- (b) Section 80CCD(1B) provides for an additional deduction of up to 50,000 in respect of the whole of the amount paid or deposited by an individual assessee under NPS in the previous year, whether or not any deduction is allowed u/s 80CCD(1).

Deduction u/s 80CCD(1B) would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., it is available only if the assessee pays tax under the optional tax regime – normal provisions of the Act)

- (c) Whereas the deduction under section 80CCD(1) is subject to the overall limit of ₹ 1.50 lakh under section 80CCE (i.e., the maximum permissible deduction under sections 80C, 80CCC and 80CCD(1) put together), the deduction of upto ₹ 50,000 under section 80CCD(1B) is in addition to the overall limit of ₹ 1.50 lakh provided under section 80CCE.
- (d) Under section 80CCD(2), contribution made by the Central Government or State Government or any other employer in the previous year to the said account of an employee, is allowed as a deduction in computation of the total income of the assessee.
- (e) The entire employer's contribution would be included in the salary of the employee. However, deduction under section 80CCD(2) would be restricted to 14% of salary, in case of contribution made by the Central Government or State Government, and to 10% of salary, in case of contribution made by any other employer.

Deduction u/s 80CCD(2) would be available to an assessee irrespective of the regime under which he pays tax.

1. The limit of ₹ 1,50,000 under section 80CCE does not apply to employer's contribution to pension scheme of Central Government which is allowable as deduction under section 80CCD(2).
2. No deduction will be allowed under section 80C in respect of amounts paid or deposited by the assessee, for which deduction has been allowed under section 80CCD(1) or under section 80CCD(1B).

(iv) Deemed Income : The amount standing to the credit of the assessee in the pension account (for which deduction has already been claimed by him under this section) and accretions to such account, shall be taxed as income in the year in which such amounts are received by the assessee or his nominee on -

- (a) closure of the account or
- (b) his opting out of the said scheme or
- (c) receipt of pension from the annuity plan purchased or taken on such closure or opting out.

However, the amount received by the nominee on the death of the assessee under the circumstances referred to in (a) and (b) above, shall not be deemed to be the income of the nominee.

Further, the assessee shall be deemed not to have received any amount in the previous year if such amount is used for purchasing an annuity plan in the same previous year.

1. Exemption on payment from NPS Trust to an assessee on closure of his account or on his opting out of the pension scheme [Section 10(12A)]

- (i) As per section 80CCD, any payment from National Pension System Trust to an assessee on account of closure or his opting out of the pension scheme is chargeable to tax.
- (ii) Section 10(12A) provides that any payment from National Pension System Trust to an assessee on account of closure or his opting out of the pension scheme referred to in section 80CCD, to the extent it does not exceed **60%** of the total amount payable to him at the time of closure or his opting out of the scheme, shall be exempt from tax.

2. Exemption on payment from NPS Trust to an employee on partial withdrawal [Section 10(12B)]

To provide relief to an employee subscriber of NPS, section 10(12B) provides that any payment from National Pension System Trust to an employee under the pension scheme referred to in section 80CCD, on partial withdrawn made out of his account in accordance with the terms and conditions specified under the Pension Fund Regulatory and Development Authority Act, 2013 and the regulations made there under, shall be exempt from tax to the extent it does not exceed 25% of amount of contributions made by him.

6.2.4 Limit on deductions under sections 80C, 80CCC & 80CCD(1) [Section 80CCE]

- This section restricts the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) to ₹ 1,50,000. It may be noted that the deduction of upto ₹ 50,000 under section 80CCD(1B) and employer's contribution to pension scheme, allowable as deduction under section 80CCD(2) in the hands of the employee, would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE.
- The following table summarizes the ceiling limit under these sections –

Section	Particulars	Ceiling limit (₹)
80C	Investment in LIP, Deposit in PPF/SPF/RPF etc.	1,50,000
80CCC	Contribution to certain pension funds	1,50,000
80CCD(1)	Contribution to NPS of Government	10% of salary Or 20% of GTI, as the case may be.
80CCE	Aggregate deduction under sections 80C, 80CCC & 80CCD(1)	1,50,000
80CCD(1B)	Contribution to NPS notified by the Central Government (outside the limit of ₹ 1,50,000 under section 80CCE)	50,000
80CCD(2)	Contribution by the Central Government or	14% of salary
	State Government to NPS A/c of its employees (outside the limit of ₹ 1,50,000 under section 80CCE)	
	Contribution by any other employer to NPS A/c of its employees (outside the limit of ₹ 1,50,000 under section 80CCE)	10% of salary

For computation of limit under section 80CCD(1) and 80CCD(2), salary includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

ILLUSTRATION 5 :

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

SOLUTION :

(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.

(ii) **Where Mr. A pays tax under the default tax regime under section 115BAC**

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of ₹ 1,44,000 under section 80CCD(2) in respect of employer's contribution to pension scheme.

ILLUSTRATION 6 :

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).

SOLUTION :**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

6.2.5 Deduction in respect of contribution to Agnipath Scheme [Section 80CCH]

- (i) **Meaning of Agnipath scheme:** Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces.
- (ii) **Meaning of Agniveer Corpus Fund:** The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.

(iii) Features of the Agnipath Scheme: Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund'. The Government will also pay to the subscriber interest as approved from time to time on the contributions standing in his account.

(iv) Deduction: Section 80CCH provides deduction in respect of contribution made in the Agniveer Corpus Fund by the individual enrolled in the Agnipath Scheme and the Central Government.

(v) Quantum of deduction:

- (a) Section 80CCH(1) provides a deduction for the amount paid or deposited by an assessee, being an individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after 1.11.2022, in his account in the Agniveer Corpus Fund.

Deduction u/s 80CCH(1) would be available to an individual only if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- (b) Under section 80CCH(2), the whole amount of contribution made by the Central Government to the said account of an assessee in the Agniveer Corpus Fund, is allowed as a deduction in computation of the total income of the assessee.
- (c) The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee. However, deduction under section 80CCH(2) would be available for the same.

Deduction u/s 80CCH(2) would be available to an individual irrespective of the regime under which he pays tax.

Exemption on payment from Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee [Section 10(12C)]

Any payment from the Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt from tax.

6.2.6 Deduction in respect of medical insurance premium [Section 80D]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(1) In case of an Individual

(i) Deduction in respect of insurance premium paid for family: A deduction to the extent of ₹ 25,000 is allowed in respect of the following payments –

- premium paid to effect or to keep in force an insurance on the health of self, spouse and dependent children or
- any contribution made to the Central Government Health Scheme or
- such other health scheme as may be notified by the Central Government. Contributory Health Service Scheme of the Department of Space has been notified by the Central Government.

(ii) Deduction in respect of insurance premium for parents: A further deduction up to ₹ 25,000 is allowable to effect or to keep in force an insurance on the health of parents of the assessee.

Quantum of deduction in case of senior citizen: An increased deduction of **₹ 50,000** (instead of ₹ 25,000) shall be allowed in case any of the persons mentioned above is a **senior citizen** i.e., an individual resident in India of the age of 60 years or more at any time during the relevant previous year.

- (iii) **Deduction in respect of payment towards preventive health check-up:** Section 80D provides that deduction to the extent of ₹ 5,000 shall be allowed in respect payment made on account of preventive health check-up - of self, spouse, dependent children or parents during the previous year. However, the said deduction of ₹ 5,000 is within the overall limit of ₹ 25,000 or ₹ 50,000, specified in (i) and (ii) above.
- (iv) **Mode of payment:** For claiming deduction under section 80D, the payment can be made :
- by any mode, including cash, in respect of any sum paid on account of preventive health check-up;
 - by any mode other than cash, in all other cases.
- (v) **Deduction for medical expenditure incurred on senior citizens:** As a welfare measure towards **senior citizens** i.e., person of the age of 60 years or more and resident in India, who are unable to get health insurance coverage, deduction of upto ₹ 50,000 would be allowed in respect of any payment made on account of medical expenditure in respect of a such person(s), if no payment has been made to keep in force an insurance on the health of such person(s).
- (vi) **In case of a HUF :** Deduction under section 80D is allowable in respect of premium paid to insure the health of any member of the family. The maximum deduction available to a HUF would be ₹ 25,000 and in case any member is a senior citizen, ₹ 50,000.

Further, the amount paid on account of medical expenditure incurred on the health of any member(s) of a family who is a resident senior citizen would qualify for deduction subject to a maximum of provided no amount has been paid to effect or keep in force any insurance on the health of such person(s).

(2) Other conditions

Deduction under section 80D is allowable in respect of premium paid to insure the health of any member of the family. The maximum deduction available to a HUF would be ₹ 25,000 and in case any member is a senior citizen, ₹ 50,000 .

Further, the amount paid on account of medical expenditure incurred on the health of any member(s) of a family who is a resident senior citizen would qualify for deduction subject to a maximum of ₹ 50,000 provided no amount has been paid to effect or keep in force any insurance on the health of such person(s).

(3) Other conditions

The other conditions to be fulfilled are that such premium should be paid by any mode, other than cash, in the previous year out of his income chargeable to tax. Further, the medical insurance should be in accordance with a scheme made in this behalf by ₹ 50,000 -

- the General Insurance Corporation of India and approved by the Central Government in this behalf; or
- any other insurer and approved by the Insurance Regulatory and Development Authority.

The following table summarizes the provisions of section 80D –

S. No.	Nature of payment/ expenditure	Expenditure on behalf of		Deduction
I	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health	In case of individual	Self, spouse and dependent children	₹ 25,000
		In case of HUF	Family member	
	(ii) Contribution to Central Government Health Scheme (CGHS) (iii) Preventive health check up expenditure	In case any of the above persons is of the age of 60 years or more + resident in India		₹ 50,000
II	(i) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health	Parents		₹ 25,000
	(ii) Preventive health check up	In case either or both the parents is of the age of 60 years or more + Resident in India		₹ 50,000
Maximum ₹ 5,000 allowed as deduction for aggregate of preventive health check-up expenditure, by any mode including cash, mentioned in I and II (Subject to overall limit of ₹ 25,000 or ₹ 50,000, as the case may be)				
III	Amount paid on account of medical expenditure	For self/spouse/parents + who is of the age of 60 years or more + Resident in India + no payment has been made to keep in force an insurance on the health of such person		₹ 50,000

Note : In case the individual or any of his family members is a senior citizen, the aggregate of deduction, in respect of payment of premium, contribution to CGHS and medical expenditure incurred, as specified in **(I) & (III)** above, cannot exceed **₹ 50,000** .

In case one of the parents is a senior citizen who is covered under mediclaim policy and another is also a senior citizen but not covered under mediclaim policy, the aggregate of deduction, in respect of payment of medical insurance premium and medical expenditure incurred, as specified in **(II) & (III)** above, cannot exceed **₹ 50,000**

(4) Deduction where premium for health insurance is paid in lump sum [Section 80D(4A)]

(i) Appropriate fraction of lump sum premium allowable as deduction: In a case where mediclaim premium is paid in lumpsum for more than one year by :

- (a) an individual, to effect or keep in force an insurance on his health or health of his spouse, dependent children or parents; or
- (b) a HUF, to effect or keep in force an insurance on the health of any member of the family,

then, the deduction allowable under this section for each of the relevant previous year would be equal to the appropriate fraction of such lump sum payment.

(ii) Meaning of certain terms

Term	Meaning
Appropriate fraction	$1 \div \text{Total number of relevant previous years}$
Relevant previous year	The previous year in which such lump sum amount is paid; and the subsequent previous year(s) during which the insurance would be in force.

ILLUSTRATION 7 :

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).

SOLUTION :**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)	Mediclaim premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes :

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

ILLUSTRATION 8 :

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 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).

SOLUTION :**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	25,000
(ii)	Contribution to CGHS	6,000	
	restricted to	28,000	
(iii)	Mediclaim premium paid for mother, who is over 60 years of age	33,000	50,000
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
		53,000	
	restricted to		75,000

6.2.7 Deduction in respect of maintenance including medical treatment of a dependant disabled [Section 80DD]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(i) Eligible assessee: Section 80DD provides deduction to an assessee, who is a resident in India, **being an individual or Hindu undivided family.**

(ii) Payments qualifying for deduction :

(a) Any amount :

- incurred for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability, or
- paid or deposited under a scheme framed in this behalf by the Life Insurance Corporation or any other insurer or the Administrator or the Specified Company² for the maintenance of a dependant, being a person with disability

qualifies for deduction.

(b) The benefit of deduction under this section is also available to assessees incurring expenditure on maintenance including medical treatment of persons suffering from autism, cerebral palsy and multiple disabilities.

(ii) Quantum of deduction: The quantum of deduction **₹ 75,000** is and in case of severe disability (i.e., person with 80% or more disability) the deduction shall be **₹ 1,25,000**

(iii) Conditions :

(a) The scheme should provide for payment of annuity or a lump sum amount for the benefit of a dependant, being a person with disability,

- I in the event of the death of the individual or member of the HUF, in whose name subscription was made; or
- II on attaining the age of 60 years or more by such individual or the member of the HUF, and the payment or deposit to such scheme has been discontinued and the assessee must nominate either the dependant, being a person with disability or any other person or a trust to receive the payment on his behalf, for the benefit of the dependant, being a person with disability.

(b) For claiming the deduction, the assessee have to furnish a copy of the certificate issued by the medical authority under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 along with the return of income under section 139.

(c) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned in the original certificate in order to continue to claim the deduction.

(iv) Deemed income :

If the dependent, being a person with disability, predeceases the individual or the member of HUF, in whose name subscription was made, then, the amount paid or deposited under the said scheme would be the deemed income and chargeable to tax in the hands of the assessee (individual or member of HUF) in the previous year in which such amount is received by him.

However, such deeming provisions would not apply, to the amount received by the dependent, being a person with disability, before his death, by way of annuity or lump sum under the scheme mentioned in II of (a) above i.e., when the individual or member of HUF attains the age of 60 years or more, and the payment or deposit to such scheme has been discontinued.

(iv) Meaning of “Dependent”:

	Assessee	Dependant
(1)	Individual	the spouse, children, parents, brother or sister of the individual who is wholly or mainly dependant on such individual and not claimed deduction under section 80U in the computation of his income
(2)	HUF	a member of the HUF, wholly or mainly dependant on such HUF and not claimed deduction under section 80U in the computation of his income

ILLUSTRATION 9 :

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2024-25, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION :

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a “dependant” disabled person. Grandfather does not come within the meaning of “dependant” as defined under section 80DD.

ILLUSTRATION 10 :

What will be the deduction if Mr. X had made this deposit for his dependant father ?

SOLUTION :

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.

6.2.8 Deduction in respect of medical treatment etc. [Section 80DDB]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(i) Eligible assessee : This section provides deduction to an assessee, who is resident in India, being an individual and Hindu undivided family. The deduction is available to an individual for medical expenditure incurred on himself or a dependant. It is also available to a Hindu undivided family (HUF) for such expenditure incurred on any of its members.

(ii) Meaning of “Dependent”:

	Assessee	Dependent
(1)	Individual	the spouse, children, parents, brother or sister of the individual or any of them, wholly or mainly dependant on such individual for his support and maintenance.
(2)	HUF	a member of the HUF, wholly or mainly dependant on such HUF for his support and maintenance.

(iii) Payment qualifying for deduction: Any amount actually paid for the medical treatment of such disease or ailment as may be specified by the Board for himself or a dependant, in case the assessee is an individual, or for any member of a HUF, in case the assessee is a HUF, will qualify for deduction.

(iv) Quantum of deduction: The amount of deduction under this section shall be equal to the amount actually paid or ₹ 40,000 , whichever is less, in respect of that previous year in which such amount was actually paid.

In case the amount is paid in respect of a senior citizen, i.e., a resident individual of the age of 60 years or more at any time during the relevant previous year, then the deduction would be the amount actually paid or ₹ 1,00,000 , whichever is less.

The deduction under this section shall be reduced by the amount received, if any, under an insurance from an insurer, or reimbursed by an employer, for the medical treatment of the assessee or the dependant.

(v) Maximum deduction : The maximum limit of deduction under section 80DDB for these two categories of dependant are summarized hereunder:

	Dependent	Maximum limit (₹)
(1)	A senior citizen, being a resident individual	1,00,000
(2)	Other than a senior citizen	40,000

(vi) Condition: No such deduction shall be allowed unless the assessee obtains the prescription for such medical treatment from a neurologist, an oncologist, a urologist, a hematologist, an immunologist or such other specialist, as may be prescribed.

6.2.9 Deduction in respect of interest on loan taken for higher education [Section 80E]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(i) Eligible assessee : Section 80E provides deduction to an individual-assessee in respect of any interest on loan paid by him in the previous year out of his income chargeable to tax.

(ii) Conditions : The loan must have been taken for the purpose of pursuing his higher education or for the purpose of higher education of his or her relative. The loan must have been taken from any financial institution or approved charitable institution.

(iii) Meaning of certain terms :

	Term	Meaning
(a)	Relative	Spouse and children of the individual or the student for whom the individual is the legal guardian
(b)	Higher education	It means any course of study (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorized by the Central Government or State Government or local authority to do so. Therefore, interest on loan taken for pursuing any course after Class XII or its equivalent, will qualify for deduction under section 80E.

	Term	Meaning
(c)	Period of deduction	The deduction is allowed in computing the total income in respect of the initial assessment year (i.e. the assessment year relevant to the previous year, in which the assessee starts paying the interest on the loan) and seven assessment years immediately succeeding the initial assessment year or until the interest is paid in full by the assessee, whichever is earlier.
(d)	Approved charitable institution	It means an institution established for charitable purposes and approved by the prescribed authority ³ or an institution referred to in section 80G(2)(a).
(e)	Financial institution	It means – (a) a banking company to which the Banking Regulation Act, 1949 applies (including a bank or banking institution referred to in section 51 of the Act); or (b) any other financial institution which the Central Government may, by notification in the Official Gazette, specify in this behalf

ILLUSTRATION 11 :

Mr. B has taken three education loans on April 1, 2023, the details of which are given below:

	Loan 1	Loan 2	Loan 3
<i>For whose education loan was taken</i>	<i>B</i>	<i>Son of B</i>	<i>Daughter of B</i>
<i>Purpose of loan</i>	<i>MBA</i>	<i>B. Sc.</i>	<i>B.A.</i>
<i>Amount of loan (₹)</i>	<i>5,00,000</i>	<i>2,00,000</i>	<i>4,00,000</i>
<i>Annual repayment of loan (₹)</i>	<i>1,00,000</i>	<i>40,000</i>	<i>80,000</i>
<i>Annual repayment of interest (₹)</i>	<i>20,000</i>	<i>10,000</i>	<i>18,000</i>

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).

SOLUTION :

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.

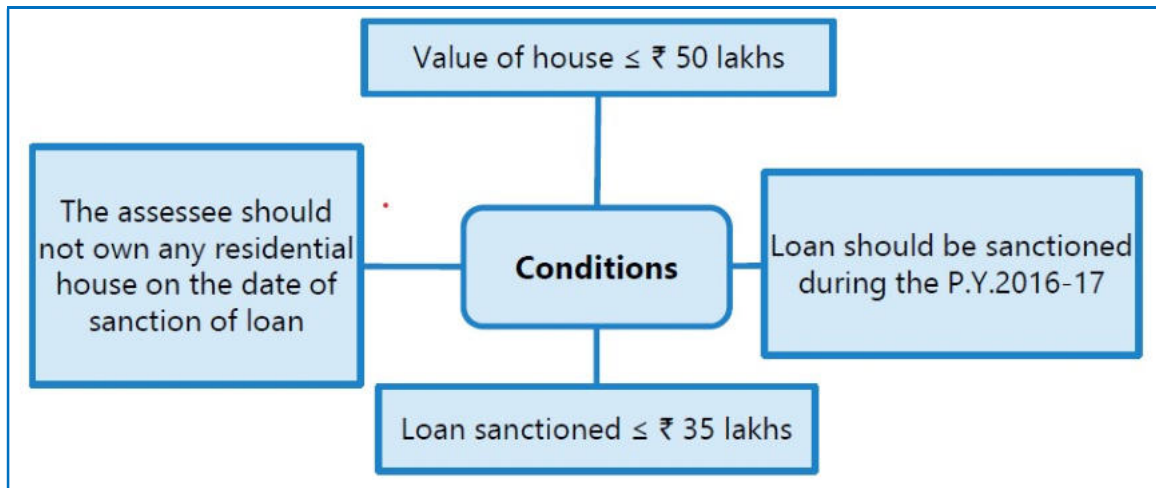
Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

6.2.10 Deduction for interest payable on loan borrowed for acquisition of residential house property by an individual [Section 80EE]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(i) **Eligible assessee** : An individual who has taken a loan for acquisition of residential house property from any financial institution. Interest payable on such loan would qualify for deduction under this section.

(ii) Conditions: The conditions to be satisfied for availing this deduction are as follows –



(iii) Period of benefit : The benefit of deduction under this section would be available till the repayment of loan continues.

(iv) Quantum of deduction: The maximum deduction allowable is ₹ 50,000. The deduction of upto ₹ 50,000 under section 80EE is over and above the deduction of upto ₹ 2,00,000 available under section 24 for interest paid in respect of loan borrowed for acquisition of a self-occupied property.

(v) No deduction under any other provision: The interest allowed as deduction under section 80EE will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.

(vi) Meaning of certain terms :

	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • A housing finance company.
(b)	Housing finance company	A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

ILLUSTRATION 12 :

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.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.

SOLUTION :

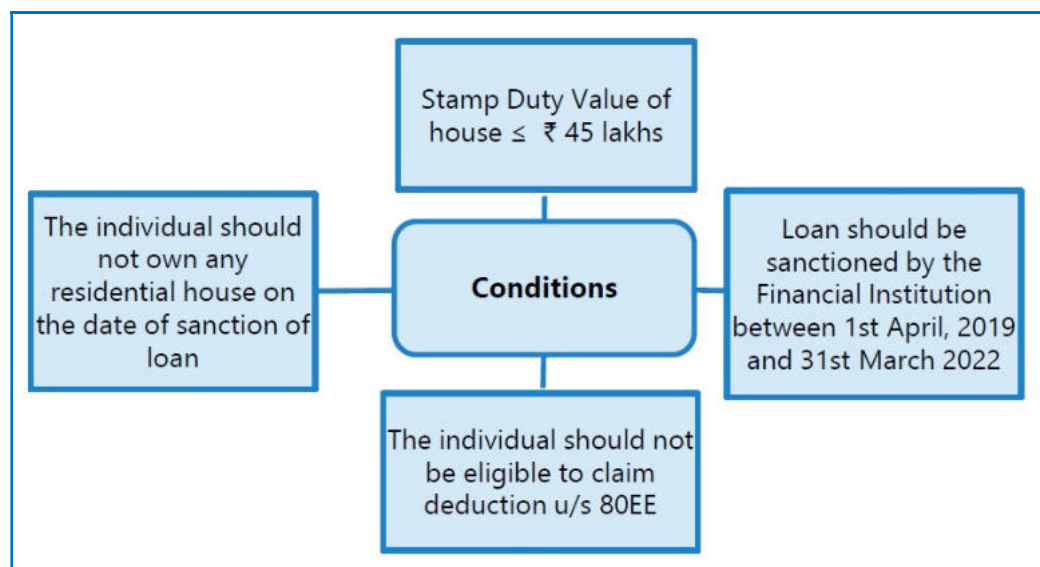
Particulars	₹
Interest deduction for A.Y.2024-25	2,00,00
(i) Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) ₹ 3,85,000 [$35,00,000 \times 11\%$] Restricted to	
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000) Restricted to	50,000

6.2.11 Deduction for interest payable on loan borrowed for acquisition of residential house property [Section 80EEA]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

(i) **Eligible assessee :** An individual who has taken a loan for acquisition of residential house property from any financial institution. Interest payable on such loan would qualify for deduction under this section.

(ii) **Conditions :** The conditions to be satisfied for availing this deduction are as follows –



(iii) **Period of benefit :** The benefit of deduction under this section would be available for interest payable for each assessment year.

(iv) **Quantum of deduction:** The maximum deduction allowable is ₹ 1,50,000. The deduction of upto ₹ 1,50,000 under section 80EEA is over and above the deduction available under section 24(b) in respect of interest payable on loan borrowed for acquisition of a residential house property.

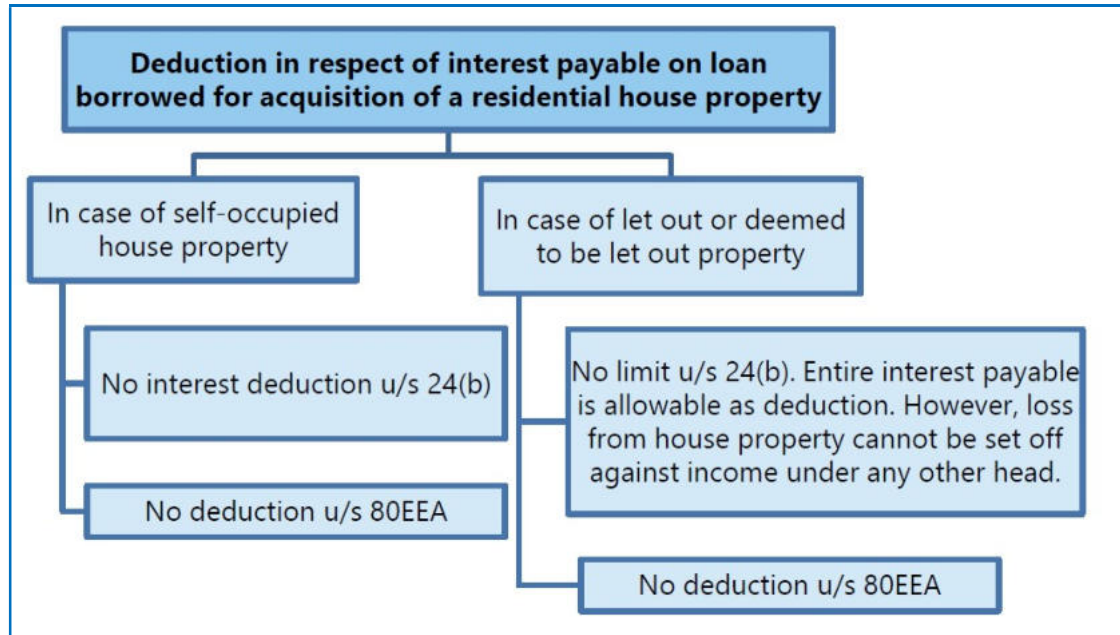
(v) **No deduction under any other provision:** The interest allowed as deduction under section 80EEA will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.

(vi) **Meaning of certain terms:**

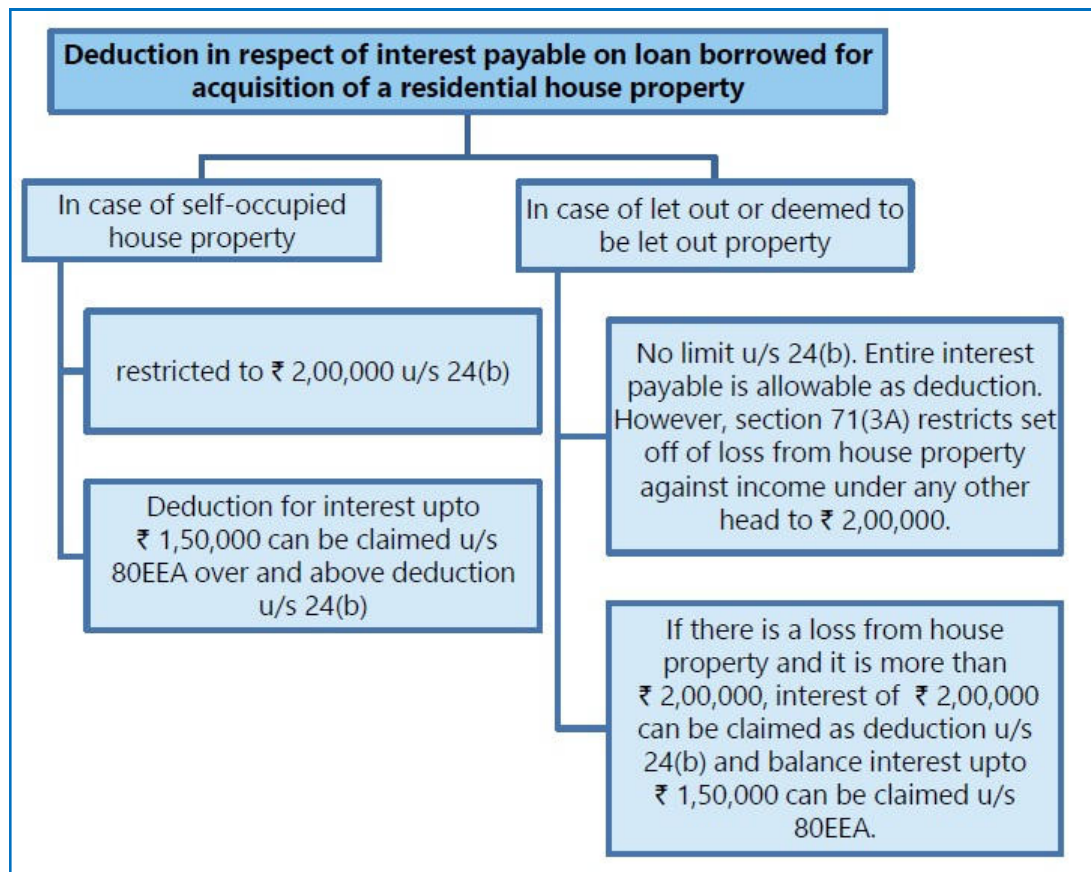
	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • A housing finance company.

	Term	Meaning
(b)	Housing finance company	A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

In case the assessee pays tax under default tax regime under section 115BAC



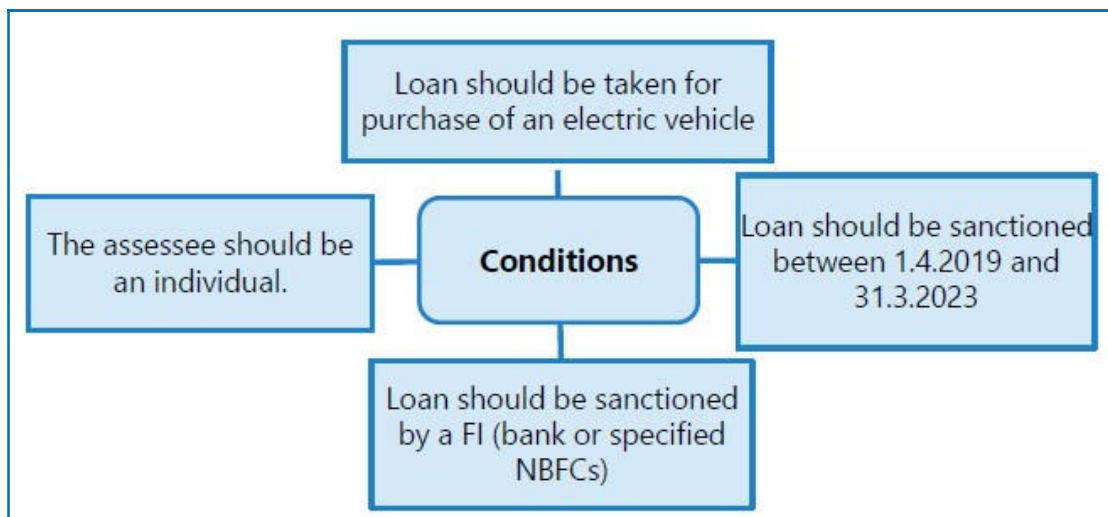
In case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)



6.2.12 Deduction in respect of interest payable on loan taken for purchase of electric vehicle [Section 80EEB]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) **Eligible Assessee:** An individual who has taken a loan for purchase of an electric vehicle from any financial institution. Interest payable on such loan would qualify for deduction under this section.
- (ii) **Conditions :** The conditions to be satisfied for availing this deduction are as follows –



- (iii) **Period of benefit:** The benefit of deduction under this section would be available for interest payable on such loan for each assessment year.
- (iv) **Quantum of deduction:** Interest payable, subject to a maximum of ₹ 1,50,000.
- (v) **No deduction under any other provision:** The interest allowed as deduction under section 80EEB will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.
- (vi) **Meaning of certain terms :**

	Term	Meaning
(a)	Financial institution	• A banking company to which the Banking Regulation Act, 1949 applies; or • Any bank or banking institution referred to in section 51 of the Banking Regulation Act, 1949; or • Any deposit taking NBFC; or • A systemically important non-deposit taking NBFC i.e., a NBFC which is not accepting or holding public deposits and having total assets of not less than ₹ 500 crore as per the last audited balance sheet and is registered with the RBI.
(b)	Electric	A vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by
	Vehicle	traction battery installed in the vehicle. The vehicle should have electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.

ILLUSTRATION 13 :

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.

SOLUTION :

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 : (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. Nil	
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	

6.2.13 Deduction in respect of donations to certain funds, charitable institutions etc. [Section 80G]

- (i) Eligible assessee:** An assessee who pays any sum as donation to eligible funds or institutions, is entitled to a deduction, subject to certain limitations, from the gross total income.

In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction would be available only if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). It would not be available if they pay concessional rates of tax under the default tax regime u/s 115BAC.

In case of companies and co-operative societies, deduction would not be available if they opt for the special provisions u/s 115BAA/115BAB and section 115BAD/115BAE, respectively. In other words, deduction would be available only if they pay tax under the normal provisions of the Act.

- (ii) Quantum of deduction :** There are four categories of deductions. The following table gives the details of the institutions and funds to which donations can be made for the purpose of claiming deduction under section 80G, –

I Donation qualifying for 100% deduction, without any qualifying limit

- (1) The National Defence Fund set up by the Central Government
- (2) Prime Minister’s National Relief Fund.
- (3) Prime Minister’s Armenia Earthquake Relief Fund

- (4) The Africa (Public Contributions-India) Fund
- (5) The National Children's Fund
- (6) The National Foundation for Communal Harmony
- (7) Approved University or educational institution of national eminence
- (8) Chief Minister's Earthquake Relief Fund, Maharashtra
- (9) Any fund set up by the State Government of Gujarat exclusively for providing relief to the victims of the Gujarat earthquake
- (10) Any Zila Saksharta Samiti constituted in any district for improvement of primary education in villages and towns and for literacy and post-literacy activities
- (11) National Blood Transfusion Council or any State Blood Transfusion Council whose sole objective is the control, supervision, regulation or encouragement in India of the services related to operation and requirements of blood banks
- (12) Any State Government Fund set up to provide medical relief to the poor
- (13) The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependents.
- (14) The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
- (15) The National Illness Assistance Fund
- (16) The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory
- (17) The National Sports Fund set up by the Central Government
- (18) The National Cultural Fund set up by the Central Government
- (19) The Fund for Technology Development and Application set up by the Central Government
- (20) National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities
- (21) The Swachh Bharat Kosh, set up by the Central Government, other than the sum spent by the assessee in pursuance of CSR u/s 135(5) of the Companies Act, 2013
- (22) The Clean Ganga Fund, set up by the Central Government, where such assessee is a resident, other than the sum spent in pursuance of CSR u/s 135(5) of the Companies Act, 2013
- (23) The National Fund for Control of Drug Abuse
- (24) Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM Cares Fund)

II Donation qualifying for 50% deduction, without any qualifying limit

- (1) Prime Minister's Drought Relief Fund

III Donation qualifying for 100% deduction, subject to qualifying limit

- (1) The Government or to any approved local authority, institution or association for promotion of family planning
- (2) Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India, as may be notified by the Government for the development of infrastructure for sports or games, or the sponsorship of sports and games in India

IV Donation qualifying for 50% deduction, subject to qualifying limit

- (1) Any Institution or Fund established in India for charitable purposes fulfilling prescribed conditions
- (2) The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning
- (3) An authority constituted in India by or under any other law enacted either for dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or both
- (4) Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community
- (5) for renovation or repair of Notified temple, mosque, gurdwara, church or other place of historic, archaeological or artistic importance or which is a place of public worship of renown throughout any State or States

(iii) Qualifying limit : The eligible donations referred to in III and IV should be aggregated and the sum total should be limited to 10% of the adjusted gross total income. This would be the maximum permissible deduction.

The donations qualifying for 100% deduction would be first adjusted from the maximum permissible deduction and thereafter 50% deduction of the balance would be allowed.

Steps for computation of qualifying limit :

Step 1:	Compute adjusted total income i.e., the GTI as reduced by the following : (i) Deductions under Chapter VI-A, except under section 80G (ii) Short-term capital gain taxable under section 111A (iii) Long-term capital gains taxable under sections 112 & 112A (iv) Any income on which income-tax is not payable
Step 2:	Calculate 10% of adjusted total income
Step 3:	Calculate the actual donation, which is subject to qualifying limit (Total of Category III and IV donations, shown in the table above)
Step 4:	Lower of Step 2 or Step 3 is the maximum permissible deduction.
Step 5:	The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category III donations). Thereafter, 50% of balance qualifies for deduction under section 80G.

(iv) Other points:

- (1) Where an assessee has claimed and has been allowed any deduction under this section in respect of any amount of donation, the same amount will not qualify for deduction under any other provision of the Act for the same or any other assessment year.
- (2) Donations in kind shall not qualify for deduction.
- (3) No deduction shall be allowed in respect of donation of any sum exceeding ₹ 2,000 unless such sum is paid by any mode other than cash.
- (4) The deduction under section 80G can be claimed whether it has any nexus with the business of the assessee or not.

- (5) As per *Circular No.2/2005 dated 12.1.2005*, in cases where employees make donations to the Prime Minister's National Relief Fund, the Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund through their respective employers, it is not possible for such funds to issue separate certificate to every such employee in respect of donations made to such funds as contributions made to these funds are in the form of a consolidated cheque. An employee who makes donations towards these funds is eligible to claim deduction under section 80G. It is, hereby, clarified that the claim in respect of such donations as indicated above will be admissible under section 80G on the basis of the certificate issued by the Drawing and Disbursing Officer (DDO)/Employer in this behalf.
- (6) The claim of the assessee for deduction in respect of any donation made to an institution or fund [referred to in point (1) under (IV) "Donation qualifying for 50% deduction, subject to qualifying limit"], in the return of income for any assessment year filed by him, will be allowed on the basis of information relating to said donation furnished by the institution or fund to the prescribed income-tax authority or person authorized by such authority, subject to verification as per the risk management strategy formulated by the CBDT from time to time.

ILLUSTRATION 14 :

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments :

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (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).

SOLUTION : 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	

Particulars	₹	₹
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 Deduction under section 80D		1,50,000
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
	t			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.

6.2.14 Deduction in respect of rent paid [Section 80GG]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) **Eligible assessee** : Assessee, who is not in receipt of HRA qualifying for exemption under section 10(13A) from employer and who pays rent for accommodation occupied by him for residential purposes.

(ii) Conditions : The following conditions have to be satisfied for claiming deduction under section 80GG -

- (1) The assessee should not be receiving any house rent allowance exempt under section 10(13A).
- (2) The expenditure incurred by him on rent of any furnished or unfurnished accommodation should exceed 10% of his total income arrived at after all deductions under Chapter VI-A except section 80GG.
- (3) The accommodation should be occupied by the assessee for the purposes of his own residence.
- (4) The assessee should fulfill such other conditions or limitations as may be prescribed, having regard to the area or place in which such accommodation is situated and other relevant considerations.
- (5) The assessee or his spouse or his minor child or a HUF of which he is a member should not own any accommodation at the place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession; or
- (6) If the assessee owns any accommodation at any place other than that referred to above, such accommodation should not be in the occupation of the assessee and its annual value is not required to be determined under section 23(2)(a) or section 23(4)(a).
- (7) The assessee should file a declaration in the prescribed form, confirming the details of rent paid and fulfillment of other conditions, with the return of income.

(iii) Quantum of deduction : The deduction admissible will be the least of the following :

- (1) Actual rent paid *minus* 10% of the total income of the assessee before allowing the deduction, or
- (2) 25% of such total income (arrived at after making all deductions under Chapter VI A but before making any deduction under this section), or
- (3) Amount calculated at ₹ 5,000 p.m.

ILLUSTRATION 15 :

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).

SOLUTION :

The deduction under section 80GG will be computed as follows :

(i) Actual rent paid *less* 10% of total income

$$₹ 1,44,000 (-) \frac{10 \times 4,60,000}{100} = ₹ 98,000 \text{ (A)}$$

(ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = ₹ 1,15,000 \text{ (B)}$

(iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

6.2.15 Deduction in respect of donations for scientific research and rural development [Section 80GGA]

(i) Eligible assessee : Any assessee not having income chargeable under the head “Profits and gains of business or profession”, who makes donations for scientific research or rural development.

An individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person will be eligible for deduction u/s 80GGA only if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(ii) Donations qualifying for deduction :

- (1) Any sum paid by the assessee in the previous year to a research association which has, as its object, the undertaking of scientific research or to a University, college or other institution to be used for scientific research;

Such association, University, college or institution must be approved under section 35(1)(ii).

- (2) Any sum paid to a research association which has as its object the undertaking of research in social science or statistical research, University, College or other institution to be used for research in social science or statistical research.

Such association, University, college or institution must be approved under section 35(1)(iii).

- (3) Any sum paid by the assessee in the previous year to an association or institution which has as its object the undertaking of any programme of rural development, to be used for carrying out any programme of rural development approved by the prescribed authority for purposes of section 35CCA or to an institution or association which has as its object the training of persons for implementing programmes of rural development.

It has been clarified that the deduction to which an assessee (i.e. donor) is entitled on account of payment of any sum to

- a research association or university or college or other institution for scientific research or research
- an association or institution for carrying out the programme of rural development or

shall not be denied merely on the ground that subsequent to payment of such sum by the assessee, the approval granted to any of the aforesaid entities is withdrawn.

- (4) Any sum paid to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme.

It has been clarified that the deduction to which an assessee (i.e. donor) is entitled on account of above shall not be denied merely on the ground that subsequent to payment of such sum by the assessee, the approval granted to any of the aforesaid entities is withdrawn or the notification notifying the eligible project or scheme carried out aforesaid entities has been withdrawn.

- (5) Any sum paid to a rural development fund set up and notified under section 35CCA.
- (6) Any sum paid by the assessee in the previous year to National Urban Poverty Eradication Fund (NUPEF).

(iii) Restrictions on deduction :

- (1) No deduction under this section would be allowed in the case of an assessee whose gross total income includes income which is chargeable under the head "Profits and gains of business or profession."
- (2) Where a deduction under this section is claimed and allowed for any assessment year, deduction shall not be allowed in respect of such payment under any provision of this Act for the same or any other assessment year.
- (3) No deduction shall be allowed in respect of donation of any sum exceeding ₹ 2,000 unless such sum is paid by any mode other than cash.

- (4) The claim of the assessee for deduction in respect of any sum referred to under “(ii) Donations qualifying for deduction” in the return of income for any assessment year filed by him, will be allowed on the basis of information relating to such sum furnished by the payee to the prescribed income-tax authority or person authorized by such authority, subject to verification as per the risk management strategy formulated by the CBDT from time to time.

6.2.16 Deduction in respect of contributions given by companies to political parties [Section 80GGB]

- (i) **Deduction & Conditions:** This section provides for deduction of any sum contributed in the previous year by an Indian company⁴ to any political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.
- (ii) **Meaning of “Contribute”:** For the purposes of this section, the word “contribute” has the same meaning assigned to it under section 293A of the Companies Act, 1956⁵, which provides that -
- a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;
 - the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.
- (iii) **Meaning of “Political party”:** It means a political party registered under section 29A of the Representation of the People Act, 1951.

ILLUSTRATION 16

During the P.Y. 2023-24, ABC Ltd., an Indian company,

- contributed a sum of ₹ 2 lakh to an electoral trust; and
- 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.

SOLUTION :

- 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.

6.2.17 Deduction in respect of contributions given by any person to political parties [Section 80GGC]

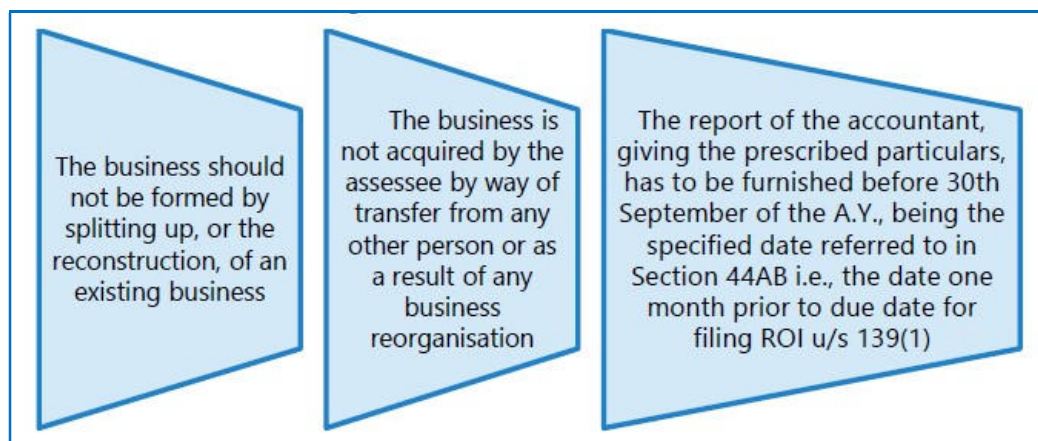
- (i) **Deduction & Conditions:** This section provides for deduction of any sum contributed in the previous year by any person to a political party or an electoral trust. However, no deduction shall be allowed in respect of any sum contributed by way of cash.
- (ii) **Persons not eligible for deduction:** This deduction will, however, not be available to a local authority and an artificial juridical person, wholly or partly funded by the Government.
- (iii) **Meaning of "Political party":** It means a political party registered under section 29A of the Representation of the People Act, 1951.

An individual, HUF, AoP (other than a co-operative society) or BoI would be eligible for deduction u/s 80GGC only if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). A co-operative society will not be eligible for deduction if it opts for special provisions of section 115BAD/115BAE

6.3 DEDUCTIONS IN RESPECT OF CERTAIN INCOMES

6.3.1 Deduction in respect of employment of new employees [Section 80JJAA]

- (i) **Quantum and period of deduction :** Where the gross total income of an assessee to whom section 44AB applies, includes any profits and gains derived from business, a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in the previous year, would be allowed for three assessment years including the assessment year relevant to the previous year in which such employment is provided.
- (ii) **Conditions to be fulfilled :** The deduction would be allowed only subject to fulfilment of the following conditions :



(iii) Meaning of certain terms:

	Term		Meaning
(a)	Additional employee cost		Total emoluments paid or payable to additional employees employed during the previous year.
		In the case of an existing business	The additional employee cost shall be Nil, if - (a) there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year;

	Term		Meaning
			(b) emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through any other prescribed electronic mode [credit card, debit card, net banking, IMPS (Immediate Payment Services), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer), BHIM (Bharat Interface for Money) Aadhar Pay].
		In the first year of a new business	The emoluments paid ⁶ or payable to employees employed during that previous year shall be deemed to be the additional employee cost.
(b)	Additional employee	An employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year. <u>Exclusions from the definition:</u> (a) an employee whose total emoluments are more than ₹ 25,000 per month; or (b) an employee for whom the entire contribution is paid by the Government under the (c) Employees' Pension Scheme notified in accordance with the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952; or (d) an employee who does not participate in the recognised provident fund. an employee employed for a period of less than 240 days during the previous year. In case of an assessee engaged in the business of manufacturing of apparel or footwear or leather products, an employee employed for a period of less than 150 days during the previous year; or Note – If an employee is employed during the previous year for less than 240 days or 150 days, as the case may be, but is employed for a period of 240 days or 150 days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year. Accordingly, the employer would be entitled to deduction of 30% of additional employee cost of such employees for three years from the succeeding year.	
(c)	Emoluments	any sum paid or payable to an employee in lieu of his employment by whatever name called. <u>Exclusions from the definition :</u> (a) any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and (b) any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.	

Deduction u/s 80JJAA would be available to an assessee irrespective of the regime under which he pays tax.

ILLUSTRATION 17 :

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?

SOLUTION :

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

$$\begin{aligned}\text{Additional employee cost} &= ₹ 24,000 \times 12 \times 75 \text{ [See Working Note below]} \\ &= ₹ 2,16,00,000\end{aligned}$$

$$\text{Deduction under section 80JJAA} = 30\% \text{ of } ₹ 2,16,00,000 = ₹ 64,80,000.$$

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.

$$\begin{aligned}
 \text{Additional employee cost} &= ₹ 2,16,00,000 + ₹ 24,000 \times 7 \times 100 \\
 &= ₹ 3,84,00,000 \text{ Deduction under section 80JJAA} \\
 &= 30\% \text{ of } ₹ 3,84,00,000 = ₹ 1,15,20,000.
 \end{aligned}$$

6.3.2 Deduction in respect of royalty income, etc., of authors of certain books other than text books [Section 80QQB]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) **Eligible assessee & Quantum of deduction:** Under section 80QQB, deduction of up to a maximum ₹ 3,00,000 is allowed to an individual resident in India in respect of income derived as author or joint author i.e., the deduction shall be the income derived as author or as joint author or ₹ 3,00,000, whichever is less.
- (ii) **Eligible Income:**
- This income may be received either by way of a lumpsum consideration for the assignment or grant of any of his interests in the copyright of any book.
 - Such book should be a work of literary, artistic or scientific nature, or of royalties or copyright fees (whether receivable in lump sum or otherwise) in respect of such book.
 - This deduction shall not, however, be available in respect of royalty income from textbook for schools, guides, commentaries, brochures, diaries, magazines, newspapers, journals, pamphlets, tracts and other publications of similar nature.

Note - Where an assessee claims deduction under this section, no deduction in respect of the same income may be claimed under any other provision of the Income-tax Act, 1961.

- (iii) **Manner of computation of deduction:** For the purpose of calculating the deduction under this section, the amount of eligible income (royalty or copyright fee received otherwise than by way of lumpsum) before allowing expenses attributable to such income, shall not exceed 15% of the value of the books sold during the previous year.

However, this condition is not applicable where the royalty or copyright fees is receivable in lump sum in lieu of all rights of the author in the book.

(iv) Conditions:

- (a) Furnishing of certificate in prescribed form:** For claiming the deduction, the assessee shall have to furnish a certificate in the prescribed manner in the prescribed format, duly verified by the person responsible for making such payment, setting forth such particulars as may be prescribed.
- (b) Period for repatriation of income earned outside India:** Where the assessee earns any income from any source outside India, he should bring such income into India in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf for the purpose of claiming deduction under this section.

The competent authority shall mean the Reserve Bank of India or such other authority as is authorised under any law for the time being in force for regulating payments and dealings in foreign exchange.

ILLUSTRATION 18 :

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 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 80QBB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION :

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 80QBB would be ₹ 1,90,000 as calculated hereunder –

Particulars	₹
Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000 Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QBB	1,90,000

6.3.3 Deduction in respect of royalty on patents [Section 80RRB]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) Eligible assessee :** A resident individual who is registered as the true and first inventor in respect of an invention under the Patents Act, 1970, including the co-owner of the patent and earning income by way of royalty of a patent registered on or after 1.4.2003.
- (ii) Quantum of deduction :** Income by way of royalty of a patent registered on or after 1.4.2003, subject to a maximum of ₹ 3 lakhs.

Note - No deduction in respect of such income will be allowed under any other provision of the Income-tax Act, 1961

- (iii) Eligible income :** This exemption shall be restricted to the royalty income including consideration for transfer of rights in the patent or for providing information for working or use of a patent, use of a patent or the rendering of any services in connection with these activities.

The exemption shall not be available on any consideration for sale of product manufactured with the use of the patented process or patented article for commercial use.

- (iv) Conditions :** In respect of any such income which is earned from sources outside India, the deduction shall be restricted to such sum as is brought to India in convertible foreign exchange within a period of 6 months from the end of the previous year in which such income is earned or extended period as is allowed by the competent authority (Reserve Bank of India). For claiming this deduction the assessee shall be required to furnish a certificate in the prescribed form signed by the prescribed authority.

6.4 DEDUCTION IN RESPECT OF OTHER INCOME

6.4.1 Deduction in respect of interest on deposits in savings accounts [Section 80TTA]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) Eligible assessee and Quantum of deduction:** Section 80TTA provides that in case the gross total income of an assessee, being an individual or a Hindu Undivided Family, includes any income by way of an interest on deposits in a saving account (not being time deposits, which are deposits repayable on expiry of fixed periods), deduction up to **₹ 10,000** in aggregate shall be allowed while computing the total income of such assessee. Such deduction shall be allowed in case the saving account is maintained with :

- (1) a banking company to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act);
- (2) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
- (3) a post office.

Deduction under this section would, however, not be available to a senior citizen eligible for deduction under section 80TTB.

- (ii) Restrictions :** If the aforesaid income is derived from any deposit in a savings account held by, or on behalf of, a firm, an AOP/BOI, no deduction shall be allowed in respect of such income in computing the total income of any partner of the firm or any member of the AOP or any individual of the BOI.

In effect, the deduction under this section shall be allowed only in respect of the income derived in form of the interest on the saving bank deposit (other than time deposits) made by the individual or Hindu Undivided Family directly.

6.4.2 Deduction in respect of interest on deposits in case of senior citizens [Section 80TTB]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) Eligible assessee:** A senior citizen (a resident individual who is of the age of 60 years or more at any time during the relevant previous year), whose gross total income includes income by way of interest on deposits (both fixed deposits and saving accounts) with –

- (a) a banking company to which Banking Regulation Act, 1949 applies

- (b) a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank)
- (c) a Post Office.

(ii) Quantum of deduction : Actual amount of interest on deposits or ₹ 50,000 whichever is lower.

(iii) Non-availability of deduction to partner/member, where deposit held by firm/AOP/BOI: Where interest income is derived from any deposit held by, or on behalf of, a firm, an AOP or a BOI, the partner of the firm or member of AOP/BOI would not be allowed deduction in respect of such income while computing their total income.

ILLUSTRATION 19 :

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 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)?

SOLUTION :

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.

ILLUSTRATION 20 :

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.

SOLUTION :**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	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	85,500
Total Income			4,79,000

Notes :

- (1) As per section 80C, 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.

6.5 OTHER DEDUCTIONS

6.5.1 Deduction in the case of a person with disability [Section 80U]

[Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

- (i) Section 80U harmonizes the criteria for defining disability as existing under the Income-tax Rules with the criteria prescribed under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995.
- (ii) **Eligible assessee** : This section is applicable to a resident individual, who, at any time during the previous year, is certified by the medical authority to be a person with disability.

The benefit of deduction under this section is also available to persons suffering from autism, cerebral palsy and multiple disabilities.

(iii) Quantum of deduction : A deduction of ₹ 75,000 in respect of a person with disability and ₹ 1,25,000 in respect of a person with severe disability (having disability over 80%) is allowable under this section.

(iv) Conditions :

- (a) The assessee claiming a deduction under this section shall furnish a copy of the certificate issued by the medical authority in the form and manner, as may be prescribed, along with the return of income under section 139, in respect of the assessment year for which the deduction is claimed.
- (b) Where the condition of disability requires reassessment, a fresh certificate from the medical authority shall have to be obtained after the expiry of the period mentioned on the original certificate in order to continue to claim the deduction.

6.6 DEDUCTION UNDER SECTION 10AA

- A deduction of profits and gains which are derived by an assessee being an entrepreneur from the export of articles or things or providing any service, shall be allowed from the total income of the assessee.
- In case of an individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction would be available only if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction would be available only under the optional tax regime, where they pay tax under the normal provisions of the Act.
- In case of companies and co-operative societies, deduction would not be available if they opt for the special provisions u/s 115BAA/ 115BAB and section 115BAD/ 115BAE, respectively. The deduction would be available if they pay tax under the normal provisions of the Act.

(1) Assessee who are eligible for exemption

Exemption is available to all categories of assessee who derive any profits or gains from an undertaking, being a unit, engaged in the manufacturing or production of articles or things or provision of any service. Such assessee should be an entrepreneur referred to in section 2(j) of the SEZ Act, 2005 i.e., a person who has been granted a letter of approval by the Development Commissioner under section 15(9) of the said Act.

(2) Essential conditions to claim exemption

The exemption shall apply to an undertaking which fulfils the following conditions:

- (i) It has begun to manufacture or produce articles or things or provide any service in any SEZ during the previous year relevant to A.Y.2006-07 or any subsequent assessment year but not later than A.Y.2020-21.

However, in case where letter of approval, required to be issued in accordance with the provisions of the SEZ Act, 2005, has been issued on or before 31st March, 2020 and the manufacture or production of articles or things or providing services has not begun on or before 31st March, 2020 then, the date for manufacture or production of articles or things or providing services has been extended to 31st March, 2021 or such other date after 31st March, 2021, as notified by the Central Government.

For e.g. If the SEZ unit has received the necessary approval by 31.3.2020 and begins manufacture or production of articles or things or providing services on or before 31st March, 2021, then it would be deemed to have begun manufacture or production of articles or things or providing services during the A.Y. 2020-21 and would be eligible for exemption under section 10AA. [The Taxation and Other Laws (Relaxation of Certain Provisions) Act, 2020]

- (ii) The assessee should furnish in the prescribed form, before the date specified in section 44AB i.e., one month prior to the due date for furnishing return of income u/s 139(1), the report of a chartered accountant certifying that the deduction has been correctly claimed.
- (iii) No deduction under section 10AA would be allowed to an assessee who does not furnish a return of income on or before the due date specified u/s 139(1).

Example : An individual, subject to tax audit u/s 44AB, claiming deduction u/s 10AA is required to furnish return of income on or before 31.10.2024 for A.Y. 2024-25 and the report of a chartered accountant before 30.9.2024, certifying the deduction claimed u/s 10AA.

- (iv) Deduction under section 10AA would be available to a Unit, if the proceeds from sale of goods or provision of services is received in, or brought into, India by the assessee in convertible foreign exchange, within a period of 6 months from the end of the previous year or, within such further period as the competent authority may allow in this behalf.

The export proceeds from sale of goods or provision of services shall be deemed to have been received in India where such export turnover is credited to a separate account maintained for that purpose by the assessee with any bank outside India with the approval of the Reserve Bank of India.

Meaning of Competent authority – Competent authority means RBI or such authority as is authorized under any law for the time being in force for regulating payments and dealings in foreign exchange.

(3) Period for which deduction is available :

The unit of an entrepreneur, which begins to manufacture or produce any article or thing or provide any service in a SEZ on or after 1.4.2005, shall be allowed a deduction of :

- (i) 100% of the profits and gains derived from the export, of such articles or things or from services for a period of 5 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, and
- (ii) 50% of such profits and gains for further 5 assessment years.
- (iii) So much of the amount not exceeding 50% of the profit as is debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account (to be called the "Special Economic Zone Re-investment Reserve Account") to be created and utilised in the manner laid down under section 10AA(2) for next 5 consecutive years.

However, *Explanation* below section 10AA(1) clarified that amount of deduction under section 10AA shall be allowed from the total income of the assessee computed in accordance with the provisions of the Act before giving effect to the provisions of this section and the deduction under section 10AA shall not exceed such total income of the assessee.

Example : An undertaking is set up in a SEZ and begins manufacturing on 15.10.2009. The deduction under section 10AA shall be allowed as under:

- (a) 100% of profits of such undertaking from exports from A.Y.2010-11 to A.Y.2014-15.
- (b) 50% of profits of such undertaking from exports from A.Y.2015-16 to A.Y. 2019-20.
- (c) 50% of profits of such undertaking from exports from A.Y.2020-21 to A.Y.2024-25 provided certain conditions are satisfied.

(4) Conditions to be satisfied for claiming deduction for further 5 years (after 10 years)**[Section 10AA(2)]**

Sub-section (2) provides that the deduction under (3)(iii) above shall be allowed only if the following conditions are fulfilled, namely :-

- (a) the amount credited to the Special Economic Zone Re-investment Reserve Account is utilised-
 - (1) for the purposes of acquiring machinery or plant which is first put to use before the expiry of a period of three years following the previous year in which the reserve was created; and
 - (2) until the acquisition of the machinery or plant as aforesaid, for the purposes of the business of the undertaking. However, it should not be utilized for
 - (i) distribution by way of dividends or profits; or
 - (ii) for remittance outside India as profits; or
 - (iii) for the creation of any asset outside India;
- (b) the particulars, as may be specified by the CBDT in this behalf, have been furnished by the assessee in respect of machinery or plant. Such particulars include details of the new plant/machinery, name and address of the supplier of the new plant/machinery, date of acquisition and date on which new plant/machinery was first put to use. Such particulars have to be furnished along with the return of income for the assessment year relevant to the previous year in which such plant or machinery was first put to use.

(5) Consequences of mis-utilisation/ non-utilisation of reserve [Section 10AA(3)]

Where any amount credited to the Special Economic Zone Re-investment Reserve Account -

- (a) has been utilised for any purpose other than those referred to in sub-section (2), the amount so utilized shall be deemed to be the profits in the year in which the amount was so utilised and charged to tax accordingly; or
- (b) has not been utilised before the expiry of the said period of 3 years, the amount not so utilised, shall be deemed to be the profits in the year immediately following the said period of three years and be charged to tax accordingly.

(6) Computation of profits and gains from exports of such undertakings :

The profits derived from export of articles or things or services (including computer software) 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 such articles or things or services bears to the total turnover of the business carried on by the undertaking i.e.

$$\text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit SEZ}}{\text{Total turnover of Unit SEZ}}$$

Clarification on issues relating to export of computer software

Section 10AA provides deduction to assessee who derive any profits and gains from export of articles or things or services (including computer software) from the year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, subject to fulfillment of the prescribed conditions. The profits and gains derived from the on site development of computer software (including services for development of software) outside India shall be deemed to be the profits and gains derived from the export of computer software outside India.

Meaning of Export turnover : It means the consideration in respect of export by the undertaking being the unit of articles or things or services received in India or brought into India by the assessee **in convertible foreign exchange within 6 months from the end of the previous year or within such further period as the competent authority may allow in this behalf.**

However, it does not include :

- freight
- telecommunication charges
- insurance

attributable to the delivery of the articles or things outside India or expenses incurred in foreign exchange in rendering of services (including computer software) outside India.

Clarification on issues relating to deduction of freight, telecommunication charges and other expenses from total turnover

"Export turnover", inter alia, does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

CBDT has, vide circular No. 4/2018, dated 14/08/2018, clarified that freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover", while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India.

Similarly, expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA.

(7) Restriction on other tax benefits :

- (i) The business loss under section 72(1) or loss under the head "Capital Gains" under section 74(1), in so far as such loss relates to the business of the undertaking, being the Unit shall be allowed to be carried forward or set off.
- (ii) During the period of deduction, depreciation is deemed to have been allowed on the assets. Written Down Value shall accordingly be reduced.
- (iii) No deduction under section 80-IA and 80-IB⁷ shall be allowed in relation to the profits and gains of the undertaking.
- (iv) Where any goods or services held for the purposes of eligible business are transferred to any other business carried on by the assessee, or where any goods held for any other business are transferred to the eligible business and, in either case, if the consideration for such transfer as recorded in the accounts of the eligible business does not correspond to the market value thereof, then the profits eligible for deduction shall be computed by adopting market value of such goods or services on the date of transfer. In case of exceptional difficulty in this regard, the profits shall be computed by the Assessing Officer on a reasonable basis as he may deem fit. Similarly, where due to the close connection between the assessee and the other person or for any other reason, it appears to the Assessing Officer that the profits of eligible business is increased to more than the ordinary profits, the Assessing Officer shall compute the amount of profits of such eligible business on a reasonable basis for allowing the deduction.
- (v) Where a deduction under this section is claimed and allowed in relation to any specified business eligible for investment-linked deduction under section 35AD, no deduction shall be allowed under section 35AD in relation to such specified business for the same or any other assessment year.

(8) Deduction allowable in case of amalgamation and demerger

In the event of any undertaking, being the Unit which is entitled to deduction under this section, being transferred, before the expiry of the period specified in this section, to another undertaking, being the Unit in a scheme of amalgamation or demerger, -

- (a) no deduction shall be admissible under this section to the amalgamating or the demerged Unit for the previous year in which the amalgamation or the demerger takes place; and
- (b) the provisions of this section would apply to the amalgamated or resulting Unit, as they would have applied to the amalgamating or the demerged Unit had the amalgamation or demerger had not taken place.

ILLUSTRATION 21 :

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).

SOLUTION :

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

$$\begin{aligned}
 &= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\% \\
 &= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 100\% = ₹ 15 \text{ lakhs}
 \end{aligned}$$

Note – No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

LET US RECAPITULATE

Deductions in respect of certain payments

Section	Eligible Assessee	Eligible Payments	Permissible Deduction
80C	Individual or HUF	Contribution to PPF, Payment of LIC premium, etc.	
		- Sums paid or deposited in the previous year by way of - Life insurance premium - Contribution to PPF/ SPF/ RPF and approved superannuation fund - Repayment of housing loan taken from Govt., bank, LIC, specified employer etc. - Tuition fees to any Indian university, college, school for full-time education of any two children - Term deposit for a fixed period of not less than 5 years with schedule bank - Subscription to notified bonds of NABARD - Five year post office time deposit - Senior Citizen's - Savings Scheme Account etc. - Contribution by Central Govt. employee to additional account (Tier II A/c) of NPS referred to u/s 80CCD	Sum paid or deposited, subject to a maximum of ₹ 1,50,000 [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]
80CCC	Individual	Contribution to certain pension funds Any amount paid or deposited to keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund.	Amount paid or deposited, subject to a maximum of ₹ 1,50,000 [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

80CCD	Individuals employed by the Central Govt or any other employer; Any other individual assessee.	Contribution to Pension Scheme of Central Government An individual employed by the Central Government on or after 1.1.2004 or any other employer or any other assessee, being an individual, who has paid or deposited any amount in his account under a notified pension scheme [to his individual pension account [Tier I A/c] under National Pension Scheme & Atal Pension Yojana]	Employee's Contribution/ Individual Contribution In case of a salaried individual, deduction of own contribution u/s 80CCD(1) is restricted to 10% of his salary. In any other case, deduction u/s 80CCD(1) is restricted to 20% of gross total income. Further, additional deduction of upto ₹ 50,000 is available u/s 80CCD(1B). [Deduction u/s 80CCD(1) and 80CCD(1B) would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)] Employer's Contribution The entire employer's contribution would be included in the salary of the employee. The deduction of employer's contribution under section 80CCD(2) would be restricted to 14% of salary, where the employer is the Central Government or State Government; and 10%, in case of any other employer. [Deduction u/s 80CCD(2) would be available irrespective of the regime under which he pays tax.]
Note : As per section 80CCE, maximum permissible deduction u/s 80C, 80CCC & 80CCD(1) is ₹ 1,50,000. However, the limit ₹ 1.50 lakh under section 80CCE does not apply to deduction under section 80CCD(2) and 80CCD(1B). Individual' Contribution Whole of the amount paid or deposited [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]			
80CCH	Individual	Contribution to Agniveer Corpus Fund An individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after 1.11.2022, who has paid or deposited any amount in his account in the Agniveer Corpus Fund incurred on the health of the assessee or his family member or his parent, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person.	Individual' Contribution Whole of the amount paid or deposited [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)] Central Government's Contribution The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee. Thereafter, deduction u/s 80CCH(2) would be premium is paid, and the other is a senior citizen on whom medical expenditure is incurred, the total deduction cannot exceed ₹ 50,000)

(ii) Payment, including cash payment, for preventive health check up of himself, spouse, dependent children and parents.

Amount paid subject to a cap of ₹ 5,000, in aggregate (subject to the overall individual limits of ₹ 25,000/ ₹ 50,000, as the case may be) [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

80DD

Resident Individual
or HUF

Maintenance including medical treatment of a dependant disabled
Any amount incurred for the medical treatment (including nursing), training and rehabilitation of a dependent disabled and / or
Any amount paid or deposited under the scheme framed in this behalf by the LIC or any other insurer or Administrator or Specified Company and approved by Board.

Flat deduction of ₹ 75,000.

In case of severe disability (i.e. person with 80% or more disability) the flat deduction shall be ₹ 1,25,000.

[Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Meaning of Dependant :

(1) In case of	(2) Dependant
An individual	Spouse, children, parents, brothers, sisters
A HUF	Any member

Persons mentioned in column (2) should be wholly or mainly dependant on the person mentioned in corresponding column (1) for support and maintenance. Such persons should not have claimed deduction under section 80U in computing total income of that year

80DDB

Resident Individual
or HUF

Deduction for medical treatment of specified diseases or ailments
Amount paid for specified diseases or ailment

Assessee	Amount spent
An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on
A HUF	For any member

Actual sum paid or ₹ 40,000 (₹ 1,00,000, if the payment is for medical treatment of a senior citizen), whichever is less, minus the amount received from the insurance company or reimbursed by the employer. [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

80E	Individual	Interest on loan taken for higher education Interest on loan taken from any financial institution or approved charitable institution. Such loan is taken for pursuing his higher education or higher education of his or her relative i.e., spouse or children of the individual or the student for whom the individual is the legal guardian.	The deduction is available for interest payment in the initial assessment year (year of commencement of interest payment) and seven assessment years immediately succeeding the initial assessment year (or) until the interest is paid in full by the assessee, whichever is earlier. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]
80EE	Individuals	Deduction for interest on loan borrowed from any financial institution [bank/housing finance company (HFC)] for acquisition of residential house property	Deduction of upto ₹ 50,000 would be allowed in respect of interest on loan taken from a financial institution (FI). Conditions: Loan should be sanctioned during P.Y.2016-17 Loan sanctioned $\leq$ ₹ 35 lakhs Value of house $\leq$ ₹ 50 lakhs The assessee should not own any residential house on the date of sanction of loan. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]
80EEA	Individual	Deduction in respect of interest payable on loan taken from a FI (bank or HFC) for acquisition of residential house property	Deduction of upto ₹ 1,50,000 would be allowed in respect of interest payable on loan taken from a FI for acquisition of house property. Conditions : • Loan should be sanctioned by a FI during the period between 1st April 2019 to 31st March 2022. • Stamp Duty Value of house $\leq$ ₹ 45 lakhs • The individual should not own any residential house on the date of sanction of loan. • The individual should not be eligible to claim deduction u/s 80EE. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

80EEB	Individual	Deduction in respect of interest payable on loan taken from a FI (bank or certain NBFCs) for purchase of electric vehicle Deduction of upto ₹ 1,50,000 would be allowed in respect of interest payable on loan taken for purchase of electric vehicle. Loan should be sanctioned by a FI during the period from 1.4.2019 to 31.3.2023. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]															
80G	All assessees	Donations to certain funds, charitable institutions etc. There are four categories of deductions – <table border="1"> <thead> <tr> <th></th><th>Category</th><th>Donee</th></tr> </thead> <tbody> <tr> <td>(I)</td><td>100% deduction of amount donated, without any qualifying limit</td><td>Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.</td></tr> <tr> <td>(II)</td><td>50% deduction of amount donated, without any qualifying limit</td><td>Prime Minister's Drought Relief Fund.</td></tr> <tr> <td>(III)</td><td>100% deduction of amount donated, subject to qualifying limit</td><td>Government or local authority, institution for promotion of family planning etc.</td></tr> <tr> <td>(IV)</td><td>50% deduction of amount donated, subject to qualifying limit.</td><td>Government or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.</td></tr> </tbody> </table> Calculation of Qualifying limit for Category III & IV donations : Step 1 : Compute adjusted total income, i.e., the gross total income as reduced by the following : 1. Deductions under Chapter VI-A, except u/s 80G 2. Short term capital gains taxable u/s 111A 3. Long term capital gains taxable u/s 112 & 112A Step 2 : Calculate 10% of adjusted total income. Step 3 : Calculate the actual donation, which is subject to qualifying limit Step 4 : Lower of Step 2 or Step 3 is the maximum permissible deduction. Step 5 : The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category III donations). Thereafter, 50% of balance qualifies for deduction under section 80G. Note - No deduction shall be allowed for donation in excess of ₹ 2,000, if paid in cash. [In case of individuals, HUF, AoP (other than a co- operative society) or BoI or an artificial juridical person, deduction would be available only if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)]		Category	Donee	(I)	100% deduction of amount donated, without any qualifying limit	Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.	(II)	50% deduction of amount donated, without any qualifying limit	Prime Minister's Drought Relief Fund.	(III)	100% deduction of amount donated, subject to qualifying limit	Government or local authority, institution for promotion of family planning etc.	(IV)	50% deduction of amount donated, subject to qualifying limit.	Government or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.
	Category	Donee															
(I)	100% deduction of amount donated, without any qualifying limit	Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.															
(II)	50% deduction of amount donated, without any qualifying limit	Prime Minister's Drought Relief Fund.															
(III)	100% deduction of amount donated, subject to qualifying limit	Government or local authority, institution for promotion of family planning etc.															
(IV)	50% deduction of amount donated, subject to qualifying limit.	Government or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.															

80GG	Individual not in receipt of house rent allowance	Rent paid for residential accommodation	Least of the following is allowable as deduction : (1) 25% of total income; (2) Rent paid – 10% of total income (3) ₹ 5,000 p.m. No deduction if any residential accommodation is owned by the assessee/his spouse/minor child/HUF at the place where he ordinarily resides or performs the duties of his office or employment or carries on his business or profession. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]
80GGA	Any assessee not having income chargeable under the head “Profits and gains of business or profession”	Donations for scientific research and rural development	Actual donation [No deduction shall be allowed for donation in excess of ₹ 2,000, if paid in cash] [Deduction would be available to individual, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person only if they exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]
80GGB	Indian company (not opting for section 115BAA/ 115BAB)	Contributions to political parties Any sum contributed by It to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash)
80GGC	Any person, other than local authority and an artificial juridical person funded by the Government.	Contributions to political parties Amount contributed to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash) [An individual, HUF, AoP (other than a co-operative society) or BoI would be eligible for deduction u/s 80GGC only if the assessee exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Deductions in respect of Certain Incomes

As per section 80AC, furnishing return of income on or before due date is mandatory for claiming deduction in respect of certain incomes.

Section	Eligible Assessee	Eligible Income	Permissible Deduction
80JAA	An assessee to whom section 44AB applies, whose Gross total income includes profits and gains derived from business	Deduction in respect of employment of new employees	30% of additional employee cost incurred in the previous year. Deduction is allowable for 3 assessment years including assessment year relevant to the previous year in which such employment is provided. [Deduction would be available irrespective of the regime under which the employer pays tax]
80QQB	Resident individual, being an author	Royalty income, etc., of authors of certain books other than text books Consideration for assignment or grant of any of his interests in the copyright of any book, being a work of literary, artistic or scientific nature or royalty or copyright fee received as lumpsum or otherwise.	Income derived in the exercise of profession or ₹ 3,00,000, whichever is less. In respect of royalty or copyright fee received otherwise than by way of lumpsum, income to be restricted to 15% of value of books sold during the relevant previous year. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]
80RRB	Resident individual, being a patentee	Royalty on patents Any income by way of royalty on patents registered on or after 1.4.2003	Whole of such income or ₹ 3,00,000, whichever is less. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Deductions in respect of Other Income

Section	Eligible Assessee	Eligible Income	Permissible Deduction
80TTA	Individual or a HUF, other than a resident senior citizen	Interest on deposits in savings account Interest on deposits in a savings account with a bank, a co-operative society or a post office (not being time deposits, which are repayable on expiry of fixed periods)	Actual interest subject to a maximum of ₹ 10,000. [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]
80TTB	Resident senior citizen (i.e. an individual of the age of 60 years or more at any time during the previous year)	Interest on deposits Interest on deposits (both fixed deposits and saving accounts) with banking company, co-operative society engaged in the business of banking or a post office.	Actual interest or ₹ 50,000, whichever is less. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Other Deductions

Section	Eligible Assessee	Condition for deduction	Permissible Deduction
80U	Resident Individual	Deduction in case of a person with disability Any person, who is certified by the medical authority to be a person with disability.	Flat deduction of ₹ 75,000, in case of a person with disability. Flat deduction of ₹ 1,25,000, in case of a person with severe disability (80% or more disability). [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Deduction under section 10AA

Section	Eligible Assessee	Eligible Income	Permissible Deduction
10AA	An assessee who derives profits from an under-taking, being a Unit established in SEZ, which begins to manufacture or produce articles or things or provide any service on or after 1.4.2005 but before 1.4.2021	Profits derived from exports of such articles or things or export of services (including computer software). Conditions for deduction 1. Proceeds to be received in convertible foreign exchange within 6 months from the end of the P.Y. or such further period as the competent authority may allow in this behalf authority may allow in this behalf. 2. The report of chartered accountant certifying that the deduction has been correctly claimed should be furnished before the date specified in section 44AB. 3. Return of income to be filed on or before due date u/s 139(1).	Deduction for 15 consecutive assessment years Amount of deduction = $\frac{\text{Profits of Unit in SEZ} \times \text{Export turnover of Unit SEZ}}{\text{Total turnover of Unit SEZ}}$ Years 1 to 5 - 100% of such profits would be exempt in the first five years; Years 6 to 10 - 50% of such profits in the next five years; and Years 11 to 15 - In the last five years, 50% of such profits subject to transfer to SEZ Re-investment Reserve Account. [In case of individuals, HUF, AoP (other than a co-operative society), BoI or an artificial juridical person, deduction would be available only if they exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

TEST YOUR KNOWLEDGE

1. Examine the following statements with regard to the provisions of the Income- tax Act, 1961 :
 - (i) 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.
 - (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
 - (iii) In order to be eligible to claim deduction under section 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
 - (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.
 - (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2023, 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.
 - (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
2. 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) :
 - (i) 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.
 - (ii) Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
 - (iii) Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.
3. 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.
4. Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2023-24, furnishes you the following information:
 - (i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.
 - (ii) Five year post office time deposit - ₹ 20,000.
 - (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.

(iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

5. 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.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

6. 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:

- (i) If both the units were set up and start manufacturing from 22-05-2015.
(ii) If both the units were set up and start manufacturing from 14-05-2019.

ANSWERS

1. (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.
2. (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.

3. **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	
deduction would be available under default tax regime u/s 115BAC	
Total income	8,18,240
Tax on total income	49,000
LTCG ₹ 2,45,000 x 20%	13,662
Balance total income ₹ 5,73,240	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 x 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
	3,53,240
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

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of 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.
4. Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.
4. **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	
	Under section 80E		
	Interest on loan taken for higher education of spouse, being a relative.	10,000	
	Under section 80G (See Note below)		
	Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income			5,47,500

Note : In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

5. **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	1,50,000
As per section 80CCE, aggregate deduction under, <i>inter alia</i> , section 80C and 80CCC, is restricted to 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	75,000
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	
Eligible deduction under Chapter VI-A		2,25,000

6. 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.

= Profits of Unit in SEZ × Export turnover of Unit in SEZ × 50% Total turnover of Unit in SEZ

= 60 lakhs × 300 lakhs × 50% = ₹ 22.50 lakhs

400 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.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \times 100\% = ₹ 45 \text{ lakhs}$$

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 - 7

ADVANCE TAX, TAX DEDUCTION AT SOURCE AND TAX COLLECTION AT SOURCE

7.1 DEDUCTION OF TAX AT SOURCE AND ADVANCE PAYMENT [SECTION 190]

The total income of an assessee for the previous year is taxable in the relevant assessment year. For example, the total income for the P.Y. 2023-24 is taxable in the A.Y. 2024-25. However, income-tax is recovered from the assessee in the previous year itself through –

- (1) Tax deduction at source (TDS)
- (2) Tax collection at source (TCS)
- (3) Payment of advance tax

Another mode of recovery of tax is from the employer through tax paid by him under section 192(1A) on the non-monetary perquisites provided to the employee.

These taxes are deductible from the total tax due from the assessee. The assessee, while filing his return of income, has to pay self-assessment tax under section 140A, if tax is due on the total income as per his return of income after adjusting, inter alia, TDS, TCS, relief of tax claimed under section 89, tax credit claimed to be set off in accordance with the provisions of section 115JD, in case assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), any tax or interest payable according to the provisions of section 191(2) and advance tax.

7.2 DIRECT PAYMENT [SECTION 191]

Direct payment of tax - Section 191(1) provides that in the following cases, tax is payable by the assessee directly –

- (i) in the case of income in respect of which tax is not required to be deducted at source; and
- (ii) income in respect of which tax is liable to be deducted but is not actually deducted.

In view of this provision, the proceedings for recovery of tax necessarily had to be taken against the assessee whose tax was liable to be deducted, but not deducted.

In order to overcome this difficulty, the Explanation to this section provides that if any person, including the principal officer of a company –

- (i) who is required to deduct tax at source; or
- (ii) an employer paying tax on non-monetary perquisites under section 192(1A),

does not deduct, or after deducting fails to pay such tax, or does not pay, the whole or part of the tax, then, such person shall be deemed to be an assessee-indefault.

However, if the assessee himself has paid the tax, this provision will not apply.

7.3 DEDUCTION OF TAX AT SOURCE

7.3.1 Salary [Section 192]

(1) Applicability of TDS under section 192

This section casts an obligation on every person responsible for paying any income chargeable to tax under the head 'Salaries' to deduct income-tax at the time of payment on the amount payable.

(2) Manner of deduction of tax

- (i) Such income-tax has to be calculated at the average rate of income tax computed on the basis of the rates in force for the relevant financial year in which the payment is made, on the estimated total income of the assessee **where the employee intimates to the employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).**
- (ii) Average rate of income-tax means the rate arrived at by dividing the amount of income-tax calculated on the total income, by such total income.
- (iii) A deductor, being an employer, has to seek information from each of its employees having income under section 192 regarding their intended tax regime and each such employee would intimate the same to the deductor, being his employer, regarding his intended tax regime for each year and upon intimation, the deductor has to compute his total income, and deduct tax at source thereon according to the option exercised.

If intimation is not made by the employee, it would be presumed that the employee continues to be in the default tax regime u/s 115BAC and has not exercised the option to opt out of the default tax regime. Accordingly, in such a case, the employer has to deduct tax at source, on income under section 192, in accordance with the rates provided under section 115BAC(1A).

It is also clarified that the intimation would not amount to exercising option under section 115BAC(6) and the person shall be required to do so separately in accordance with the provisions of that section [Circular No. 4/2023 dated 5.4.2023].

- (iv) The concept of payment of tax on non-monetary perquisites has been provided in sections 192(1A) and (1B). These sections provide that the employer may pay this tax, at his option, in lieu of deduction of tax at source from salary payable to the employee. Such tax will have to be worked out at the average rate applicable to aggregate salary income of the employee and payment of tax will have to be made every month along with tax deducted at source on monetary payment of salary, allowances etc.

ILLUSTRATION 1 :

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager.

Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

SOLUTION

	₹
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
	8,00,000
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).

- (v) In cases where an assessee is employed simultaneously under more than one employer or the assessee takes up a job with another employer during the financial year after his resignation or retirement from the services of the former employer, he may furnish the details of the income under the head “Salaries” due or received by him from the other employer, the tax deducted therefrom and such other particulars to his current employer. Thereupon, the subsequent employer should take such information into consideration and then deduct the tax remaining payable in respect of the employee’s remuneration from both the employers put together for the relevant financial year.
- (vi) In respect of salary payments to employees of Government or to employees of companies, co-operative societies, local authorities, universities, institutions, associations or bodies, deduction of tax at source should be made after allowing relief u/s 89(1), where eligible.
- (vii) A tax payer having salary income in addition to other income chargeable to tax for that financial year, may send to the employer, the following particulars of:
 - (a) such other income and of any tax deducted under any other provision;
 - (b) loss, if any, under the head ‘Income from house property’ if the assessee intimated to the employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

The employer shall take the above particulars into account while calculating tax deductible at source.

- (viii) It is also provided that except in cases where loss from house property has been adjusted against salary income, the tax deductible from salary should not be reduced as a consequence of making the above adjustments. Loss from house property would be adjusted against salary where the assessee intimated to the employer his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A). However, loss under the head “income from house property” shall be allowed to be set off against salary and income under any other head subject to maximum of ₹ 2,00,000.

(3) Furnishing of statement of particulars of perquisites or profits in lieu of salary by employer to employee

Sub-section (2C) provides that the employer shall furnish to the employee, a statement in Form No. 12BA giving correct and complete particulars of perquisites or profits in lieu of salary provided to him and the value thereof. The statement shall be in the prescribed form and manner. This requirement is applicable only where the salary paid/payable to an employee exceeds ₹ 1,50,000. For other employees, the particulars of perquisites/profits in lieu of salary shall be given in Form 16 itself.

(4) Circular issued by CBDT

Every year, the CBDT issues a circular giving details and direction to all employers for the purpose of deduction of tax from salaries payable to the employees during the relevant financial year. These instructions should be followed.

(5) Requirement to obtain evidence/ proof/ particulars of claims from the employee by the employer

Sub-section (2D) casts responsibility on the person responsible for paying any income chargeable under the head "Salaries" to obtain from the assessee, the evidence or proof or particulars of prescribed claims (including claim for set-off of loss) under the provisions of the Act in the prescribed form and manner, for the purposes of –

- (1) estimating income of the assessee; or
- (2) computing tax deductible under section 192(1).

In case an employee has intimated his employer of his intent to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A), Rule 26C requires furnishing of evidence of the following claims by him to the person responsible for making payment under section 192(1) in Form No.12BB for the purpose of estimating his income or computing the amount of tax to be deducted at source:

S. No.	Nature of Claim	Evidence or particulars
1.	House Rent Allowance	Name, address and PAN of the landlord(s) where the aggregate rent paid during the previous year exceeds ₹ 1 lakh.
2.	Leave Travel Concession or Assistance	Evidence of expenditure
3.	Deduction of interest under the head "Income from house property"	Name, address and PAN of the lender
4.	Deduction under Chapter VI-A	Evidence of investment or expenditure.

7.3.2 Interest on securities [Section 193]**(1) Person responsible for deduction of tax at source**

This section casts responsibility on every person responsible for paying to a resident any income by way of interest on securities.

(2) Meaning of interest on securities [Section 2(28B)]

Interest on securities means -

- (i) interest on any security of the Central Government or a State Government
- (ii) interest on debentures or other securities for money issued by or on behalf of a local authority or a company or a corporation established by a Central, State or Provincial Act.

(3) Rate of TDS

Such person is vested with the responsibility to deduct income-tax at the rates in force from the amount of interest payable.

The rate at which tax is deductible under section 193 is **10%**, both in the case of domestic companies and non-corporate resident assesseees.

(4) Time of tax deduction at source

Tax should be deducted at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

Where any income by way of interest on securities is credited to any account in the books of account of the person liable to pay such income, such crediting is deemed to be credit of such income to the account of the payee and tax has to be deducted at source. The account to which such interest is credited may be called "Interest Payable account" or "Suspense account" or by any other name.

(5) Non-applicability of TDS under section 193

No tax deduction is to be made from any interest payable:

- (i) on National Development Bonds;
- (ii) on 7-year National Savings Certificates (IV Issue);
- (iii) on debentures issued by any institution or authority or any public sector company or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as notified by the Central Government;

Accordingly, the Central Government has, vide Notification No. 27 & 28/2018, dated 18-06-2018, notified-

- (i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited {PFCL} and
- (ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited {IRFCL}

Thus, no tax is required to be deducted at source on interest payable on "Power Finance Corporation Limited 54EC Capital Gains Bond" and "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond".

- (iv) on any security of the Central Government or a State Government

Note – It may be noted that tax has to be deducted at source in respect of interest payable on 8% Savings (Taxable) Bonds, 2003, or 7.75% Savings (Taxable) Bonds, 2018, only if such interest payable exceeds ₹ 10,000 during the financial year.

- (v) on any debentures (whether listed or not listed on a recognized stock exchange) issued by the company in which the public are substantially interested to a resident individual or HUF. However,
 - (a) the interest should be paid by the company by an account payee cheque;
 - (b) the amount of such interest or the aggregate thereof paid or likely to be paid during the financial year by the company to such resident individual or HUF should not exceed ₹ 5,000.
- (vi) on securities to LIC, GIC, subsidiaries of GIC or any other insurer, provided –
 - (a) the securities are owned by them or
 - (b) they have full beneficial interest in such securities.

7.3.3 Interest other than interest on securities [Section 194A]

This section deals with the scheme of deduction of tax at source from interest other than interest on securities. The main provisions are the following:

(1) Applicability of TDS under section 194A

This section applies only to interest, other than “interest on securities”, credited or paid by assessee other than individuals or Hindu undivided family. However, an individual or Hindu undivided family whose total sales, gross receipts or turnover from the business or profession carried on by him exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the immediately preceding financial year is liable to deduct tax at source under this section.

(2) Time of tax deduction at source

The deduction of tax must be made at the time of crediting such interest to the account of the payee or at the time of its payment in cash or by any other mode, whichever is earlier.

Where any such interest is credited to any account in the books of account of the person liable to pay such income, such crediting is deemed to be credit of such income to the account of the payee and the tax has to be deducted at source. The account to which such interest is credited may be called “Interest Payable account” or “Suspense account” or by any other name.

The CBDT has, vide Circular No.3/2010 dated 2.3.2010, given a clarification regarding deduction of tax at source on payment of interest on time deposits under section 194A by banks following Core-branch Banking Solutions (CBS) software. It has been clarified that Explanation to section 194A is not meant to apply in cases of banks where credit is made to provisioning account on daily/monthly basis for the purpose of macro monitoring only by the use of CBS software. It has been further clarified that since no constructive credit to the depositor's/payee's account takes place while calculating interest on time deposits on daily or monthly basis in the CBS software used by banks, tax need not be deducted at source on such provisioning of interest by banks for the purposes of macro monitoring only. In such cases, tax shall be deducted at source on accrual of interest at the end of financial year or at periodic intervals as per practice of the bank or as per the depositor's/ payee's requirement or on maturity or on encashment of time deposits, whichever event takes place earlier, whenever the aggregate of amounts of interest income credited or paid or likely to be credited or paid during the financial year by the banks exceeds the limits specified in section 194A.

Note - The time for making the payment of tax deducted at source would reckon from the date of credit of interest made constructively to the account of the payee.

(3) Rate of TDS

The rate at which the deduction is to be made is given in Part II of the First Schedule to the Annual Finance Act. The rate at which tax is to be deducted is **10%** both in the case of non-corporate resident assessee and domestic companies.

(4) Non-applicability of TDS under section 194A

No deduction of tax shall be made in the following cases:

- (a) If the aggregate amount of interest paid or credited during the financial year does not exceed ₹ 5,000.

This limit is ₹ 40,000 where the payer is a –

- (i) banking company;
- (ii) a co-operative society engaged in banking business; and
- (iii) post office and interest is credited or paid in respect of any deposit under notified schemes.

In respect of (i), (ii) and (iii) above, the limit is ₹ 50,000, in case of payee, being a senior citizen.

The limit will be calculated with respect to income credited or paid by a branch of a banking company or a co-operative society or a public company in case of:

- (i) time deposits with a banking company
- (ii) time deposits with a co-operative society carrying on the business of banking; and
- (iii) deposits with housing finance companies, provided:
 - they are public companies formed and registered in India
 - their main object is to carry on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

The threshold limit will be reckoned with reference to the total interest credited or paid by the banking company or the co-operative society or the public company, as the case may be, (and not with reference to each branch), where such banking company or co-operative society or public company has adopted core banking solutions.

Section 206A requires every banking company or co-operative society or public company referred to in above to prepare such statement, for such period as may be prescribed

- if they are responsible for paying to a resident,
- the payment should be of any income not exceeding ₹ 40,000, where the payer is a banking company or a co-operative society, and ₹ 5,000 in any other case and
- such income should be by way of interest (other than interest on securities)

The statement should be in the prescribed form and should be delivered to the DGIT (Systems) or person authorized by him.

- (b) Interest paid or credited by a firm to any of its partners;
- (c) Interest paid or credited in respect of deposits under any scheme framed by the Central Government and notified by it in this behalf;
- (d) Interest income credited or paid in respect of deposits (other than time deposits made on or after 1.7.1995) with a bank to which the Banking Regulation Act, 1949 applies;
- (e) Income paid or credited by a co-operative society (other than a cooperative bank) to a member thereof or to such income credited or paid by a co-operative society to any other co-operative society;
- (f) Interest income credited or paid in respect of -
 - (i) deposits with primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a cooperative land development bank;
 - (ii) deposit (other than time deposits made on or after 1.7.1995) with a co-operative society [other than cooperative society or bank referred to in (i)] engaged in carrying on the business of banking.

From a combined reading of (e) and (f), it can be inferred that a cooperative bank other than mentioned in (i) above is required to deduct tax at source on payment of interest on time deposit to its members. However, it is not required to deduct tax from the payment of interest on time deposit, to a depositor, being a co-operative society.

However, a cooperative society referred to in (e) or (f) is liable to deduct tax if –

- (i) the total sales, gross receipts or turnover of the co-operative society exceeds ₹ 50 crore during the financial year immediately preceding the financial year in which interest is credited or paid; and

- (ii) the amount of interest or the aggregate amount of interest credited or paid, or is likely to be credited or paid, during the financial year is more than ₹ 50,000 in case of payee being a senior citizen and ₹ 40,000, in any other case.

Thus, such co-operative society is required to deduct tax under section 194A on interest credited or paid by it –

- (a) to its member or to any other co-operative society; or
 - (b) in respect of deposits with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank or
 - (c) in respect of deposits with a co-operative bank other than a cooperative society or bank engaged in carrying on the business of banking
- (g) Interest income credited or paid by the Central Government under any provision of the Income-tax Act, 1961.
- (h) Interest paid or credited to the following entities:
- (i) banking companies, or co-operative societies engaged in the business of banking, including co-operative land mortgage banks;
 - (ii) financial corporations established by or under any Central, State or Provincial Act.
 - (iii) the Life Insurance Corporation of India.
 - (iv) companies and co-operative societies carrying on the business of insurance.
 - (v) the Unit Trust of India; and
 - (vi) notified institution, association, body or class of institutions, associations or bodies (National Skill Development Fund and Housing and Urban Development Corporation Ltd. (HUDCO), New Delhi have been notified by the Central Government for this purpose).
- (i) income credited by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal;
- (j) income paid by way of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal where the amount of such income or, as the case may be, the aggregate of the amounts of such income paid during the financial year does not exceed ₹ 50,000.
- (k) income paid or payable by an infrastructure capital company or infrastructure capital fund or infrastructure debt fund or public sector company or scheduled bank in relation to a zero coupon bond issued on or after 1.6.2005.

Notes

- (1) The expression “time deposits” [for the purpose of (4)(a), (d) and (f) above] means the deposits, **including** recurring deposits, repayable on the expiry of fixed periods.
- (2) Senior citizen means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year.

(5) Power to the Central Government to issue notification

The Central Government is empowered to issue notification for nondeduction of tax at source or deduction of tax at a lower rate, from such payment to such person or class of persons, specified in that notification.

ILLUSTRATION 2

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.

SOLUTION

- (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.

7.3.4 Payments to contractors and sub-contractors [Section 194C]**(1) Applicability of TDS under section 194C**

Section 194C provides for deduction of tax at source from the payment made to resident contractors and sub-contractors.

Tax has to be deducted at source under section 194C by any person responsible for paying any sum to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the –

- (i) the Central Government or any State Government; or
- (ii) any local authority; or
- (iii) any statutory corporation; or
- (iv) any company; or
- (v) any co-operative society; or
- (vi) any statutory authority dealing with housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both; or
- (vii) any society registered under the Societies Registration Act, 1860; or
- (viii) any trust; or
- (ix) any university established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a university under the UGC Act, 1956; or
- (x) any firm; or

- (xi) any Government of a foreign State or foreign enterprise or any association or body established outside India; or
- (xii) any person, being an individual, HUF, AOP or BOI, who has total sales, gross receipts or turnover from the business or profession carried on by him exceeding ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding the financial year in which such sum is credited or paid to the account of the contractor.

(2) Time of deduction

Tax has to be deducted at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.

Where any such sum is credited to any account in the books of account of the person liable to pay such income, such crediting is deemed to be credit of such income to the account of the payee and the tax has to be deducted at source. The account to which such sum is credited may be called "Suspense account" or by any other name.

However, no tax has to be deducted at source in respect of payments made by individuals/HUF to a contractor exclusively for personal purposes.

(3) Rate of TDS

The rate of TDS under section 194C on payments to contractors would be 1%, where the payee is an individual or HUF and 2% in respect of other payees. The same rates of TDS would apply for both contractors and subcontractors.

The applicable rates of TDS under section 194C are as follows –

Payee	TDS rate
Individual HUF contractor/sub-contractor	1%
Other than individual/HUF contractor/ sub-contractor	2%
Contractor in transport business (if PAN is furnished)	Nil
Sub-contractor in transport business (if PAN is furnished)	Nil

(4) Threshold limit for deduction of tax at source under section 194C

No deduction will be required to be made if the consideration for the contract does not exceed ₹ 30,000. However, to prevent the practice of composite contracts being split up into contracts valued at less than ₹ 30,000 to avoid tax deduction, it has been provided that tax will be required to be deducted at source where the amount credited or paid or likely to be credited or paid to a contractor or sub-contractor exceeds ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year.

Therefore, even if a single payment to a contractor does not exceed ₹ 30,000, TDS provisions under section 194C would be attracted where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid to the contractor during the financial year exceeds ₹ 1,00,000.

ILLUSTRATION 3

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.

SOLUTION

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.

(5) Definition of work

Work includes –

- (a) advertising;
- (b) broadcasting and telecasting including production of programmes for such broadcasting or telecasting;
- (c) carriage of goods or passengers by any mode of transport other than by railways;
- (d) catering;
- (e) manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b), (i.e., the customer would be in the place of assessee; and the associate would be the related person(s) mentioned in that section).

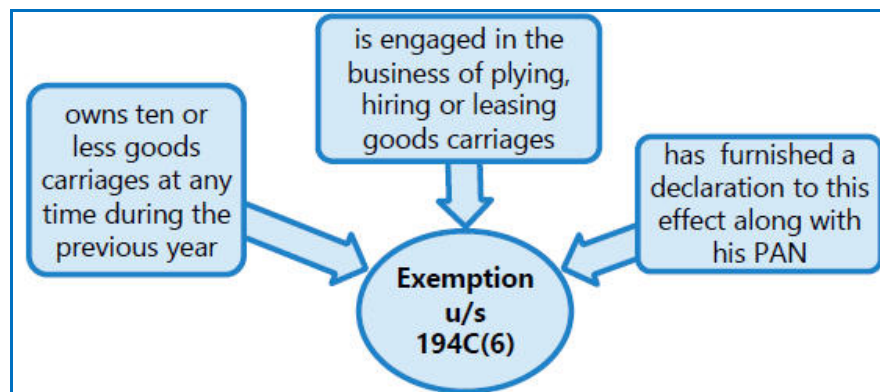
However, “work” shall not include manufacturing or supplying a product according to the requirement or specification of a customer by using raw material purchased from a person, other than such customer or associate of such customer, as such a contract is a contract for ‘sale’. However, this will not be applicable to a contract which does not entail manufacture or supply of an article or thing (e.g. a construction contract).

It may be noted that the term “work” would include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate. In such a case, tax shall be deducted on the invoice value excluding the value of material purchased from such customer or its associate, if such value is mentioned separately in the invoice. Where the material component has not been separately mentioned in the invoice, tax shall be deducted on the whole of the invoice value.

(6) Non-applicability of TDS under section 194C

No deduction is required to be made from the 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 he furnishes his PAN to the deductor.

In order to convey the true intent of law, it has been clarified that this relaxation from the requirement to deduct tax at source shall only be applicable to the payment in the nature of transport charges (whether paid by a person engaged in the business of transport or otherwise) made to a contractor, who fulfills the following three conditions cumulatively –



Meaning of Goods carriage:

Goods carriage means -

- (i) any motor vehicle constructed or adapted for use solely for the carriage of goods; or
- (ii) any motor vehicle not so constructed or adapted, when used for the carriage of goods.

The term “motor vehicle” does not include vehicles having less than four wheels and with engine capacity not exceeding 25cc as well as vehicles running on rails or vehicles adapted for use in a factory or in enclosed premises.

(7) Important points

- (i) The deduction of income-tax will be made from sums paid for carrying out any work or for supplying labour for carrying out any work. In other words, the section will apply only in relation to ‘works contracts’ and ‘labour contracts’ and will not cover contracts for sale of goods.
- (ii) Contracts for rendering professional services by lawyers, physicians, surgeons, engineers, accountants, architects, consultants etc., cannot be regarded as contracts for carrying out any “work” and, accordingly, no deduction of income-tax is to be made from payments relating to such contracts under this section. Separate provisions for fees for professional services have been made under section 194J.
- (iii) The deduction of income-tax must be made at the time of credit of the sum to the account of the contractor, or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

ILLUSTRATION 4

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

SOLUTION

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.

7.3.5 Commission or brokerage [Section 194H]

(1) Applicability and Rate of TDS

Any person other than an individual or HUF, who is responsible for paying any income by way of commission (other than insurance commission) or brokerage to a resident shall deduct income tax at the rate of 5%.

However, an individual or HUF whose total sales, gross receipts or turnover from the business or profession carried on by him 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 commission or brokerage is credited or paid, is liable to deduct tax at source.

(2) Time of deduction

The deduction shall be made at the time such income is credited to the account of the payee or at the time of payment in cash or by issue of cheque or draft or by any other mode, whichever is earlier.

Even where income is credited to some other account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit to the account of the payee for the purposes of this section.

(3) Threshold limit

No deduction is required if the amount of such income or the aggregate of such amount does not exceed ₹15,000 during the financial year.

(4) Meaning of "Commission or brokerage"

"Commission or brokerage" includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person

- for services rendered, or
- for any services in the course of buying or selling of goods, or
- in relation to any transaction relating to any asset, valuable article or thing, other than securities.

(5) Non-applicability of TDS under section 194H

- (i) This section is not applicable to professional services. "Professional Services" means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or such other profession as notified by the CBDT for the purpose of compulsory maintenance of books of account under section 44AA.
- (ii) Further, there would be no requirement to deduct tax at source on commission or brokerage payments by BSNL or MTNL to their public call office (PCO) franchisees.

(6) Applicability of TDS provisions on payments by television channels and publishing houses to advertisement companies for procuring or canvassing for advertisements [Circular No. 05/2016, dated 29-2-2016]

There are two types of payments involved in the advertising business:

- (i) Payment by client to the advertising agency, and
- (ii) Payment by advertising agency to the television channel/newspaper company

The applicability of TDS on these payments has already been dealt with in Circular No. 715 dated 8-8-1995, where it has been clarified in Question Nos. 1 & 2 that while TDS under section 194C (as work contract) will be applicable on the first type of payment, there will be no TDS under section 194C on the second type of payment e.g. payment by advertising agency to the media company.

However, another issue has been raised in various cases as to whether the fees/charges taken or retained by advertising companies from media companies for canvassing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount' for attracting the provisions of section 194H.

The CBDT has clarified that no TDS is attracted on payments made by television channels/newspaper companies to the advertising agency for booking or procuring of or canvassing for advertisements. It is also further clarified that 'commission' referred to in Question No.27 of the CBDT's Circular No. 715 dated 8-8-1995 does not refer to payments by media companies to advertising companies for booking of advertisements but to payments for engagement of models, artists, photographers, sportspersons, etc. and, therefore, is not relevant to the issue of TDS referred to in this Circular.

ILLUSTRATION 5

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

SOLUTION

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.

7.3.6 Rent [Section 194-I]

(1) Applicability and Rate of TDS

Any person other than individual or HUF, who is responsible for paying to a resident any income by way of rent, is liable to deduct tax at source.

However, an individual or HUF whose total sales, gross receipts or turnover from the business or profession carried on by him 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.

(2) Rate of TDS

Tax has to be deducted at the rate of:

- (i) 2% in respect of rent for plant, machinery or equipment;
- (ii) 10% in respect of other rental payments (i.e., rent for use of any land or building, including factory building, or land appurtenant to a building, including factory building, or furniture or fittings).

(3) Time of deduction

This deduction is to be made at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of cheque or draft or by any other mode, whichever is earlier.

Where any such income is credited to any account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to

be credit of such income to the account of the payee and the provisions of this section will apply accordingly.

(4) Threshold limit

No deduction need be made where the amount of such income or the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the financial year to the account of the payee does not exceed **₹2,40,000**.

(5) Meaning of Rent

“Rent” means any payment, by whatever name called, under any lease, sublease, tenancy or any other agreement or arrangement for the use of (either separately or together) any –

- (a) land; or
- (b) building (including factory building); or
- (c) land appurtenant to a building (including factory building); or
- (d) machinery; or
- (e) plant; or
- (f) equipment; or
- (g) furniture; or
- (h) fittings, whether or not any or all of the above are owned by the payee.

(6) Applicability of TDS provisions under section 194-I to payments made by the customers on account of cooling charges to the cold storage owners

CBDT Circular No.1/2008 dated 10.1.2008 provides clarification regarding applicability of provisions of section 194-I to payments made by the customers on account of cooling charges to the cold storage owners.

The main function of the cold storage is to preserve perishable goods by means of a mechanical process, and storage of such goods is only incidental in nature. The customer is also not given any right to use any demarcated space/place or the machinery of the cold store and thus does not become a tenant. Therefore, the provisions of 194-I are not applicable to the cooling charges paid by the customers of the cold storage.

However, since the arrangement between the customers and cold storage owners are basically contractual in nature, the provision of section 194-C will be applicable to the amounts paid as cooling charges by the customers of the cold storage.

(7) No requirement to deduct tax at source under section 194-I on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator [Circular No. 21/2017, dated 12.06.2017]

The primary requirement of any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/ insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I.

Accordingly, the CBDT has, vide this circular, clarified that the provisions of section 194-I shall not be applicable on payment of PSF by an airline to Airport Operator.

(8) Applicability of TDS provisions under section 194-I to service tax component of rental income

CBDT Circular No.4/2008 dated 28.4.2008 provides clarification on deduction of tax at source (TDS) on service tax component of rental income under section 194-I.

As per the provisions of 194-I, tax is deductible at source on **income** by way of rent paid to any resident. Further, rent has been defined in 194-I to mean any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of (either separately or together) any,-

- (a) land; or
- (b) building (including factory building); or
- (c) land appurtenant to a building (including factory building); or
- (d) machinery; or
- (e) plant; or
- (f) equipment; or
- (g) furniture; or
- (h) fittings,

whether or not any or all of the above are owned by the payee.

Service tax paid by the tenant doesn't partake the nature of income of the landlord. The landlord only acts as a collecting agency for Government for collection of service tax. Therefore, tax deduction at source under section 194-I would be required to be made on the amount of rent paid/payable without including the service tax.

Note - It is possible to take a view that the clarification given in Circular No.4/2008 would apply in the GST regime also.

Clarification regarding TDS on Goods and Services Tax (GST) component comprised in payments made to residents [Circular No. 23/2017 dated 19.07.2017]

The CBDT has, vide this circular, clarified that wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such 'GST on services' component.

GST shall include Integrated Goods and Services Tax, Central Goods and Services Tax, State Goods and Services Tax and Union Territory Goods and Services Tax.

Further, for the purposes of this Circular, any reference to "service tax" in an existing agreement or contract which was entered into prior to 01.07.2017 shall be treated as "GST on services" with respect to the period from 01.07.2017 onward till the expiry of such agreement or contract.

(9) Clarification on applicability of TDS provisions of section 194-I on lumpsum lease premium paid for acquisition of long term lease [Circular No.35/2016, dated 13-10-2016]

The issue of whether or not TDS under section 194-I is applicable on 'lump sum lease premium' or 'one-time upfront lease charges' paid by an assessee for acquiring long-term leasehold rights for land or any other property has been examined by the CBDT.

Accordingly, the CBDT has, vide this Circular, clarified that lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights over land or any other property are not payments in the nature of rent within the meaning of section 194-I. Therefore, such payments are not liable for TDS under section 194-I.

ILLUSTRATION 6

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.

SOLUTION

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

7.3.7 Payment of rent by certain individuals or Hindu undivided family [Section 194-IB]

(1) Applicability and Rate of TDS

Section 194-IB requires any person, being individual or HUF, other than those individual or HUF whose total sales, gross receipts or turnover from the business or profession **exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession** in the financial year immediately preceding the financial year in which such rent was credited or paid, responsible for paying to a resident any income by way of rent, to deduct income tax @5%.

(2) Threshold limit

Under this section, tax has to be deducted at source only if the amount of such rent exceeds ₹ 50,000 for a month or part of a month during the previous year.

(3) Time of deduction

This deduction is to be made at the time of credit of such rent, for the last month of the previous year or the last month of tenancy, if the property is vacated during the year, as the case may be, to the account of the payee or at the time of payment thereof in cash or by issue of cheque or draft or by any other mode, whichever is earlier.

(4) No requirement to obtain TAN

The provisions of section 203A containing the requirement of obtaining Tax deduction account number (TAN) shall not apply to the person required to deduct tax in accordance with the provisions of section 194-IB.

(5) Meaning of “Rent”

“Rent” means any payment, by whatever name called, under any lease, sublease, tenancy or any other agreement or arrangement for the use of any land or building or both.

(6) Deduction not to exceed rent for last month

Where the tax is required to be deducted as per the provisions of section 206AA, such deduction shall not exceed the amount of rent payable for the last month of the previous year or the last month of the tenancy, as the case may be [Section 206AA providing for deduction of tax at source at a higher rate is discussed at length later on in this chapter]

ILLUSTRATION 7

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?

SOLUTION

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.

7.3.8 Fees for professional or technical services [Section 194J]**(1) Applicability and Rate of TDS**

Every person other than an individual or a HUF, who is responsible for paying to a resident any sum by way of –

- (i) fees for professional services; or
- (ii) fees for technical services; or
- (iii) any remuneration or fees or commission, by whatever name called, other than those on which tax is deductible under section 192, to a director of a company; or
- (iv) royalty, or
- (v) non-compete fees referred to in section 28(va)

shall deduct tax at source at the rate of –

- (a) **2%** in case of fees for technical services (not being professional services) or royalty in the nature of consideration for sale, distribution or exhibition of cinematographic films; and
- (b) **10%** in other cases. However, in case of a payee, engaged only in the business of operation of call centre, the tax shall be deducted at source **@2%**

(2) Time of deduction

The deduction is to be made at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

Where such sum is credited to any account, whether called suspense account or by any other name, in the books of accounts of the person liable to pay such sum, such crediting shall be deemed to be credit of such sum to the account of the payee and tax has to be deducted accordingly.

(3) Threshold limit

No tax deduction is required if the amount of fees or the aggregate of the amounts of fees credited or paid or likely to be credited or paid during a financial year does not exceed **₹ 30,000** in the case of fees for professional services, **₹ 30,000** in the case of fees for technical services, **₹ 30,000** in the case of royalty and **₹ 30,000** in the case of non-compete fees.

The limit of ₹ 30,000 under section 194J is applicable separately for fees for professional services, fees for technical services, royalty and non-compete fees referred to in section 28(va). It implies that if the payment to a person towards each of the above is less than ₹ 30,000, no tax is required to be deducted at source, even though the aggregate payment or credit exceeds ₹ 30,000. However, there is no such exemption limit for deduction of tax on any remuneration or fees or commission payable to director of a company.

Summary of rates and threshold limit under section 194J for deduction of tax at source

Nature of payment	TDS rate	Separate Limit
Fees for technical services (not being professional services)	2%	₹ 30,000
Fees for professional services	10%	₹ 30,000
Royalty in the nature of consideration for sale, distribution or exhibition of cinematographic films	2%	₹ 30,000
Other royalty	10%	
Any remuneration or fees or commission, by whatever name called, other than those on which tax is deductible under section 192, to a director of a company	10%	Nil
Non-compete fees	10%	₹ 30,000

In case of a payee, engaged only in the business of operation of call centre, the tax shall be deducted at source @2%

ILLUSTRATION 8

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.

SOLUTION

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.

(4) Non-applicability of TDS under section 194J

(i) An individual or a Hindu undivided family is not liable to deduct tax at source.

However, an individual or HUF, whose total sales, gross receipts or turnover from business or profession carried by him exceeds ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession in the financial year immediately preceding the financial year in which the **fees for professional services or fees for technical services** is credited or paid is required to deduct tax on such fees.

Since this provision requires such individuals/HUFs to deduct tax at source only in respect of fees for professional services or fees for technical services, it can be inferred that individuals and HUFs are **not** required to deduct tax at source under section 194J on royalty and non-compete fees.

(ii) Further, an individual or Hindu Undivided Family, shall not be liable to deduct income-tax on the sum payable by way of fees for professional services, in case such sum is credited or paid exclusively for personal purposes.

(5) Meaning of “Professional services”

“Professional services” means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or advertising or such other profession as is notified by the CBDT for the purposes of section 44AA or of this section.

Other professions notified for the purposes of section 44AA are as follows:

- (a) Profession of “authorised representatives”;
- (b) Profession of “film artist”;
- (c) Profession of “company secretary”;
- (d) Profession of “information technology”.

The CBDT has notified the services rendered by following persons in relation to the sports activities as Professional Services for the purpose of the section 194J:

- (a) Sports Persons,
- (b) Umpires and Referees,
- (c) Coaches and Trainers,
- (d) Team Physicians and Physiotherapists,
- (e) Event Managers,
- (f) Commentators,
- (g) Anchors and
- (h) Sports Columnists.

Accordingly, the requirement of TDS as per section 194J would apply to all the aforesaid professions. The term “profession”, as such, is of a very wide import. However, the term has been defined in this section exhaustively. For the purposes of TDS, therefore, all other professions would be outside the scope of section 194J. For example, this section will not apply to professions of teaching, sculpture, painting etc. unless they are notified.

(6) Meaning of “Fees for technical services”

The term ‘fees for technical services’ means any consideration (including any lump sum consideration) for rendering of any of the following services:

- (i) Managerial services;
- (ii) Technical services;
- (iii) Consultancy services;
- (iv) Provision of services of technical or other personnel.

It is expressly provided that the term ‘fees for technical services’ will not include following types of consideration:

- (i) Consideration for any construction, assembly, mining or like project, or
- (ii) Consideration which is chargeable under the head ‘Salaries’.

(7) TPAs liable to deduct tax under section 194J on payment to hospitals on behalf of insurance companies

The CBDT has, through Circular No.8/2009 dated 24.11.2009, clarified that TPAs (Third Party Administrator’s) who are making payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. under various schemes including cashless schemes are liable to deduct tax at source under section 194J on all such payments to hospitals etc. This is because the services rendered

by hospitals to various patients are primarily medical services and, therefore, the provisions of section 194J are applicable to payments made by TPAs to hospitals etc.

(8) Consideration for use or right to use of computer software is royalty within the meaning of section 9(1)(vi)

As per section 9(1)(vi), any income payable by way of royalty in respect of any right, property or information is deemed to accrue or arise in India. The term “royalty” means consideration for transfer of all or any right in respect of certain rights, property or information.

As per Explanation 4 to section 9(1)(vi), the consideration for use or right to use of computer software would be royalty. This Explanation clarifies that transfer of all or any rights in respect of any right, property or information includes and has always included transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.

Consequently, the provisions of tax deduction at source under section 194J would be attracted in respect of consideration for use or right to use computer software since the same falls within the definition of royalty as per the provisions of the Income-tax Act, 1961.

The Central Government has, vide Notification No.21/2012 dated 13.6.2012, effective from 1st July, 2012, exempted certain software payments from the applicability of tax deduction under section 194J. Accordingly, where payment is made by the transferee for acquisition of software from a resident-transferor, the provisions of section 194J would not be attracted if-

- (1) the software is acquired in a subsequent transfer without any modification by the transferor;
- (2) tax has been deducted under section 194J on payment for any previous transfer of such software; and
- (3) the transferee obtains a declaration from the transferor that tax has been so deducted along with the PAN of the transferor.

7.3.9 Payment made by an individual or a HUF for contract work or by way of commission or brokerage or fees for professional services [Section 194M]

(1) Applicability and rate of TDS

Section 194M provides for deduction of tax at source @5% by an individual or a HUF responsible for paying any sum during the financial year to any resident –

- (i) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or
- (ii) by way of commission (not being insurance commission referred to in section 194D) or brokerage; or
- (iii) by way of fees for professional services.

It may be noted that only individuals and HUFs (other than those who are required to deduct income-tax as per the provisions of section 194C or 194H or 194J) are required to deduct tax in respect of the above sums payable during the financial year to a resident.

(2) Time of deduction

The tax should be deducted at the time of credit of such sum or at the time of payment of such sum, whichever is earlier.

(3) Threshold limit

No tax is required to be deducted where such sum or, as the case may be, aggregate amount of such sums credited or paid to a resident during the financial year does not exceed **₹ 50,00,000**

(4) Non-applicability of TDS under section 194M

An individual or a Hindu undivided family is not liable to deduct tax at source u/s 194M if –

- (i) they are required to deduct tax at source u/s 194C for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract i.e., an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the immediately preceding financial year and such amount is not exclusively credited or paid for personal purposes of such individual or HUF.
- (ii) they are required to deduct tax at source u/s 194H on commission (not being insurance commission referred to in section 194D) or brokerage i.e., an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the immediately preceding financial year.
- (iii) they are required to deduct tax at source u/s 194J on fees for professional services i.e., an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the immediately preceding financial year and such amount is not exclusively credited or paid for personal purposes of such individual or HUF.

(5) No requirement to obtain TAN

The provisions of section 203A containing the requirement of obtaining Tax deduction account number (TAN) shall not apply to the person required to deduct tax in accordance with the provisions of section 194M.

Note - For the meaning of the terms “Work”, “Professional services” and “Commission or brokerage” refer sub-heading “3.4 Payments to contractors and sub-contractors [Section 194C]”, “3.8 Fees for professional or technical services [Section 194J]” and “3.5 Commission or brokerage [Section 194H]”, respectively.

ILLUSTRATION 9

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.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

SOLUTION

	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 reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

7.3.10 TDS on cash withdrawal [Section 194N]**(1) Applicability and rate of TDS**

Section 194N provides that every person, being

- a banking company to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred under section 51 of that Act)
- a co-operative society engaged in carrying on the business of banking or
- a post office

who is responsible for paying **any sum**, being the amount or aggregate of amounts, as the case may be, **in cash exceeding ₹ 1 crore during the previous year**, to any person from one or more accounts maintained by such recipient-person with it, shall deduct tax at source **@2% of such sum**

However, if the recipient is a co-operative society, tax is required to be deducted on any sum exceeding ₹ 3 crore.

(2) Time of deduction

This deduction is to be made at the time of payment of such sum.

(3) Modification in rate of TDS and threshold limit of withdrawal for recipient who has not furnished return of income for last 3 years

If the recipient has not furnished the returns of income for all the three assessment years relevant to the three previous years, for which the time limit to file return of income under section 139(1) has expired, immediately preceding the previous year in which the payment of the sum is made, **“the sum” shall mean the amount or the aggregate of amounts, as the case may be, in cash > ₹ 20 lakhs during the previous year**, and the tax shall be deducted at the rate of -

- 2% of the sum, where the amount or aggregate of amounts, as the case may be, being paid in cash > ₹ 20 lakhs but ≤ ₹ 1 crore (₹ 3 crore in case the recipient is a co-operative society)
- 5% of the sum, where the amount or aggregate of amounts, as the case may be, being paid in cash > ₹ 1 crore (₹ 3 crore in case the recipient is a co-operative society).

However, the Central Government is empowered to specify, with the consultation of RBI, by notification, the recipient in whose case this provision shall not apply or apply at reduced rate, subject to the satisfaction of the conditions specified in such notification.

(4) Non-applicability of TDS under section 194N

Liability to deduct tax at source under section 194N shall not be applicable to any payment made to -

- (i) the Government
- (ii) any banking company or co-operative society engaged in carrying on the business of banking or a post-office
- (iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the RBI guidelines
- (iv) any white label ATM operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the RBI under the Payment and Settlement Systems Act, 2007

The Central Government may specify, with the consultation of RBI, by notification, the recipient in whose case section 194N shall not apply or apply at reduced rate, subject to the satisfaction of the conditions specified in such notification.

Example

The persons referred to in (i) to (vi) in Column (2) of the table below have always been filing their returns of income on or before the due date u/s 139(1). The persons mentioned in (vii) to (x) in Column (2) of the table below have not filed their returns of income for the last five years. Determine the liability of deduction of tax at source u/s 194N by the bank/co-operative bank referred to in column (3) of the table below in each of the following individual cases, assuming that this is the only withdrawal in the P.Y.2023-24 by the persons referred to in Column (2).

(1)	(2)	(3)	(4)	(5)	(6)
	Person making the withdrawal	Bank/Cooperative Bank from which money is withdrawn	Date of withdrawal	Amount of withdrawal (₹)	TDS u/s 194N (₹)
(i)	Mr. Harishit	SBI	1.7.2023	1,10,00,000	$\text{₹ } 10,00,000 \times 2\% = \text{₹ } 20,000$
(ii)	Mr. Pranav	SBI	1.8.2023	90,00,000	Nil (since withdrawals < ₹ 1 crore)
(iii)	ABC Cooperative Society	SBI	1.9.2023	2,70,00,000	Nil (since withdrawals < ₹ 3 crore)
(iv)	XYZ Cooperative Society	MNO Cooperative bank	1.9.2023	3,10,00,000	$\text{₹ } 10,00,000 \times 2\% = \text{₹ } 20,000$
(v)	Mr. Vaibhav	MNO Cooperative bank	1.9.2023	2,10,00,000	$\text{₹ } 1,10,00,000 \times 2\% = \text{₹ } 2,20,000$
(vi)	A Ltd.	MNO Cooperative bank	1.10.2023	1,05,00,000	$\text{₹ } 5,00,000 \times 2\% = \text{₹ } 10,000$
(vii)	M/s. DEF & Co., a firm	MNO Cooperative bank	1.2.2024	90,00,000	$\text{₹ } 70,00,000 \times 2\% = \text{₹ } 1,40,000$
(viii)	Mr. Varun	BOI	1.2.2024	1,20,00,000	$\text{₹ } 80,00,000 \times 2\% (+) \text{₹ } 20,00,000 \times 5\% = \text{₹ } 2,60,000$
(ix)	Mr. Rakesh	BOI	1.2.2024	45,00,000	$\text{₹ } 25,00,000 \times 2\% = \text{₹ } 50,000$
(x)	PQR Cooperative Society	BOI	1.2.2024	3,30,00,000	$\text{₹ } 2,80,00,000 \times 2\% (+) \text{₹ } 30,00,000 \times 5\% = \text{₹ } 7,10,000$

7.3.11 OTHER TDS PROVISIONS

The other TDS provisions are given below in tabular form -

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
192A	Premature withdrawal from Employees' Provident Fund	Payment or aggregate payment $\geq$ ₹ 50,000	Trustees of the EPF Scheme or any authorized person under the Scheme	Individual (Employee)	10% on premature taxable withdrawal.	At the time of payment	Exemption from TDS - Withdrawal after continuous service of 5 years - In case of withdrawal before continuous service of 5 years and – - employee opts for transfer of

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
							accumulated balance to the new employer (b) termination is due to ill health, contraction or discontinuance of business, cessation of employment etc.
194	Dividend (including dividends on preference shares)	Amount or aggregate amount > ₹ 5,000 in a F.Y., in case of dividend paid or credited to an individual shareholder by any mode other than cash > No threshold in other cases	The Principal Officer of a domestic company	Resident shareholder	10%	Before making any payment by any mode in respect of any dividend or before making any distribution or payment of dividend.	Exemption from TDS Dividend credited or paid to – (a) LIC, GIC, subsidiaries of GIC or any other insurer provided the shares are owned by them, or they have full beneficial interest in such shares (b) any other person as may be notified by the Central Government.
194B	Winnings from any lottery, crossword puzzle or card game or other game of any sort or from gambling or betting of any form or nature (other than winnings from any online game in respect of which TDS u/s 194BA would be applicable)	Amount or the aggregate of amounts > ₹ 10,000 in a F.Y.	The person responsible for paying income by way of such winnings	Any Person	30%	At the time of payment.	(a) Where the winnings are wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the winnings, the person responsible for paying shall, before

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
							releasing the winnings, ensure that tax has been paid in respect of the winnings. (b) Where winnings are to be credited and losses are to be debited to the individual a/c of the punter, tax has to be deducted on winnings before set-off of losses. Thereafter, the net amount, after deduction of tax and losses, has to be paid to the winner.
194BA	Winnings from online games	On the net winnings in a person's user account as computed in prescribed manner.	Any person responsible for paying income by way of such winnings	Any person	30%	At the end of the F.Y. In case, there is withdrawal from user account during the F.Y., tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. In addition, tax would also be deducted on the remaining amount of net winnings in the user account as computed in prescribed	Where the net winnings are wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the net winnings, the person responsible for paying shall, before releasing the winnings, ensure that tax has been paid in respect of the net winnings. Meaning of certain terms: Online gaming intermediary – An intermediary

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
						manner at the end of the F.Y.	that offers one or more online games. User – Any person who accesses or avails any computer resource of an online gaming intermediary. User account – Account of a user registered with an online gaming intermediary.
194BB	Winnings from horse race	Amount or aggregate of amounts > ₹ 10,000 in a F.Y.	Book Maker or a person holding licence for horse racing or for arranging for wagering or betting in any race course.	Any Person	30%	At the time of payment	'Any horse race' includes, wherever the circumstances so necessitate, more than one horse race.
194D	Insurance Commission	Amount or aggregate amount > ₹ 15,000 in a F.Y.	Any person responsible for paying any income by way of remuneration or reward for soliciting or procuring insurance business (including the business relating to the continuance, renewal or revival of policies of insurance)	Any Resident	5%, if the payee is noncorporate resident 10%, if the payee is domestic company	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.	
194D	A Any sum under a Life Insurance Policy not fulfilling the conditions specified u/s 10(10D)	Amount or aggregate amount ≥ ₹ 1,00,000 in a financial year	Any person responsible for paying any sum under a LIP, including the sum allocated by way of bonus	Any resident	5% of the amount of income comprised therein	At the time of payment	Exemption from TDS The sum received under a life insurance policy which fulfills the conditions specified under section 10(10D).

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
194G	Commission on sale of lottery tickets	> ₹ 15,000 in a F.Y.	Any person responsible for paying any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets	Any person stocking, distributing, purchasing or selling lottery tickets	5%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.	Where income is credited to some other account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit to the account of the payee for the purposes of this section.
194-IA	Payment on transfer of certain immovable property other than agricultural land	≥ ₹ 50 lakh (Consideration for transfer or stamp duty value)	Any person, being a transferee (other than a person referred to in section 194LA responsible for paying compensation for compulsory acquisition of immovable property other than rural agricultural land)	Resident transferor	1% of consideration for transfer or stamp duty value, whichever is higher. No requirement of Obtaining TAN u/s 203A.	At the time of credit of such sum to the account of the transferor or at the time of payment, whichever is earlier.	Meaning of consideration for transfer of immovable property Consideration for transfer of immovable property include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property.
194K	Income on units other than in the nature of capital gains	Amount or aggregate amount > ₹ 5,000 in a F.Y.	Any person responsible for paying any income in respect of units of a mutual fund/ Administrator of the specified undertaking/ specified company	Any resident	10%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.	

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
194LA	Compensation on acquisition of certain immovable property (other than agricultural land situated in India)	Amount or aggregate amount > ₹ 2,50,000 in a F.Y.	Any person responsible for paying any sum in the nature of compensation or enhanced compensation on compulsory acquisition of immovable property (other than agricultural land situated in India)	Any Resident	10%	At the time of payment	TDS provisions are not applicable on compensation on acquisition of agricultural land in India, whether rural or urban.
194P	Pension (along with interest on bank account)	Basic exemption limit [₹ 3,00,000 (in case the specified senior citizen pays tax under the default tax regime u/s 115BAC), ₹ 3,00,000 / ₹ 5,00,000, as the case may be, if the specified senior citizen has exercised the option of shifting out of the default tax regime providing u/s 115BAC] [i.e., total income after giving effect to the deduction allowable under Chapter VI-A, if any allowable should exceed the basic exemption limit. Further, in case the individual is entitled to rebate u/s 87A from tax payable, then the same should be given effect to]	Notified specified bank (a banking company which is a scheduled bank and has been appointed as agents of RBI u/s 45 of the RBI Act, 1934	Specified senior citizen	Rates in force, where the individual has exercised the option of shifting out of the default tax regime. Rates specified in section 115BAC, where the individual pays tax under the default tax regime.		Specified senior citizen means an individual, being a resident in India, who • is of the age of 75 years or more at any time during the P.Y.; • is having pension income and no other income except interest income received or receivable from any account maintained by such individual in the same specified bank in which he is receiving his pension income; and • has furnished a declaration to the specified bank. Specified bank to compute the total income for the relevant A.Y. of the specified

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
							senior citizen who furnishes declaration in prescribed form, and deduct income-tax, after giving effect to deduction under Chapter VI-A, if any allowable (on the basis of evidence furnished by the specified senior citizen) and rebate allowable u/s 87A. [CBDT Notification No. 99/2021 dated 2.9.2021] The provisions of section 139, relating to filing of return, would not apply to a specified senior citizen for the A.Y. relevant to the P.Y. in which tax has been deducted u/s 194P(1).
194Q	Purchase of goods	> ₹ 50 lakhs in a previous year	Buyer, who is responsible for paying any sum to any resident for purchase of goods. Buyer means a person whose total sales, gross receipts or turnover from business exceeds ₹ 10 crores during the FY immediately preceding the FY in which the purchase of goods is carried out.	Any resident	0.1% of sum exceeding ₹ 50 lakhs	At the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier.	Non-applicability of TDS u/s 194Q Transactions on which (a) Tax is deductible under any of the provisions of the Act; (b) Tax is collectible u/s 206C, other than section 206C(1H) In case of a transaction to which both section 206(1H)

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction	Other relevant points
							and section 194Q applies, tax is required to be deducted u/s 194Q. Other points Where the sum is credited to any account, whether called "Suspense account" or by any other name, in the books of account of the person liable to pay such income, such crediting shall be deemed to be credit to the account of the payee for the purposes of this section.
194R	Any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession. The provisions would apply to any benefit or perquisite, whether in cash or in kind or partly in cash and partly in kind.	Value or aggregate of value of benefit or perquisite > ₹ 20,000 in a F.Y.	Any person (other than an individual or HUF whose total sales, gross receipts or turnover does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.) responsible for providing to a resident, any benefit or perquisite. In case of a company, "person responsible for paying" means the company itself including the Principal Officer thereof.	Any resident	10% of value or aggre. of value of such benefit or perquisite	Before providing such benefit or perquisite	Where the benefit or perquisite is wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of such benefit or perquisite, the person responsible for providing such benefit or perquisite shall, before releasing the benefit or perquisite, ensure that tax has been paid in respect of the benefit or perquisite.

ILLUSTRATION 10

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- (i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 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.

SOLUTION

- (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.

ILLUSTRATION 11

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2023. 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.

SOLUTION**(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.

ILLUSTRATION 12

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?

SOLUTION

(1) Computation of total income of Mr. Sharma for A.Y.2024-25

Particulars	₹	₹
I Salaries		
Pension (₹ 52,000 x 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 lakhx8%)	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	

Particulars	₹	₹
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		5,43,500

Computation of tax liability for A.Y.2024-25

Particulars	₹
Tax payable [$₹ 43,500 \times 20\% + ₹ 10,000$]	18,700
Add: Health and Education Cess@4%	748
Tax liability	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.

7.3.12 Income payable “net of tax” [Section 195A]

- (1) Where, under an agreement or other arrangement, the tax chargeable on any income referred to in the foregoing provisions of this Chapter is to be borne by the person by whom the income is payable, then, for the purposes of deduction of tax under those provisions such income shall be increased to such amount as would, after deduction of tax thereon, be equal to the net amount payable under such agreement or arrangement.
- (2) However, no grossing up is required in the case of tax paid under section 192(1A) by an employer on the non-monetary perquisites provided to the employee.
- (3) When an amount is paid net of tax, the taxability has to be calculated by grossing up the amount, since the tax itself represents the income of the payee.

7.3.13 Interest or dividend or other sums payable to Government, Reserve Bank or certain corporations [Section 196]

- (1) No deduction of tax shall be made by any person from any sums payable to -
- the Government; or
 - the Reserve Bank of India; or
 - a corporation established by or under a Central Act, which is, under any law for the time being in force, exempt from income-tax on its income; or
 - a Mutual Fund.

- (2) This provision for non-deduction is applicable when such sum is payable to the above entities by way of -
- (i) interest or dividend in respect of securities or shares -
 - (a) owned by the above entities; or
 - (b) in which they have full beneficial interest or
 - (ii) any income accruing or arising to them.

7.4 CERTIFICATE FOR DEDUCTION OF TAX AT A LOWER RATE [SECTION 197]

- (1) This section applies where, in the case of any income of any person or sum payable to any person, income-tax is required to be deducted at the time of credit or payment, as the case may be, at the rates in force as per the provisions of sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194-I, 194J, 194K, 194LA and 194M.
- (2) In such cases, the assessee can make an application to the Assessing Officer for deduction of tax at a lower rate or for non-deduction of tax.
- (3) If the Assessing Officer is satisfied that the total income of the recipient justifies the deduction of income-tax at lower rates or no deduction of income-tax, as the case may be, he may give to the assessee such certificate, as may be appropriate.
- (4) Where the Assessing Officer issues such a certificate, then the person responsible for paying the income shall deduct income-tax at such lower rates specified in the certificate or deduct no tax, as the case may be, until such certificate is cancelled by the Assessing Officer.
- (5) Enabling powers have been conferred upon the CBDT to make rules for prescribing the procedure in this regard.

7.5 NO DEDUCTION IN CERTAIN CASES [SECTION 197A]

(1) Enabling provision for filing of declaration for receipt of dividend without deduction of tax [Sub-section (1)]

- (i) This section enables an individual, who is resident in India and whose estimated total income of the previous year is less than the basic exemption limit, to receive dividend, without deduction of tax at source under section 194 on furnishing a declaration in duplicate in the prescribed form [Form 15G] and verified in the prescribed manner.
- (ii) The declaration in the above form is to be furnished in writing in duplicate by the declarant to the person responsible for paying any income of the nature referred to in section 194. The declaration will have to be to the effect that the tax on the estimated total income of the declarant of the previous year in which such income is to be included in computing his total income will be **Nil**.

(2) Enabling provision for filing of declaration for non-deduction of tax under section 192A or 193 or 194A or 194D or 194DA or 194-I or 194K by persons, other than companies and firms [Sub-section (1A)]

No deduction of tax shall be made under the above provisions of the Act, where a person, who is not a company or a firm, furnishes to the person responsible for paying any income of the nature referred to in these sections, a declaration in writing in duplicate in the prescribed form [Form 15G] to the effect that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be **Nil**.

(3) Filing declaration not permissible if income/aggregate of incomes exceed basic exemption limit [Sub-section (1B)]

Declaration cannot be furnished as per the above provisions, where -

- (i) payments of dividend; or
- (ii) payment of premature withdrawal from Employee Provident Fund; or
- (iii) income from interest on securities or
- (iv) interest other than "interest on securities" or units; or
- (v) insurance commission; or
- (vi) payment in respect of life insurance policy; or
- (vii) rent; or
- (viii) income from units; or
- (ix) the aggregate of the amounts of such incomes in (i) to (viii) above

credited or paid or likely to be credited or paid during the previous year in which such income is to be included exceeds the basic exemption limit.

(4) Enabling provision for filing of declaration by resident senior citizens for non-deduction of tax at source [Sub-section (1C)]

For a resident individual, who is of the age of 60 years or more at any time during the previous year, no deduction of tax shall be made under section 192A or section 193 or section 194 or section 194A or section 194D or section 194DA or section 194EE or section 194-I or section 194K, if such individual furnishes a declaration in writing in duplicate in Form 15H to the payer, that tax on his estimated total income of the previous year in which such income is to be included in computing his total income is Nil. The restriction contained in sub-section (1B) will not apply to resident senior citizens.

(5) Non-deduction of tax in certain cases**Payments to notified person or class of persons including institutions/class of institutions etc. [Sub-section (1F)]**

No deduction of tax shall be made or deduction of tax shall be made at such lower rate, from such payment to such person or class of persons, including institution, association or body or class of institutions or associations or bodies as may be notified by the Central Government in the Official Gazette in this behalf. Therefore, in respect of such payments made to notified person or class of persons, no tax is to be deducted at source or tax is to be deducted at lower rate.

(6) Time limit for delivery of one copy of declaration [Sub-section (2)]

On receipt of the declaration referred to in sub-sections (1), (1A) or (1C), the person responsible for making the payment will be required to deliver or cause to be delivered to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, one copy of the declaration **on or before the 7th of the month following the month in which the declaration is furnished to him.**

7.6 MISCELLANEOUS PROVISIONS**7.6.1 Tax deducted is income received [Section 198]**

- (1) All sums deducted in accordance with the foregoing provisions shall, for the purpose of computing the income of an assessee, be deemed to be income received.

- (2) However, the following tax paid or deducted would not be deemed to be income received by the assessee for the purpose of computing the total income –
- (i) the tax paid by an employer under section 192(1A) on non-monetary perquisites provided to the employees
 - (ii) tax deducted under section 194N

7.6.2 Credit for tax deducted at source [Section 199]

- (1) Tax deducted at source in accordance with the above provisions and paid to the credit of the Central Government shall be treated as payment of tax on behalf of the-
- (i) person from whose income the deduction was made; or
 - (ii) owner of the security; or
 - (iii) depositor; or
 - (iv) owner of property; or
 - (v) unit-holder; or
 - (vi) shareholder.
- (2) Any sum referred to in section 192(1A) and paid to the Central Government, shall be treated as the tax paid on behalf of the person in respect of whose income, such payment of tax has been made.
- (3) The CBDT is empowered to frame rules for the purpose of giving credit in respect of tax deducted or tax paid under Chapter XVII. The CBDT also has the power to make rules for giving credit to a person other than the persons mentioned in (1) and (2) above. Further, the CBDT can specify the assessment year for which such credit may be given.

7.6.3 Duty of person deducting tax [Section 200]

- (1) The persons responsible for deducting the tax at source should deposit the sum so deducted to the credit of the Central Government or as the Board directs, within the prescribed time.
- (2) Further, an employer paying tax on non-monetary perquisites provided to employees in accordance with section 192(1A), should deposit within the prescribed time, the tax to the credit of the Central Government or as the Board directs.
- (3) Rule 30 prescribes the time and mode of payment to Government account of TDS or tax paid under section 192(1A) and Rule 31A provides for submission of quarterly statements by every person responsible for deduction of tax [depicted in the diagram given in page 7.73]

However, every person responsible for deduction of tax under section 194-IA, 194-IB or 194M have to furnish to the Principal Director General of Income-tax (Systems) (in case of sections 194-IB and 194M) or Director General of Income-tax (System) or the person authorised by them, a challan-cum-statement in Form No.26QB, 26QC or 26QD respectively, within thirty days from the end of the month of deduction of tax.

7.6.4 Correction of arithmetic mistakes and adjustment of incorrect claim during computerized processing of TDS statements [Section 200A]

- (1) At present, all statements of tax deducted at source are filed in an electronic mode, thereby facilitating computerised processing of these statements.

Therefore, in order to process TDS statements on computer, electronic processing on the same lines as processing of income-tax returns has been provided in section 200A.

- (2) The following adjustments can be made during the computerized processing of statement of tax deducted at source or a correction statement –
 - (i) any arithmetical error in the statement; or
 - (ii) an incorrect claim, if such incorrect claim is apparent from any information in the statement.
- (3) The term “an incorrect claim apparent from any information in the statement” shall mean such claim on the basis of an entry, in the statement,–
 - (i) of an item, which is inconsistent with another entry of the same or some other item in such statement;
 - (ii) in respect of rate of deduction of tax at source, where such rate is not in accordance with the provisions of the Act.
- (4) The interest, if any, has to be computed on the basis of the sums deductible as computed in the statement;
- (5) The fee, if any, has to be computed in accordance with the provision of section 234E. A fee of ₹ 200 for every day would be levied under section 234E for late furnishing of TDS statement from the due date of furnishing of TDS statement to the date of furnishing of TDS/ statement. However, the total amount of fee shall not exceed the total amount of tax deductible/collectible and such fee has to be paid before delivering the TDS statement.
- (6) The sum payable by, or the amount of refund due to, the deductor has to be determined after adjustment of interest and fee against the amount paid under section 200 or section 201 or section 234E and any amount paid otherwise by way of tax or interest or fee.
- (7) An intimation will be prepared and generated and sent to the deductor, specifying his tax liability or the refund due, within one year from the end of the financial year in which the statement is filed. The refund due shall be granted to the deductor.
- (8) For this purpose, the CBDT is empowered to make a scheme for centralized processing of statements of TDS to determine the tax payable by, or refund due to, the deductor.

7.6.5 Consequences of failure to deduct or pay [Section 201]

(1) Deemed assessee-in-default

Any person including the principal officer of a company -

- (i) who is required to deduct any sum in accordance with the provisions of the Act; or
- (ii) an employer paying tax on non-monetary perquisites under section 192(1A).

shall be deemed to be an assessee-in-default, if he does not deduct, or does not pay or after deducting, fails to pay, the whole or any part of the tax, as required by or under the provisions of the Income-tax Act, 1961.

(2) Non-applicability of deeming provision

Any person (including the principal officer of the company) who fails to deduct the whole or any part of the tax on the amount credited or paid to a payee shall not be deemed to be an assessee-in-default in respect of such tax if such payee –

- (i) has furnished his return of income under section 139;
- (ii) has taken into account such sum for computing income in such return of income; and
- (iii) has paid the tax due on the income declared by him in such return of income,

and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

(3) Interest Liability

- (i) A person deemed to be an assessee-in-default under section 201(1), for failure to deduct tax or to pay the tax after deduction, is liable to pay simple interest @ **1%** for every month or part of month on the amount of such tax from the date on which tax was deductible to the date on which such tax was actually deducted and simple interest @ **1½%** for every month or part of month from the date on which tax was deducted to the date on which such tax is actually paid [Section 201(1A)].
- (ii) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- (iii) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default under section 201(1) on account of payment of taxes by such payee, interest under section 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

However, where an order is made by the Assessing Officer for assessee-in-default, the interest shall be paid by the person in accordance with such order.
- (iv) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

7.6.6 Certificate for tax deducted [Section 203]

- (1) Every person deducting tax at source have to issue a certificate to the effect that tax has been deducted and specify the amount so deducted, the rate at which tax has been deducted and such other particulars as may be prescribed.
- (2) Every person, being an employer, referred to in section 192(1A) shall, within such period, as may be prescribed, furnish to the person in respect of whose income such payment of tax has been made, a certificate to the effect that tax has been paid to the Central Government, and specify the amount so paid, the rate at which the tax has been paid and such other particulars as may be prescribed.

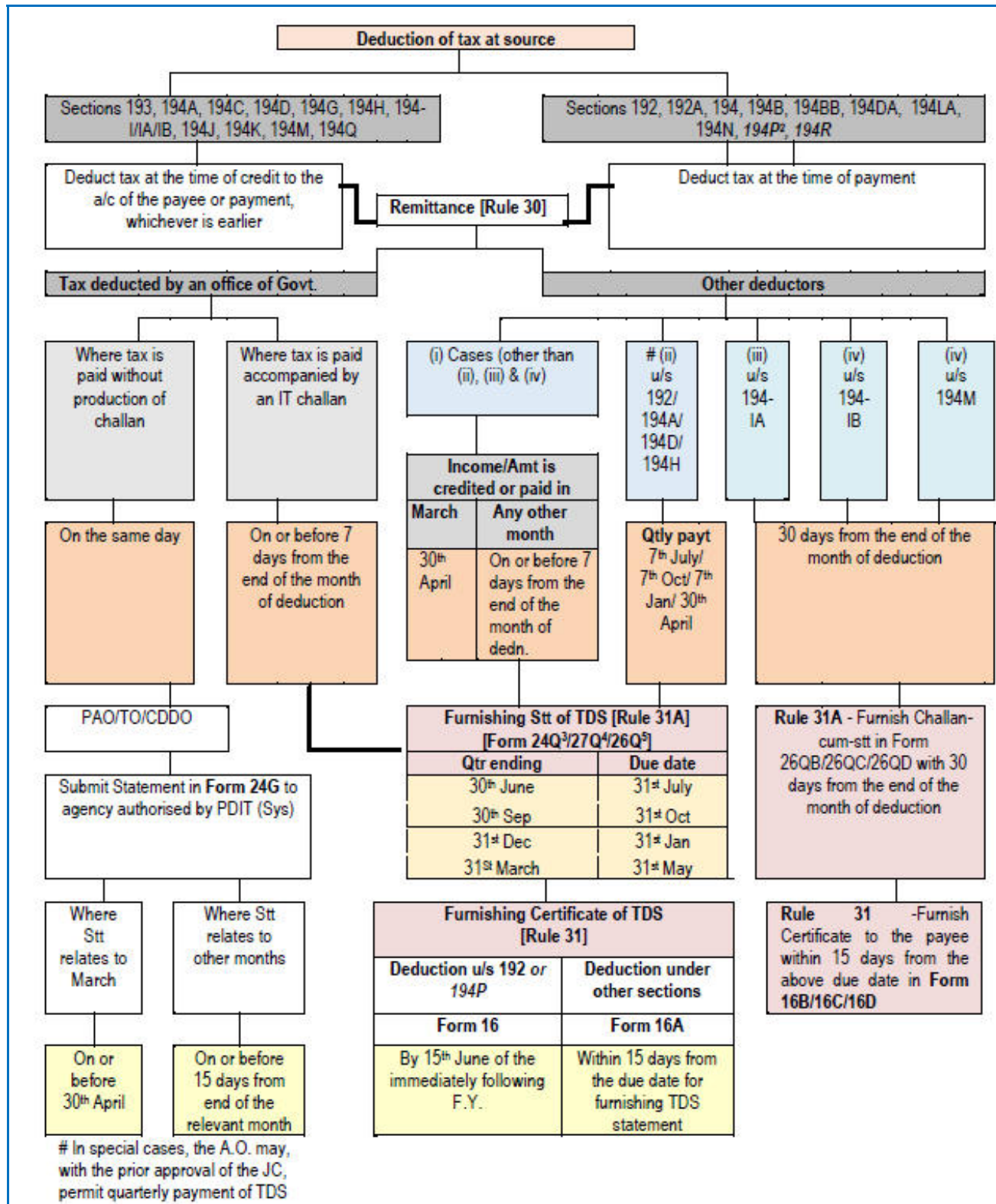
(3) Certificate of TDS to be furnished under section 203 [Rule 31]

The certificate of deduction of tax at source to be furnished under section 203 shall be in Form No.16 in respect of tax deducted or paid under section 192 and in any other case, Form No.16A.

Form No.16 shall be issued to the employee annually by 15th June of the financial year immediately following the financial year in which the income was paid and tax deducted. Form No.16A shall be issued quarterly within 15 days from the due date for furnishing the statement of TDS under Rule 31A.

Form No. 16B, 16C or 16D shall be issued by the every person responsible for deduction of tax under section 194-IA, 194-IB or 194M to the payee within fifteen days from the due date for furnishing the challan-cumstatement in Form No. 26QB, 26QC or 26QD, respectively, under rule 31A.

Note – The entire TDS process can be understood at a glance from the diagram given in the next page. The reference to Rules and Forms are only for the information of students. They are, however, not required to memorize the Rule numbers and Form numbers for examination purposes.



7.6.7 Person responsible for paying taxes deducted at source [Section 204]

For purposes of deduction of tax at source the expression “person responsible for paying” means:

	Nature of income/payment	Person responsible for paying tax
(1)	Salary (other than payment of salaries by the Central or State Government)	(i) the employer himself; or (ii) if the employer is a company, the company itself, including the principal officer thereof.

	Nature of income/payment	Person responsible for paying tax
(2)	Interest on securities (other than payments by or on behalf of the Central or State Government)	the local authority, corporation or company, including the principal officer thereof.
(3)	Any sum payable to a nonresident Indian, representing consideration for the transfer by him of any foreign exchange asset, which is not a short term capital asset	the "Authorised Person" responsible for remitting such sum to the non-resident Indian or for crediting such sum to his Non-resident (External) Account maintained in accordance with the Foreign Exchange Management Act, 1999 and any rules made thereunder.
(4)	furnishing of information relating to payment to a noncorporate non-resident, or to a foreign company, of any sum, whether or not chargeable under the provisions of this Act	(i) the payer himself; or (ii) if the payer is a company, the company itself including the principal officer thereof.
(5)	Credit/payment of any other sum chargeable under the provisions of the Act	(i) the payer himself; or (ii) if the payer is a company, the company itself including the principal officer thereof.
(6)	Credit/payment of any sum chargeable under the provisions of the Act made by or on behalf of the Central Government or the Government of a State.	(i) the drawing and disbursing officer; or (ii) any other person, by whatever name called, responsible for crediting, or as the case may be, paying such sum.
(7)	In case of a person not resident in India (irrespective of the nature of payment or income)	(i) the person himself; or (ii) any person authorized by such person; or (iii) the agent of such person in India including any person treated as an agent under section 163.

7.6.8 Bar against direct demand on assessee [Section 205]

Where tax is deductible at source under any of the aforesaid sections, the assessee shall not be called upon to pay the tax himself to the extent to which tax has been deducted from that income.

7.6.9 Mandatory requirement of furnishing PAN in all TDS statements, bills, vouchers and correspondence between deductor and deductee [Section 206AA]

- (1) The non-furnishing of PAN by deductees in many cases have led to delay in issue of refund on account of problems in the processing of returns of income and in granting credit for tax deducted at source.
- (2) With a view to strengthening the PAN mechanism, section 206AA provides that any person whose receipts are subject to deduction of tax at source i.e. the deductee, shall mandatorily furnish his PAN to the deductor failing which the deductor shall deduct tax at source at higher of the following rates –
 - (i) the rate prescribed in the Act;
 - (ii) at the rate in force i.e., the rate mentioned in the Finance Act; or
 - (iii) at the rate of **20%**. [5% in case tax is required to be deducted at source u/s 194Q]

For instance, in case of rental payment for plant and machinery, where the payee does not furnish his PAN to the payer, tax would be deductible @20% instead of @2% prescribed under section 194-I. However, non-furnishing of PAN by the deductee in case of income by way of winnings from lotteries, card games etc., would result in tax being deducted at the existing rate of 30% under section 194B. Therefore, wherever tax is deductible at a rate higher than 20%, this provision would not have any impact.

- (3) Tax would be deductible at the rates mentioned above also in cases where the taxpayer files a declaration in Form 15G or 15H (under section 197A) but does not provide his PAN.
- (4) Further, no certificate under section 197 will be granted by the Assessing Officer unless the application contains the PAN of the applicant.
- (5) Both the deductor and the deductee have to compulsorily quote the PAN of the deductee in all correspondence, bills, vouchers and other documents exchanged between them.
- (6) If the PAN provided to the deductor is invalid or it does not belong to the deductee, it shall be deemed that the deductee has not furnished his PAN to the deductor. Accordingly, tax would be deductible at the rate specified in (2) above.

Note: The applicability of provisions of section 206AA on non-resident will be dealt with at the Final Level.

7.6.10 Higher rate of TDS for non-filers of income-tax return [Section 206AB]

- (1) Section 206AB requires tax to be deducted at source under the provisions of this Chapter on any sum or income or amount paid, or payable or credited, by a person to a **specified person**, at higher of the following rates –
 - (i) at twice the rate prescribed in the relevant provisions of the Act;
 - (ii) at twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or
 - (iii) at 5%

However, section 206AB is **not** applicable in case of tax deductible at source under sections 192, 192A, 194B, **194BA**, 194BB, 194-IA, 194-IB, 194M6 or 194N.

- (2) In case the provisions of section 206AA are also applicable to the specified person, in addition to the provisions of this section, then, tax is required to be deducted at higher of the two rates provided in section 206AA and section 206AB.
- (3) **Meaning of “specified person”** – A person who has not furnished the return of income for assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be deducted, for which the time limit for furnishing the return of income under section 139(1) has expired, and the aggregate of tax deducted at source and tax collected at source in his case is $\geq$ 50,000 or more in the said previous year.

However, the specified person would not include

- a non-resident who does not have a permanent establishment in India⁷; or
- a person who is not required to furnish the return of income for the assessment year relevant to the said previous year and is notified by the Central Government in this behalf.

7.7 ADVANCE PAYMENT OF TAX [SECTIONS 207 TO 219]

7.7.1 Liability for payment of advance tax

- (1) Tax shall be payable in advance during any financial year, in accordance with the provisions of sections 208 to 219, in respect of an assessee's current income i.e. the total income of the assessee which would be chargeable to tax for the assessment year immediately following that financial year [Section 207].
- (2) Under section 208, obligation to pay advance tax arises in every case where the advance tax payable is $\geq$ 10,000 or more.

Note - An assessee who is liable to pay advance tax of less than ₹ 10,000 will not be saddled with interest under sections 234B and 234C for defaults in payment of advance tax. However, the consequences under section 234A regarding interest for belated filing of return would be attracted.

- (3) In case of senior citizens who have passive source of income like interest, rent, etc., the requirement of payment of advance tax causes genuine compliance hardship. Therefore, in order to reduce the compliance burden on such senior citizens, exemption from payment of advance tax has been provided to a resident individual-
- (i) not having any income chargeable under the head "Profits and gains of business or profession"; and
 - (ii) of the age of 60 years or more.

Such senior citizens need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax.

7.7.2 Computation of advance tax

- (1) An assessee has to estimate his current income and pay advance tax thereon. He need not submit any estimate or statement of income to the Assessing Officer, except where he has been served with notice by the Assessing Officer.
- (2) Where an obligation to pay advance tax has arisen, the assessee shall himself compute the advance tax payable on his current income at the rates in force in the financial year and deposit the same, whether or not he has been earlier assessed to tax.
- (3) In the case of a person who has been already assessed by way of a regular assessment in respect of the total income of any previous year, the Assessing Officer, if he is of the opinion that such person is liable to pay advance tax, may serve an order under section 210(3) requiring the assessee to pay advance tax.
- (4) For this purpose, the total income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment or the total income returned by the assessee in any return of income for any subsequent previous year, whichever is higher, shall be taken as the basis for computation of advance tax payable.
- (5) The above order can be served by the Assessing Officer at any time during the financial year but not later than the last date of February.
- (6) If, after sending the above notice, but before 1st March of the financial year, the assessee furnishes a return relating to any later previous year or an assessment is completed in respect of a later return of income, the Assessing Officer may amend the order for payment of advance tax on the basis of the computation of the income so returned or assessed.
- (7) If the assessee feels that his own estimate of advance tax payable would be less than the one sent by the Assessing Officer, he can file estimate of his current income and advance tax payable thereon.
- (8) Where the advance tax payable on assessee's estimation is higher than the tax computed by the Assessing Officer, then, the advance tax shall be paid based upon such higher amount.
- (9) In all cases, the tax calculated shall be reduced by the amount of tax deductible at source.

No reduction of 'tax deductible but not deducted' while computing advance tax liability

- (i) As per the provisions of section 209, the amount of advance tax payable by a person is computed by reducing the amount of income-tax which would be deductible at source during the financial year from any income which has been taken into account in computing the total income.

- (ii) Some courts have opined that in case where the payer pays any amount (on which tax is deductible at source) without deduction of tax at source, the payee shall not be liable to pay advance tax to the extent tax is deductible from such amount.
- (iii) With a view to make such a person (payee) liable to pay advance tax, the proviso to section 209(1)(d) provides that the amount of tax deductible at source but not so deducted by the payer shall not be reduced from the income tax liability of the payee for determining his liability to pay advance tax.
- (iv) In effect, only if tax has actually been deducted at source, the same can be reduced for computing advance tax liability of the payee. Tax deductible but not so deducted cannot be reduced for computing advance tax liability of the payee.

(10) The amount of advance tax payable by an assessee in the financial year calculated by -

- (i) the assessee himself based on his estimation of current income; or
- (ii) the Assessing Officer as a result of an order under section 210(3) or amended order under section 210(4)

is subject to the provisions of section 209(2), as per which the net agricultural income has to be considered for the purpose of computing advance tax.

7.7.3 Instalments of advance tax and due dates

(1) Common advance tax payment schedule for both corporates and noncorporates [Other than assesseees computing profits on presumptive basis under section 44AD(1) or section 44ADA(1)]:

Due date of instalment	Amount payable
On or before 15 th June	Not less than 15% of advance tax liability
On or before 15 th September	Not less than 45% of advance tax liability, as reduced by the amount, if any, paid in the earlier instalment.
On or before 15 th December	Not less than 75% of advance tax liability, as reduced by the amount or amounts, if any, paid in the earlier instalment or instalments.
On or before 15 th March	The whole amount of advance tax liability as reduced by the amount or amounts, if any, paid in the earlier instalment or instalments.

Note - Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

(2) Advance tax payment by assesseees computing profits on presumptive basis under section 44AD(1) or section 44ADA(1)

An eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of eligible business referred to in section 44AD(1) or for computation of profits or gains of profession on presumptive basis in respect of eligible profession referred to in section 44ADA(1), shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year.

However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

(3) If the last day for payment of any instalment of advance tax is a day on which the receiving bank is closed, the assessee can make the payment on the next immediately following working day, and in such cases, the interest leviable under sections 234B and 234C would not be charged.

- (4) Where advance tax is payable by virtue of the notice of demand issued by the Assessing Officer, the whole or the appropriate part of the advance tax specified in such notice shall be payable on or before each of such due dates as fall after the date of service of notice of demand.
- (5) Where the assessee does not pay any instalment by the due date, he shall be deemed to be an assessee in default in respect of such instalment.

7.7.4 Credit for advance tax [Section 219]

Any sum, other than interest or penalty, paid by or recovered from an assessee as advance tax, is treated as a payment of tax in respect of the income of the previous year and credit thereof shall be given in the regular assessment.

7.7.5 Interest for non-payment or short-payment of advance tax [Section 234B]

- (1) Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of assessed tax.
- (2) The interest liability would be 1% per month or part of the month from 1st April following the financial year upto the date of determination of income under section 143(1) and where a regular assessment is made, upto the date of such regular assessment.
- (3) Such interest is calculated on the amount of difference between the assessed tax and the advance tax paid.
- (4) Assessed tax is the tax calculated on total income determined under section 143(1) and where a regular assessment is made, the tax on the total income determined under such regular assessment less
 - tax deducted or collected at source.
 - any relief of tax allowed under section 89
 - any tax credit allowed to be set off in accordance with the provisions of section 115JD, in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Tax on the total income determined under section 143(1) would not include the additional income-tax, if any, payable under section 140B or section 143.

Tax on the total income determined under such regular assessment would not include the additional income-tax, if any, payable under section 140B.

Section 140B is discussed in detail in Chapter 8.

- (5) However, where self-assessment tax is paid by the assessee under section 140A or otherwise, interest shall be calculated upto the date of payment of such tax and reduced by the interest, if any, paid under section 140A towards the interest chargeable under this section. Thereafter, interest shall be calculated at 1% on the amount by which the tax so paid together with the advance tax paid falls short of the assessed tax.

7.7.6 Interest payable for deferment of advance tax [Section 234C]

- (1) **Manner of computation of interest under section 234C for deferment of advance tax by corporate and non-corporate assessee:**

In case an assessee, other than an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1), who is liable to pay advance tax under section 208 has failed to pay such tax or the advance tax paid by such assessee on its current income on or before the dates specified in column (1) is less than the specified percentage [given in column (2)] of tax due on returned income, then simple interest@1% per month for the period specified in column (4) on the amount of shortfall, as per column (3) is leviable under section 234C.

Specified date	Specified %	Shortfall in advance tax	Period
(1)	(2)	(3)	(4)
15 th June	15%	15% of tax due on returned income (-) advance tax paid up to 15 th June	3 months
15 th September	45%	45% of tax due on returned income (-) advance tax paid up to 15 th September	3 months
15 th December	75%	75% of tax due on returned income (-) advance tax paid up to 15 th December	3 months
15 th March	100%	100% of tax due on returned income (-) advance tax paid up to 15 th March	1 month

Note – However, if the advance tax paid by the assessee on the current income, on or before 15th June or 15th September, is not less than 12% or 36% of the tax due on the returned income, respectively, then, the assessee shall not be liable to pay any interest on the amount of the shortfall on those dates.

(2) Computation of interest under section 234C in case of an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1):

In case an assessee who declares profits and gains in accordance with the section 44AD(1) or section 44ADA(1), as the case may be, who is liable to pay advance tax under section 208 has failed to pay such tax or the advance tax paid by the assessee on its current income on or before 15th March is less than the tax due on the returned income, then, the assessee shall be liable to pay simple interest at the rate of 1% on the amount of the shortfall from the tax due on the returned income.

(3) Non-applicability of interest under section 234C in certain cases:

Interest under section 234C shall not be leviable in respect of any shortfall in payment of tax due on returned income, where such shortfall is on account of under-estimation of or failure to estimate –

- (i) the amount of capital gains;
- (ii) income of nature referred to in section 2(24)(ix) i.e., winnings from lotteries, crossword puzzles etc.;
- (iii) income under the head “Profits and gains of business or profession” in cases where the income accrues or arises under the said head for the first time.
- (iv) the amount of dividend income other than deemed dividend referred u/s 2(22)(e)

However, the assessee should have paid the whole of the amount of tax payable in respect of such income referred to in (i), (ii), (iii) or (iv), as the case may be, had such income been a part of the total income, as part of the remaining instalments of advance tax which are due or where no such instalments are due, by 31st March of the financial year.

(4) Meaning of tax due on returned income

Tax due on returned income means the tax calculated on total income declared in the return furnished by the assessee less

- tax deducted or collected at source
- any relief of tax allowed under section 89

- any tax credit allowed to be set off in accordance with the provisions of section 115JD, in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

7.8 TAX COLLECTION AT SOURCE

(1) Applicability and Rates

(i) Sale of certain goods

Under section 206C(1), sellers of certain goods are required to collect tax from the buyers at the specified rates. The specified percentage for collection of tax at source is as follows:

	Nature of Goods	Percentage
(a)	Alcoholic liquor for human consumption	1%
(b)	Tendu leaves	5%
(c)	Timber obtained under a forest lease	2.5%
(d)	Timber obtained by any mode other than (c)	2.5%
(e)	Any other forest produce not being timber or tendu leaves	2.5%
(f)	Scrap	1%
(g)	Minerals, being coal or lignite or iron ore	1%

The tax should be collected at the time of debiting of the amount payable by the buyer to his account or at the time of receipt of such amount from the buyer, whichever is earlier.

Non-applicability of TCS u/s 206C(1) [Section 206C(1A)]

No collection of tax shall be made under section 206C(1), in the case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration in writing in duplicate in the prescribed form and verified in the prescribed manner to the effect that goods referred to in section 206C(1) above are to be utilised for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.

(ii) Lease or a licence of parking lot, toll plaza or mine or a quarry

Section 206C(1C) provides for collection of tax by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any

- parking lot or
- toll plaza or
- a mine or a quarry

to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purposes of business. The tax shall be collected as provided, from the licensee or lessee of any such licence, contract or lease of the specified nature, at the rate of 2%.

Mining and quarrying would not include mining and quarrying of mineral oil. Mineral oil includes petroleum and natural gas.

The tax should be collected at the time of debiting of the amount payable by the licensee or lessee to his account or at the time of receipt of such amount from the licensee or lessee, whichever is earlier.

(iii) Sale of motor vehicle of value exceeding ₹ 10 lakhs

Section 206C(1F) provides that every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall, at the time of receipt of such amount, collect tax from the buyer @ 1% of the sale consideration.

(iv) Remittance under LRS of RBI through an authorized dealer or purchase of an overseas tour package

Section 206C(1G) provides for collection of tax by every person,

- being **an authorized dealer**, who receives amount, under the Liberalised Remittance Scheme of the RBI, for remittance from a buyer, being a person remitting such amount;
- being **a seller of an overseas tour programme package** who receives any amount from the buyer who purchases the package

Tax has to be collected at the time of debiting the amount payable by the buyer or at the time of receipt of such amount from the said buyer, by any mode, whichever is earlier.

Rate of TCS in case of collection by an authorized dealer/ seller of an overseas tour programme package

S. No.	Amount and purpose of remittance	Rate of TCS upto 30.9.2023	Rate of TCS on or after 1.10.2023
(i)	Where the amount is for purchase of an overseas tour programme package	5% of such amount (without any threshold limit)	5% till ₹ 7 lakhs, 20% thereafter
(ii)	(a) Where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	
(iii)	(a) Where the amount is remitted for the purpose other than mentioned in (ii) above; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected)	
(iv)	(a) where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh	
(v)	(a) where the amount is remitted for the purpose other than mentioned in (iv) above; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh	20% of the amt or agg. of amts in excess of ₹ 7 lakh

S. No.	Amount and purpose of remittance	Rate of TCS upto 30.9.2023	Rate of TCS on or after 1.10.2023
(vi)	(a) where the amount being remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh	

Cases where no tax is to be collected

- (i) No TCS by the authorized dealer on an amount in respect of which the sum has been collected by the seller
- (ii) No TCS, if the buyer is liable to deduct tax at source under any other provision of the Act and has deducted such tax
- (iii) No TCS, if the buyer is the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority or any other person notified by the Central Government, subject to fulfillment of conditions stipulated thereunder.

Accordingly, the CBDT has, vide notification no. 99/2022 dated 17.8.2022, notified that the provisions of section 206C(1G) would not apply to a person (being a buyer) who is a nonresident in India in terms of section 6 and does not have a permanent establishment in India.

(v) Sale of goods of value exceeding ₹ 50 lakh

- (a) As per section 206C(1H), tax is also required to be collected by a seller, who receives any amount as consideration for sale of goods of the value or aggregate of such value exceeding ₹ 50 lakhs in a previous year [other than exported goods or goods covered under sub-sections (1)/(1F)/(1G)].
- (b) Tax is to be collected at source @0.1% u/s 206C(1H) of the sale consideration exceeding ₹ 50 lakhs, at the time of receipt of consideration.
- (c) Tax is, however, not required to be collected if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.

(vi) Power of the CBDT to issue guidelines

In case of any difficulty arises in giving effect to the provisions of section 206C(1G)/(1H), the CBDT is empowered to issue guidelines, with the approval of the Central Government, for the purpose of removing the difficulty.

Every guideline issued by the CBDT shall be laid before each House of Parliament, and shall be binding on the income-tax authorities and on the person liable to collect tax.

(2) Meaning of certain terms

	Term	Meaning
(i)	Overseas tour program package	For section 206C(1G) Any tour package which offers visit to a country/(ies) or territory/(ies) outside India. It includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto. [Clause (ii) of Explanation to section

	Term	Meaning
		206C(1G)]
(ii)	Buyer	For section 206C(1H): A person who purchases any goods but does not include – (A) the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State, or (B) a local authority⁷; or (C) a person importing goods into India or any other person as the Central Government may, by notification in the Official Gazette, specify for this purpose, subject to stipulated conditions. For section 206C(1): A person who obtains in any sale, by way of auction, tender, or any other mode, goods of the nature specified in the Table in point (1) or the right to receive any such goods but does not include – (A) a public sector company, the Central Government, a State Government, and an embassy, a high commission, legation, commission, consulate and the trade representation, of a foreign State and a club, or (B) a buyer in the retail sale of such goods purchased by him for personal consumption [Explanation to section 206C] For section 206C(1F): A person who obtains in any sale, goods of the nature specified therein, but does not include – (A) the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or (B) a local authority; or (C) a public sector company which is engaged in the business of carrying passengers. [Explanation to section 206C]
(iii)	Seller	For section 206C(1H): A person whose total sales, gross receipts or turnover from the business carried on by him exceed ₹ 10 crores during the financial year immediately preceding the financial year in which sale of goods is carried out. However, seller does not include a person as notified by the Central Government for this purpose, subject to fulfillment of the stipulated conditions [Clause (b) of Explanation to section 206C(1H)] For section 206C(1) and section 206C(1F): (i) The Central Government, (ii) a State Government or (iii) any local authority or (iv) corporation or (v) authority established by or under a Central, State or Provincial Act, or (vi) any company or

	Term	Meaning
		(vii) firm or (viii) co-operative society Seller also includes an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding the financial year in which the goods of the nature specified in the Table in point (1) are sold. [Explanation to section 206C]
(iv)	Scrap	Waste and scrap from the manufacture or mechanical working of materials which is definitely not usable as such because of breakage, cutting up, wear and other reasons. [Explanation to section 206C]

(3) Higher rate of TCS for non-furnishers of PAN [Section 206CC]

- (i) The provisions of section 206CC require tax collection at the higher of the following two rates, in case of failure by the person paying any sum or amount on which tax is collectible at source (collectee) to furnish PAN [PAN or Aadhaar number in case of section 206C(1H)] to the person responsible for collecting tax at source (collector) –
- at twice the rate specified in the relevant provision of the Act
 - at 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]
- However, the maximum the rate of TCS under this section shall not exceed 20%.
- (ii) Tax would be collectible at the rates mentioned above also in case where the person furnishes a declaration under section 206C(1A) but does not provide his PAN.
- (iii) Both the collectee and the collector have to compulsorily quote the PAN of the collectee in all correspondence, bills, vouchers and other documents exchanged between them.
- (iv) If the PAN provided to the collector is invalid or it does not belong to the collectee, it shall be deemed that the collectee has not furnished his PAN to the collector. Accordingly, tax would be collectible at the rate specified in (i) above.
- (v) The provisions of section 206CC do **not** apply to a non-resident who does not have a permanent establishment in India.

(4) Higher rate of TCS for non-filers of income-tax return [Section 206CCA]

- (i) Section 206CCA requires tax to be collected at source under the provisions of this Chapter on any sum or amount received by a person **from a specified person**, at higher of the following rates –
- at twice the rate specified in the relevant provision of the Act;
 - at 5%
- However, the maximum the rate of TCS under this section shall not exceed 20%.
- (ii) In case the provisions of section 206CC are also applicable to the specified person, in addition to the provisions of section 206CCA, then, tax is required to be collected at higher of the two rates provided in section 206CC and section 206CCA.
- (iii) **Meaning of “specified person”** – A person who has not furnished the return of income for assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be collected, for which the time limit for furnishing the return of income under section 139(1) has expired, and the aggregate of tax deducted at source and tax collected at source in his case is ₹ 50,000 or more in the said previous year.

However, the specified person would not include -

- a non-resident who does not have a permanent establishment in India¹⁰; or
- a person who is not required to furnish the return of income for the assessment year relevant to the said previous year and is notified by the Central Government in this behalf.

(5) CBDT Clarification relating to certain issues with respect to section 206C(1F)

These amendments in section 206C have given rise to certain issues relating to the scope and applicability of the provisions. Accordingly, the CBDT has, vide Circular No. 22/2016 dated 8.6.2016, clarified the following issues in "Question & Answer (Q&A)" format.

Q.1 Whether TCS@1% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/ distributors?

- A.** To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding ₹ 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it **will not apply on sale of motor vehicles by manufacturers to dealers/distributors.**

Q.2 Whether TCS@1% on sale of motor vehicle is applicable only to luxury cars?

- A.** No, as per section 206C(1F), the seller shall collect tax@1% from the purchaser on sale of any motor vehicle of the value exceeding ₹ 10 lakhs.

Q.3 Whether TCS@1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions, of motor vehicle or any other goods or provision of services?

- A.** Government, institutions notified under United Nations (Privileges and Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State shall not be liable to levy of TCS@1% under section 206C(1F).

Q.4 Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?

- A.** Tax is to be collected at source@1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

Q.5 Whether TCS@1% on sale of motor vehicle is applicable in case of an individual?

- A.** The definition of "Seller" as given in clause (c) of the Explanation below sub-section (11) of section 206C shall be applicable in the case of sale of motor vehicles also.

Q.6 How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?

- A.** The provisions of TCS on sale of motor vehicle exceeding ₹ 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding ₹ 10 lakhs would attract TCS@1%.

(6) CBDT Clarification relating to certain issues with respect to section 206C(1H)

In exercise of the power to issue guidelines, the CBDT has, with the approval of Central Government, vide **Circular no. 17/2020 dated 29.9.2020**, issued the following guidelines for removing certain difficulties-

1. Applicability on sale of Motor vehicle:

The provisions of section 206C(1F) apply to sale of motor vehicle of the value exceeding ₹ 10 lakhs. Section 206C(1H) excludes from its applicability goods covered under section 206C(1F). It may be noted that the scope of sections 206C(1H) and (1F) are different. While section 206C(1F) is based on single sale of motor vehicle, section 206C(1H) is for receipt above ₹ 50 lakhs. Hence, in order to remove difficulty that

whether all motor vehicles are excluded from the applicability of section 206C(1H), it is clarified that,-

- Receipt of sale consideration from a dealer would be subjected to TCS under section 206C(1H), if such sales are not subjected to TCS under section 206C(1F)
- In case of sale to consumer, receipt of sale consideration for sale of motor vehicle of the value of ₹ 10 lakhs or less to a buyer would be subjected to TCS under section 206C(1H), if the receipt of sale consideration for such vehicles during the previous year exceeds ₹ 50 lakhs during the previous year.
- In case of sale to consumer, receipt of sale consideration for sale of motor vehicle of the value exceeding ₹ 10 lakhs would not be subjected to TCS under section 206C(1H) if such sales are subjected to TCS under section 206C(1F).

2. Adjustment for sale return, discount or indirect taxes:

It is been clarified that no adjustment on account of sale return or discount or indirect taxes including GST is required to be made for collection of tax under section 206C(1H) since the collection is made with reference to receipt of amount of sale consideration.

Note – It can be inferred that no adjustment for GST is required to be made under section 206C(1F) also, since collection is made with reference to receipt of amount of sale consideration.

ILLUSTRATION 13

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?

SOLUTION

- (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.

Overview - TCS u/s 206C(1)/(1F)/(1H) v. TDS u/s 194Q

Particulars		206C(1)	206C(1F)	206C(1H)	194Q
		TCS	TCS	TCS	TDS
1.	Point of time	At the time of debit or at the time of receipt, whichever is earlier	At the time of receipt	At the time of receipt	At the time of payment or credit, whichever is earlier
2.	% of TDS/TCS, as the case may be	Different rates for different goods (See below)	1% of sale consideration	0.1% of the sale consideration exceeding ₹ 50 lakhs from a buyer	0.1% of the value of purchases exceeding ₹ 50 lakhs from a seller
3.	Seller [206C(1)/(1F)/(1H)] Buyer (194Q)	Central Govt., State Govt., Local Authority, Company, Co-op society, firm, corporation, Individual/HUF whose turnover in F.Y.2022-23 > ₹ 1 crore (business)/ ₹ 50 lakh (profession)	Seller's turnover should exceed ₹ 10 crore in the F.Y.2022-23	Buyer's turnover should exceed ₹ 10 crore in the F.Y.2022-23	
4.	Exclusions from the definition of buyer				
	Common Exclusions from 206C(1)/(1F)/(1H)	Central Govt, State Govt, embassy, High commission, legation, consulate, commission, trade rep. of a foreign state			
	Specific exclusions	Public sector Co., a club and Buyer in retail sale of goods purchased for personal consumption	Local authority, Public sector co. engaged in the business of carrying passengers	Local authority, Persons importing goods into India or other notified persons	

Goods		206C(1)	206C(1F)	194Q	206C(1H)
		TCS	TCS	TDS	TCS
1	Alcoholic liquor for human consumption	1%			
2	Tendu leaves	5%			
3	Timber obtained under forest lease	2.5%			
4	Timber obtained by any other mode	2.5%			
5	Any other forest produce not being timber or tendu leaves	2.5%			
6	Scrap	1%			
7	Minerals, being coal or lignite or iron ore	1%			
	If items (1) to (7) are used for manufacturing, processing or producing articles or things or generation of electricity and not for trading purposes	Nil, by virtue of section 206C(1A)	N.A.	Yes, if turnover of buyer exceeds ₹ 10 crore in the F.Y.2022-23 and value of purchases from seller in F.Y.2023-24 exceeds ₹ 50 lakhs	Nil
8	Sale of Motor Vehicle of value exceeding ₹ 10 lakhs	-	1% of sale consideration	-	-
9	Sale of Motor Vehicle of value exceeding ₹ 10 lakhs by manufacturer to dealers/ distributors	-	-	Yes, if turnover of dealer exceeds ₹ 10 crore in the F.Y.2022-23 and value of motor vehicles purchased from manufacturer in the F.Y.2023-24 exceeds ₹ 50 lakhs.	No, if dealer is required to deduct tax at source. Yes, if dealer is not required to deduct tax at source and manufacturer's turnover exceeds ₹ 10 crore in the F.Y.2022-23 and value of motor vehicles sold to dealer in F.Y.2023-24 exceeds ₹ 50 lakhs
10	Sale of Motor Vehicle of value not exceeding ₹ 10 lakhs and aggregate value of all motor vehicles sold by the seller to the buyer ≤ ₹ 50 lakhs in the	-	-	-	-

Goods	206C(1)	206C(1F)	194Q	206C(1H)
	TCS	TCS	TDS	TCS
F.Y.2023-24				
11 Sale of Motor Vehicle of value not exceeding ₹ 10 lakhs but aggregate value of all motor vehicles sold by the seller to the buyer > ₹ 50 lakhs in the F.Y.2023-24	-	-	Yes, if turnover of buyer exceeds ₹ 10 crore in the F.Y.2022-23.	No, if buyer is required to deduct tax at source. Yes, if buyer is not required to deduct TDS and seller's turnover exceeds ₹ 10 crore in the F.Y.2022-23
12 Sale of goods other than mentioned in 1 to 11				
If aggregate value of goods sold by seller to buyer is ₹ 50 lakhs or less	-	-	-	-
If aggregate value of goods sold by the seller to buyer is more than ₹ 50 lakhs	-	-	Yes, if turnover of buyer exceeds ₹ 10 crore in the F.Y.2022-23.	No, if buyer is required to deduct tax at source. Yes, if buyer is not required to deduct TDS and seller's turnover exceeds ₹ 10 crore in the F.Y.2022-23

(7) Furnishing of copy of declaration within specified time [Section 206C(1B)]

The person responsible for collecting tax under this section shall deliver or cause to be delivered to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner one copy of the declaration referred to in sub-section (1A) on or before 7th of the month next following the month in which the declaration is furnished to him.

(8) TCS to be paid within prescribed time [Section 206C(3)]

Any amount collected under this section shall be paid within the prescribed time to the credit of the Central Government or as the Board directs.

Time limit for paying tax collected to the credit of the Central Government [Rule 37CA]

	Person collecting sums in accordance with section 206C	Circumstance	Period within which such sum should be paid to the credit of the Central Government
(1)	An office of the Government	(i) where the tax is paid without production of an income-tax challan	on the same day
		(ii) where tax is paid accompanied by an income-	on or before 7 days from the end of the month in which the collection is made

	Person collecting sums in accordance with section 206C	Circumstance	Period within which such sum should be paid to the credit of the Central Government
		tax challan	
(2)	Collectors other than an office of the Government		within one week from the last day of the month in which the collection is made

(9) Main differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	(i) Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. (ii) Person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be. (iii) Authorised dealer receiving amount for remittance under the LRS of the RBI or seller of an overseas tour program package is responsible for collecting tax at source at the prescribed rate from the buyer.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in case of payment of salary, payment in respect of life insurance policy etc. tax is required to be deducted at the time of payment.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs and sale of goods exceeding ₹ 50 lakhs other than exported goods and goods mentioned in section 206C(1), tax collection at source u/s 206C(1F) and 206C(1H), respectively, is required at the time of receipt of sale consideration.

Note – TCS will be dealt with in detail at the Final level.

(10) Common number for TDS and TCS [Section 203A]

- (i) Persons responsible for deducting tax or collecting tax at source should apply to the Assessing Officer for the allotment of a “taxdeduction and collection-account number”.
- (ii) Section 203A(2) enlists the documents/certificates/returns/challans in which the “tax deduction account number” or “tax collection account number” or “tax deduction and collection account number” has to be

compulsorily quoted.

- (iii) The requirement of obtaining and quoting of TAN under section 203A shall not apply to such person, as may be notified by the Central Government in this behalf.

LET US RECAPITULATE

I. Tax deduction at source

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
192	Salary	Basic exemption limit This is taken care of in computation of the average rate of income-tax.	Any person responsible for paying any income chargeable under the head "Salaries	Individual (Employee)	Average rate of income-tax	At the time of payment
192A	Premature withdrawal from Employees' Provident Fund	Payment or aggregate payment $\geq$ ₹ 50,000	Trustees of the EPF Scheme or any authorised person under the Scheme	Individual (Employee)	10% on Premature taxable withdrawal	At the time of payment
193	Interest on Securities	$> \text{₹}$ 10,000 in a F.Y., in case of interest on 8% Savings (Taxable) Bonds, 2003/7.75% Savings (Taxable) Bonds, 2018. $> \text{₹}$ 5,000 in a F.Y., in case of interest on debentures issued by a Co. in which the public are substantially interested, paid or credited to a resident individual or HUF by an A/c payee cheque $>$ No threshold specified in any	Any person responsible for paying any income by way of interest on securities	Any resident	10%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
		other case.				
194	Dividend (including dividends on preference shares)	Amount or aggregate amount > ₹ 5,000 in a F.Y., in case of dividend paid or credited to an individual shareholder by any mode other than cash > No threshold in other cases	The Principal Officer of a domestic company	Resident shareholder	10%	Before making any payment by any mode in respect of any dividend or before making any distribution or payment of dividend.
194A	Interest other than interest on securities	Amount or aggregate amount > ₹ 40,000 in a F.Y., in case of interest credited or paid by – (i) a banking company; (ii) a co-operative society engaged in banking business; and (iii) a post office on any deposit under a notified Scheme. In all the above cases, if payee is a resident senior citizen, tax deduction limit is > ₹ 50,000. > ₹ 5,000 in a F.Y.,	Any person (other than an individual or HUF whose total sales, gross receipts or turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.) responsible for paying interest other than interest on securities.	Any Resident	10%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
		in other cases.				
194B	Winnings from any lottery, crossword puzzle or card game or other game of any sort or from gambling or betting of any form or nature	Amount or the aggregate of amounts > ₹ 10,000 in a F.Y.	The person responsible for paying income by way of such winnings	Any Person	30%	At the time of payment
194BA	Winnings from online games	On the net winnings in a person's user account as computed in prescribed manner.	Any person responsible for paying income by way of such winnings from any online game.	Any person	30%	At the end of the F.Y. In case there is withdrawal from user account during the F.Y., tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. In addition, tax would also be deducted on the remaining amount of net winnings in the user account as computed in prescribed manner at the end of the F.Y.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194BB	Winnings from horse race	Amount or the aggregate of amounts > ₹10,000 in a F.Y.	Book Maker or a person holding licence for horse racing or for arranging for wagering or betting in any race course.	Any Person	30%	At the time of payment
194C	Payments to Contractors	Single sum credited or paid > ₹30,000 (or) The aggregate of sums credited or paid to a contractor during the F.Y. > ₹1,00,000 Individual/HUF need not deduct tax where sum is credited or paid exclusively for personal purposes	Central/State Govt., Local authority, Central/State/ Provincial Corpn., company, firm, trust, registered society, co-operative society, university established under Central/State/ Provincial Act, declared university under the UGC Act, Govt. of Foreign State or a foreign enterprise, individual/HUF whose total sales, gross receipts or turnover from business or profession exceeds ₹1 crore in case of business or ₹50 lakhs in case of profession during the immediately preceding F.Y.	Any Resident contractor for carrying out any work (including supply of labour)	1% of sum paid or credited, if the payee is an Individual or HUF 2% of sum paid or credited, if the payee is any other person.	At the time of credit of such sum to the account of the contractor or at the time of payment, whichever is earlier.
194D	Insurance Commission	Amount or aggregate amount > ₹15,000 in a F.Y.	Any person responsible for paying any income by way of remuneration or reward for soliciting or procuring insurance business	Any Resident	5%, if the payee is a non-corporate resident 10%, if the payee is a domestic company	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194DA	Any sum under a Insurance Policy not fulfilling the conditions specified u/s 10(10D)	Amount or aggregate $\geq$ $\leq$ 1,00,000 in a financial year	Any person responsible for paying any sum under a LIP, the sum allocated way of bonus	Any resident	5% of amount of income comprised	At the time of payment
194G	Commission on sale lottery tickets	$> \leq$ 15,000 in a financial year	A person responsible for paying any income way of remuneration or (by whatever called) on lottery tickets	Any person stocking, distributing, purchasing selling lottery tickets	5%	At the time of credit such income to account of the or at the time payment, whichever earlier.
194H	Commission or brokerage	$> \leq$ 15,000 in a financial year	Any person (than an Individual HUF whose total sales, gross or turnover from business or profession do exceed $\leq$ 1 crore case of business $\leq$ 50 lakhs in case profession during the immediately preceding F.Y.) responsible for paying commission or brokerage.	Any resident	5%	At the time of credit such income to account of the or at the time payment, whichever earlier.
194-I	Rent	$> \leq$ 2,40,000 in a financial year	Any person (other than an individual HUF whose total sales, gross receipts or turnover from business or profession carried on by him do not $\leq$ 1 crore in case business or $\leq$ 50 lakhs in case profession during the immediately preceding F.Y.) responsible for paying rent.	Any resident	For P & M equipment- 2% For land building, land appurtenant to a furniture, or fittings -10%	At the time of credit such income to account of the or at the time payment, whichever earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
194-IA	Payment on transfer of certain immovable property other than agricultural land	$\geq \text{₹} 50 \text{ lakh}$ (Consideration for transfer or stamp duty value)	Any person, being a transferee (other than a person referred to in section 194LA responsible for paying compensation for compulsory acquisition of immovable property other than rural agricultural land)	Resident transferor	1% of consideration for transfer or stamp duty value, whichever is higher	At the time of credit of such sum to the account of the transferor or at the time of payment, whichever is earlier.
194-IB	Payment of rent by certain individuals or HUF	$> \text{₹} 50,000$ for a month or part of a month	Individual/ HUF (other than Individual/HUF whose total sales, gross receipts or turnover from business or profession carried on by him exceeds $\text{₹} 1 \text{ crore}$ in case of business or $\text{₹} 50 \text{ lakhs}$ in case of profession during the immediately preceding F.Y.) responsible for paying rent.	Any Resident	5%	At the time of credit of rent, for the last month of the previous year or the last month of tenancy, if the property is vacated during the year, as the case may be, to the account of the payee or at the time of payment, whichever is earlier
194J	Fees for professional or technical services/ Royalty/ Non-compete fees/ Director's remuneration	$> \text{₹} 30,000$ in a financial year, for each category of income. (However, this limit does not apply in case of payment made to director of a company).	Any person, other than an individual or HUF; However, in case of fees for professional or technical services paid or credited, individual/HUF, whose total sales, gross receipts or turnover from business or profession exceeds $\text{₹} 1 \text{ crore}$ in case of business or $\text{₹} 50 \text{ lakhs}$ in case of profession during the immediately	Any Resident	2% - Payee engaged only in the business of operation of call centre 2% - In case of fees for technical services or royalty, where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematographic films 10% - Other payments	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
			preceding F.Y., is liable to deduct tax u/s 194J, except where fees for professional services is credited or paid exclusively for his personal purposes.			
194K	Income on units other than in the nature of capital gains	Amount or aggregate amount > ₹ 5,000 in a F.Y.	Any person responsible for paying any income in respect of units of a mutual fund/Administrator of the specified undertaking/ specified company	Any resident	10%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194LA	Compensation on acquisition of certain immovable property other than agricultural land situated in India	Amount or aggregate amount > ₹ 2,50,000 in a F.Y.	Any person responsible for paying any sum in the nature of compensation or enhanced compensation on compulsory acquisition of immovable property	Any Resident	10%	At the time of payment
194M	- Payments to Contractors - Commission or brokerage - Fees for professional services	> ₹ 50,00,000 in a financial year	Individual or HUF other than those who are required to deduct tax at source under section 194C or 194H or 194J	Any Resident	5%	At the time of credit of such sum or at the time of payment, whichever is earlier.
194N	Cash withdrawals	> ₹ 3 crore if the recipient is a cooperative society > ₹ 1 crore in case of others	- a banking company or any bank or banking institution - a co-operative society engaged in carrying on the business of banking or - a post office who is responsible for paying any sum, being the amount	Any person	@2% of such sum In case the recipient has not filed ROI for all the 3 immediately preceding P.Y.s, for which time limit u/s 139(1) has expired, such sum shall be the amt or agg. of amts, in cash > ₹ 20 lakh during the	At the time of payment of such sum

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
			or the aggregate of amounts, as the case may be, in cash exceeding $\leq$ 1 crore/ $\leq$ 3 crore in case the recipient is a cooperative society, during the previous year, to any person from one or more accounts maintained by the recipient		P.Y. TDS • @2% of the sum, where cash withdrawal $>$ $\leq$ 20 lakhs but $\leq$ 1 crore/ $\leq$ 3 crore in case the recipient is a co-operative society • @5% of the sum, where cash withdrawal $>$ $\leq$ 1 crore/ $\leq$ 3 crore in case the recipient is a co-operative society	
194P	Pension (along with interest on bank account)	Basic exemption limit $\leq$ 3,00,000 (in case specified senior citizen pays tax under default tax regime u/s 115BAC), $\leq$ 3,00,000 / $\leq$ 5,00,000, as the case may be, if specified senior citizen has exercised the option of shifting out of the default tax regime providing u/s 115BAC [i.e., total income after giving effect to the deduction allowable under Chapter VI-A, if any allowable should exceed the basic exemption	Notified bank specified	Specified senior citizen i.e., An individual, being a resident in India, who • is of the age of 75 years or more at any time during the PY; • is having pension income and no other income except interest income received or receivable from any	Rates in force, where the individual has exercised the option of shifting out of the default tax regime. Rates specified in section 115BAC, where the individual pays tax under the default tax regime.	

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
		limit. Further, in case the individual is entitled to rebate u/s 87A from tax payable, then the same should be given effect to]		account maintained by such individual in the same specified bank in which he is receiving his pension income; and • has furnished a declaration to the specified bank.		
194Q	Purchase of goods	> ₹ 50 lakhs in a previous year	Buyer, who is responsible for paying any sum to any resident for purchase of goods. Buyer means a person whose total sales, gross receipts or turnover from business exceeds ₹ 10 crores during the FY Immediately preceding the FY in which the purchase of goods is carried out.	Any resident	0.1% of sum exceeding ₹ 50 lakhs	At the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier.
194R	Any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession The provisions would apply to any benefit or perquisite, whether in cash	Value or aggregate of value of benefit or perquisite > ₹ 20,000 in a financial year	Any person (other than an individual or HUF whose total sales, gross receipts or turnover do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.) responsible for providing to a resident, any benefit	Any resident	10% of value or aggre. of value of such benefit or perquisite	Before providing such benefit or perquisite

Section	Nature of payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of deduction
	or in kind or partly in cash and partly in kind.		or perquisite. In case of a company, "person responsible for paying" means the company itself including the Principal Officer thereof.			

Notes –

(1) Section 206AA requires furnishing of PAN by the deductee to the deductor, failing which the deductor has to deduct tax at the higher of the following rates, namely, -

- (i) at the rate specified in the relevant provision of the Income-tax Act, 1961; or
- (ii) at the rate or rates in force; or
- (iii) at the rate of 20% and in case of section 194-Q, 5%

(2) Section 206AB requires tax to be deducted at source under the provisions of this Chapter on any sum or income or

amount paid, or payable or credited, by a person to a specified person, at higher of the following rates –

- (i) at twice the rate prescribed in the relevant provision of the Act;
- (ii) at twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or
- (iii) at 5%

However, section 206AB is **not** applicable in case of tax deductible at source under sections 192, 192A, 194B, 194BA, 194BB, 194-IA, 194-IB, 194M11 or 194N.

Meaning of “specified person” – A person who has not furnished the return of income for the assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be deducted, for which the time limit for furnishing the return of income under section 139(1) has expired, and the aggregate of tax deducted at source and tax collected at source in his case is $\leq$ 50,000 or more in the said previous year.

However, the specified person would not include -

- a non-resident who does not have a permanent establishment in India; or
- a person who is not required to furnish the return of income for the assessment year relevant to the said previous year and is notified by the Central Government in this behalf.

(3) In case the provisions of section 206AA are also applicable to the specified person, in addition to the provisions of this section, then, tax is required to be deducted at higher of the two rates provided in section 206AA and section 206AB.

(4) The threshold limit given in column (3) of the table is with respect to each payee.

II Advance Payment of Tax**Liability for payment of advance tax [Sections 207 & 208]**

Tax shall be payable in advance during any financial year in respect of the total income (TI) of the assessee which would be chargeable to tax for the A.Y. immediately following that financial year.

Advance tax is payable during a F.Y. in every case where the amount of such tax payable by the assessee

during the year is $\leq 10,000$ or more.

However, an individual resident in India of the age of 60 years or more at any time during the previous year, who does not have any income chargeable under the head "Profits and gains of business or profession" (PGBP), is not liable to pay advance tax.

Instalments of advance tax and due dates [Section 211]

Advance tax payment schedule for corporates and non-corporates (other than an assessee computing profits on presumptive basis under section 44AD or section 44ADA) – Four instalments

Due date of instalment	Amount payable
On or before 15 th June	Not less than 15% of advance tax liability.
On or before 15 th September	Not less than 45% of advance tax liability (-) amount paid in earlier instalment.
On or before 15 th December	Not less than 75% of advance tax liability (-) amount paid in earlier instalment or instalments.
On or before 15 th March	The whole amount of advance tax liability (-) amount paid in earlier instalment or instalments.

Advance tax payment by assesseees computing profits on presumptive basis under section 44AD(1) or section 44ADA(1)

An eligible assessee, computing profits or gains of business or profession on presumptive basis in respect of eligible business referred to in section 44AD(1) or in respect of eligible profession referred to in section 44ADA(1), shall be required to pay advance tax of the whole amount on or before 15th March of the F.Y.

However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during the F.Y. ending on that day.

Interest for defaults in payment of advance tax [Section 234B]

- (1) Interest u/s 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of assessed tax.
- (2) The interest liability would be 1% per month or part of the month from 1st April following the F.Y. upto the date of determination of total income under section 143(1) and where regular assessment is made, upto the date of such regular assessment.
- (3) Such interest is calculated on the amount of difference between the assessed tax and the advance tax paid.
- (4) "Assessed tax" means the tax on total income determined u/s 143(1) less TDS & TCS, any relief of tax allowed u/s 89, any tax credit allowed to be set off in accordance with the provisions of section 115JD, in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Tax on the total income determined under section 143(1) shall not include the additional income-tax, if any, payable u/s 140B.

- (5) Where self-assessment tax is paid by the assessee u/s 140A or otherwise, interest shall be calculated upto the date of payment of such tax and reduced by the interest, if any, paid u/s 140A towards the interest chargeable under this section. Thereafter, interest shall be calculated at 1% on the amount by which the tax so paid together with the advance tax paid falls short of the assessed tax.

Interest for deferment of advance tax [Section 234C]**(1) Manner of computation of interest u/s 234C for deferment of advance tax by corporate and non-corporate assessees:**

In case an assessee, other than an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1), who is liable to pay advance tax u/s 208 has failed to pay such tax or the advance tax paid by such assessee on its current income on or before the dates specified in column (1) below is less than the specified percentage [given in column (2) below] of tax due on returned income, then simple interest@1% per month for the period specified in column (4) on the amount of shortfall, as per column (3) is leviable u/s 234C.

Specified date	Specified %	Shortfall in advance tax	Period
(1)	(2)	(3)	(4)
15th June	15%	15% of tax due on returned income (-) advance tax paid up to 15 th June	3 months
15 th September	45%	45% of tax due on returned income (-) advance tax paid up to 15 th September	3 months
15 th December	75%	75% of tax due on returned income (-) advance tax paid up to 15 th December	3 months
15 th March	100%	100% of tax due on returned income (-) advance tax paid up to 15 th March	1 month

Note – However, if the advance tax paid by the assessee on the current income, on or before 15th June or 15th September, is not less than 12% or 36% of the tax due on the returned income, respectively, then, the assessee shall not be liable to pay any interest on the amount of the shortfall on those dates.

Tax due on returned income = Tax chargeable on total income declared in the return of income – TDS – TCS - any relief of tax allowed u/s 89 – any tax credit allowed to be set off in accordance with the provisions of section 115JD, in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) Computation of interest under section 234C in case of an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1):

In case an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1), who is liable to pay advance tax u/s 208 has failed to pay such tax or the advance tax paid by the assessee on its current income on or before 15th March is less than the tax due on the returned income, then, the assessee shall be liable to pay simple interest at the rate of 1% on the amount of the shortfall from the tax due on the returned income.

(3) Non-applicability of interest under section 234C in certain cases:

Interest under section 234C shall not be leviable in respect of any shortfall in payment of tax due on returned income, where such shortfall is on account of under-estimate or failure to estimate –

- (i) the amount of capital gains;
- (ii) income of nature referred to in section 2(24)(ix) i.e., winnings from lotteries, crossword puzzles etc.;
- (iii) income under the head “Profits and gains of business or profession” in cases where the income accrues or arises under the said head for the first time.

(iv) the amount of dividend income other than deemed dividend referred u/s 2(22)(e).

However, the assessee should have paid the whole of the amount of tax payable in respect of such income referred to in (i), (ii), (iii) and (iv), as the case may be, had such income been a part of the total income, as part of the remaining instalments of advance tax which are due or where no such instalments are due, by 31st March of the financial year.

Tax Collection at source [Section 206C]

(1) Sale of certain goods [Section 206C(1)] - Sellers of certain goods are required to collect tax from the buyers at the specified rates. The specified percentage for collection of tax at source is as follows:

	Nature of Goods	Percentage
(i)	Alcoholic liquor for human consumption	1%
(ii)	Tendu leaves	5%
(iii)	Timber obtained under a forest lease	2.5%
(iv)	Timber obtained by any mode other than (iii)	2.5%
(v)	Any other forest produce not being timber or tendu leaves	2.5%
(vi)	Scrap	1%
(vii)	Minerals, being coal or lignite or iron ore	1%

The tax should be collected at the time of debiting of the amount payable by the buyer to his account or at the time of receipt of such amount from the buyer, whichever is earlier.

However, no collection of tax shall be made in the case of a resident buyer, if such buyer furnishes a declaration in writing in duplicate to the effect that goods are to be utilised for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes [Section 206C(1A)].

(2) Lease or a licence of parking lot, toll plaza or mine or a quarry [Section 206C(1C)] - Every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any

- parking lot or
- toll plaza or
- a mine or a quarry

to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purposes of business. The tax shall be collected as provided, from the licensee or lessee of any such licence, contract or lease of the specified nature, at the rate of 2%, at the time of debiting of the amount payable by the licensee or lessee to his account or at the time of receipt of such amount from the licensee or lessee, whichever is earlier

(3) Sale of motor vehicle of value exceeding ₹ 10 lakhs [Section 206C(1F)] - Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall, at the time of receipt of such amount, collect tax from the buyer @ 1% of the sale consideration.

(4) Remittance under LRS of RBI or purchase of an overseas tour package [Section 206C(1G)] - Every person,

- being an authorized dealer, who receives amount under the Liberalised Remittance Scheme (LRS) of the RBI for remittance from a buyer, being a person remitting such amount,
- being seller of an overseas tour programme package who receives any amount from the buyer who purchases the package

has to collect tax at the time of debiting of the amount payable by the buyer or at the time of receipt of such amount from the said buyer by any mode, whichever is earlier.

Rate of TCS in case of collection by an authorized dealer/ seller of an overseas tour programme package

S. No.	Amount and purpose of remittance	Rate of TCS upto 30.9.2023	Rate of TCS on or after 1.10.2023
(i)	Where the amount is for purchase of an overseas tour programme package	5% of such amount (without any threshold limit)	5% till ₹ 7 lakhs, 20% thereafter
(ii)	(a) Where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	Nil (No tax to be collected at source)
(iii)	(a) Where the amount is remitted for the purpose other than mentioned in (ii) above; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	Nil (No tax to be collected at source)
(iv)	(a) where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh	5% of the amt or agg. of amts in excess of ₹ 7 lakh
(v)	(a) where the amount is remitted for the purpose other than mentioned in (iv) above; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh	20% of the amt or agg. of amts in excess of ₹ 7 lakh
(vi)	(a) where the amount being remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh

Cases where no tax is to be collected

(i)	No TCS by the authorized dealer on an amount in respect of which the sum has been collected by the seller
(ii)	No TCS, if the buyer is liable to deduct tax at source under any other provision of the Act and has deducted such tax
(iii)	No TCS, if the buyer is the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority or any other person notified by the Central Government, subject to fulfillment of conditions stipulated thereunder. Accordingly, the CBDT has, vide notification no. 99/2022 dated 17.8.2022, notified that the provisions of section 206C(1G) would not apply to a person (being a buyer) who is a non-resident in terms of section 6 and does not have a permanent establishment in India.

- (5) **Sale of goods of value exceeding ₹ 50 lakh [Section 206C(1H)]** – Every person, being a seller, who receives any amount as consideration for sale of goods of the value exceeding ₹ 50 lakhs in a previous year, other than exported goods or goods covered in (a)/(c)/(d)], is required to collect tax at source, at the time of receipt of such amount, @0.1% of the sale consideration exceeding ₹ 50 lakhs.

However, tax is not required to be collected if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.

- (6) In case of non-furnishing of PAN [PAN or Aadhaar number in case of section 206C(1H)] by the collectee to the collector, tax is required to be collected at the higher of –

- (i) twice the rate specified in the relevant provisions of the Act; or
- (ii) at 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]. [Section 206CC]

However, the maximum the rate of TCS under this section shall not exceed 20%.

The provisions of section 206CC do **not** apply to a non-resident who does not have a permanent establishment in India.

- (7) Section 206CCA requires tax to be collected at source on any sum or amount received by a person from a specified person, at higher of the following rates –

- (a) at twice the rate specified in the relevant provision of the Act;
- (b) at 5%

However, the maximum the rate of TCS under this section shall not exceed 20%.

In case the provisions of section 206CC are also applicable to the specified person, in addition to the provisions of section 206CCA, then, tax is required to be collected at higher of the two rates provided in section 206CC and section 206CCA.

Meaning of “specified person” – A person who has not furnished the return of income for assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be collected, for which the time limit for furnishing the return of income under section 139(1) has expired, and the aggregate of tax deducted at source and tax collected at source in his case is ₹ 50,000 or more in the said previous year.

However, the specified person would not include

- a non-resident who does not have a permanent establishment in India ; or

- a person who is not required to furnish the return of income for the assessment year relevant to the said previous year and is notified by the Central Government in this behalf.

TEST YOUR KNOWLEDGE

1. 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

2. 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.

3. 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.

4. Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 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.
5. Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

ANSWERS

1. 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.

2. (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.

3. (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 x 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 x 10% = ₹ 1,900

4. (1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200

- (2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000.

- (3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 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.

5. 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.

Interest on deposit with post office under a scheme eligible for non-deduction of tax at source under section 194A notified by the Central Government [Notification No. 27/2023 dated 16.05.2023]

- Section 194A provides for deduction of tax @10% by any person (other than an individual or a HUF whose total sales, gross receipts or turnover from the business or profession carried on by him/it does not exceed
- ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the immediately preceding financial year) on interest, other than “interest on securities” credited or paid to residents.
- No deduction of tax under section 194A would be made, inter alia, if the aggregate amount of interest paid or credited by post office during the financial year does not exceed ₹ 40,000/ ₹ 50,000 (in case of a senior citizen), on any deposit made with it under any scheme framed and notified by the Central Government.
- Accordingly, the Central Government has, vide this notification, specified the Scheme “Mahila Samman Savings Certificate, 2023”.
- “Mahila Samman Savings Certificate, 2023” is a one-time scheme available for two years i.e., from 1st April, 2023 to 31st March, 2025. It offers a maximum deposit facility of upto ₹ 2 lakh in the name of women or a girl for 2 years at a fixed interest rate of 7.5% p.a., compounded quarterly.

- Consequently, no tax under section 194A would be deductible by the post office on interest paid or credited under this scheme since the amount of interest would not exceed ₹ 40,000.

Guidelines to remove difficulties arising in implementation of the provisions of section 194BA
[Circular No. 5/2023 dated 22.5.2023]

- New section 194BA has been inserted by the Finance Act, 2023 requiring to deduct tax at source by a person responsible for paying to any person (whether resident or non-resident) any income by way of winnings from any online game during the financial year on the net winnings in his user account, computed in the manner as may be prescribed, at the end of the financial year at the rates in force i.e., 30%.
- Such net winnings from online games during the previous year would be chargeable to tax @30% under section 115BBJ. The tax would be calculated on net winnings from such online games computed in the prescribed manner.
- If any difficulty arises in giving effect to the provisions of section 194BA, the CBDT may, with the previous approval of the Central Government, issue guidelines for the purposes of removing the difficulty.
- Accordingly, the CBDT has, vide this circular, issued the following guidelines:

Illustration 1 :

There are a large number of gamers who play with very insignificant amount and withdraw also very small amount. Deducting tax at source under section 194BA for each insignificant withdrawal would increase compliance for tax deductor. Can there be relaxation to ease compliance?

Solution :

Tax may not be deducted on withdrawal on satisfaction of all of the following conditions, namely: -

- (i) net winnings comprised in the amount withdrawn does not exceed ₹ 100 in a month;
- (ii) tax not deducted on account of this concession is deducted at a time when the net winnings comprised in withdrawal exceeds ₹ 100 in the same month or subsequent month or if there is no such withdrawal, at the end of the financial year; and
- (iii) the deductor undertakes responsibility of paying the difference if the balance in the user account at the time of tax deduction under section 194BA is not sufficient to discharge the tax deduction liability.

Illustration 2 :

When the net winnings is in kind how will tax deduction under section 194BA operate?

Solution :

At the outset, it may be clarified that where money in user account is used to buy an item in kind and given to user then it is net winnings in cash only and the deductor is required to deduct tax at source under section 194BA accordingly.

However, there could be a situation where the winning of the game is a prize in kind. In that situation provision of section 194BA(2) will operate.

According to this where the net winnings are wholly in kind or partly in cash, and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the net winnings. In these situations, the person responsible for paying, shall, before releasing the winnings, ensure that tax has been paid in respect of the net winnings. In the above situation, the deductor will release the net winnings in kind after the deductee provides proof of payment of such tax (e.g., Challan details etc.).

In the alternative, as an option to remove difficulty if any, the deductor may deduct the tax under section 194BA and pay to the Government.

Illustration 3 :

How will the valuation of winnings in kind required to be carried out?

Solution :

The valuation would be based on fair market value of the winnings in kind except in following cases:-

- (i) The online game intermediary has purchased the winnings before providing it to the user. In that case the purchase price shall be the value for winnings.
- (ii) The online game intermediary manufactures such items given as winnings. In that case, the price that it charges to its customers for such items shall be the value for such winnings.

It is further clarified that GST will not be included for the purposes of valuation of winnings for TDS under section 194BA.

Guidelines to remove difficulty in implementation of changes relating to Tax Collection at Source (TCS) on Liberalised Remittance Scheme (LRS) and on purchase of overseas tour program package [Circular No. 10/2023 dated 30.06.2023]

Section 206C(1G) provides for tax collection at source on foreign remittance through the Liberalised Remittance Scheme (LRS) and sale of overseas tour program package. Section 206C(1G) has been amended by the Finance Act, 2023 and the changes were to take effect from 1.7.2023. Vide press release dated 28.6.2023, Ministry of Finance has further amended the provisions of section 206C(1G) and defer the amendments made by the Finance Act, 2023 till 30.9.2023. Accordingly, the rate of TCS in case of collection by an authorized dealer/ seller of an overseas tour programme package is as follows:

S. No.	Particulars	Rate of TCS	
		Before 1.10.2023	On or after 1.10.2023
(i)	Remittances for the purpose of education [other than (ii) below] or medical treatment;	No TCS upto ₹ 7 lakhs 5% of the amt or agg. of amts in excess of ₹ 7 lakh	
(ii)	Remittances out of loan obtained from any financial institution as referred under section 80E, for the purpose of pursuing any education	No TCS upto ₹ 7 lakhs 0.5% of the amt or agg. of amts in excess of ₹ 7 lakh	
(iii)	Remittances for purposes other than mentioned in (i) to (ii)	No TCS upto ₹ 7 lakhs 5% on the amount or aggregate of amounts in excess of ₹ 7 lakhs	No TCS upto ₹ 7 lakhs 20% on the amount or aggregate of amounts in excess of ₹ 7 lakhs
(iv)	Overseas Tour Program Package	5% without any threshold limit	5% upto ₹ 7 lakhs and 20% above ₹ 7 lakhs

In case any difficulty arises to give effect to, inter alia, the provisions of section 206C(1G), the CBDT is empowered to issue guidelines, with the approval of the Central Government, for the purpose of removing the difficulty.

In exercise of the power to issue guidelines, the CBDT has, with the approval of Central Government, vide this circular, issued the following guidelines for removing certain difficulties-

Illustration 1 :

Whether payment through overseas credit card would be counted in LRS ?

Solution :

No TCS shall be applicable on expenditure through international credit card while being overseas till further order.

Illustration 2 :

Whether the threshold of ₹ 7 lakh, for TCS to become applicable on LRS, applies separately for various purposes like education, health treatment and others? For example, if remittance of ₹ 7 lakh under LRS is made in a financial year for education purpose and other remittances in the same financial year of ₹ 7 lakh is made for medical treatment and ₹ 7 lakh for other purposes, whether the exemption limit of ₹ 7 lakh shall be given to each of the three separately ?

Solution :

It is clarified that the threshold of ₹ 7 lakh for LRS is combined threshold for applicability of the TCS on LRS irrespective of the purpose of the remittance.

Thus, in the given example, upto ₹ 7 lakh remittance under LRS during a financial year shall not be liable for TCS. However, subsequent ₹ 14 lakh remittance under LRS shall be liable for TCS in accordance with the TCS rates applicable for such remittance.

In the example, if the remittances under LRS are made in the current financial year at different point of time, TCS rates for the remaining ₹ 14 lakh remittances under LRS would depend on the time of remittance as TCS rates changes from 1st October 2023.

TCS rates would be applicable as under:-

Remittances	Rate of TCS
First ₹ 7 lakh remittance under LRS during the financial year 2023-24 for education purpose (or for that matter any purpose)	No TCS
Remittances beyond ₹ 7 lakh under LRS during the financial year 2023-24, if on or before 30th September 2023	TCS at 5% (irrespective of the purpose unless it is for education purpose financed by loan from a financial institution when the rate is 0.5%)
Remittances beyond ₹ 7 lakh under LRS during the financial year 2023-24, if on or after 1st October 2023.	TCS at 0.5% (if it is for education purpose financed by loan from a financial institution), 5% (if it is for education or medical treatment) and 20% (if it is for other purposes)

Illustration 3 :

Since there are different TCS rates on LRS for the first six months and next six months of the financial year 2023-24, whether the threshold of ₹ 7 lakh, for the TCS to become applicable on LRS, applies separately for each six months ?

Solution:

No. The threshold of ₹ 7 lakh, for the TCS to become applicable on LRS, applies for the full financial year. If this threshold has already been exhausted; all subsequent remittances under LRS, whether in the first half or in the second half, would be liable for TCS at applicable rate.

Illustration 4 :

Whether the threshold of ₹ 7 lakh, for TCS to become applicable on LRS, applies separately for each remittance through different authorised dealers? If not, how will authorised dealer know about the earlier remittances by that remitter through some other authorised dealer?

Solution :

It is clarified that the threshold of ₹ 7 lakh for LRS is qua remitter and not qua authorised dealer.

Since the facility to provide real time update of remittance under LRS by remitter is still under development by the RBI, it is clarified that the details of earlier remittances under LRS by the remitter during the financial year may be taken by the authorised dealer through an undertaking at the time of remittance. If the authorised dealer correctly collects the tax at source based on information given in this undertaking, he will not be treated as "assessee in default". However, for any false information in the undertaking, appropriate action may be taken against the remitter under the Act.

It is further clarified that same methodology of taking undertaking from the buyer of overseas tour program package may be followed by the seller of such package.

Illustration 5 :

There is threshold of ₹ 7 lakh for remittance under LRS for TCS to become applicable while there is another threshold of ₹ 7 lakh for purchase of overseas tour program package where reduced rate of 5% of TCS applies. Whether these two thresholds apply independently?

Solution :

Yes, these two thresholds apply independently. For LRS, the threshold of ₹ 7 lakh applies to make TCS applicable. For purchase of overseas tour program package, the threshold of ₹ 7 lakh applies to determine the applicable TCS rate as 5% or 20%.

Illustration 6 :

A resident individual spends ₹ 3 lakh for purchase of overseas tour program package from a foreign tour operator and remits money which is classified under LRS. There is no other remittance under LRS or purchase of overseas tour program during the financial year. Whether TCS is applicable?

Solution :

In case of purchase of overseas tour program package which is classified under LRS, TCS provision for purchase of overseas tour program package shall apply and not TCS provisions for remittance under LRS.

Since for purchase of overseas tour program package, the threshold of ₹ 7 lakh for applicability of TCS does not apply, TCS is applicable and tax is required to be collected by the seller. In this case the tax shall be required to be collected at 5% since the total amount spent on purchase of overseas tour program package during the financial year is less than ₹ 7 lakh. The TCS should be made by the seller.

Illustration 7 :

There are different rates for remittance under LRS for medical treatment/education purposes and for other purposes. What is the scope of remittance under LRS for medical treatment/education purposes?

Solution :

As per the clarification by the RBI, remittance for the purposes of medical treatment shall include,-

- (i) remittance for purchase of tickets of the person to be treated medically overseas (and his attendant) for commuting between India and the overseas destination;
- (ii) his medical expense; and
- (iii) other day to day expenses required for such purpose.

Education :

Remittance for purpose of education shall include,-

- (i) remittance for purchase of tickets of the person undertaking study overseas for commuting between India and the overseas destination;
- (ii) the tuition and other fees to be paid to educational institute; and
- (iii) other day to day expenses required for undertaking such study.

Illustration 8 :

Whether purchase of international travel ticket or hotel accommodation on standalone basis is purchase of overseas tour program package?

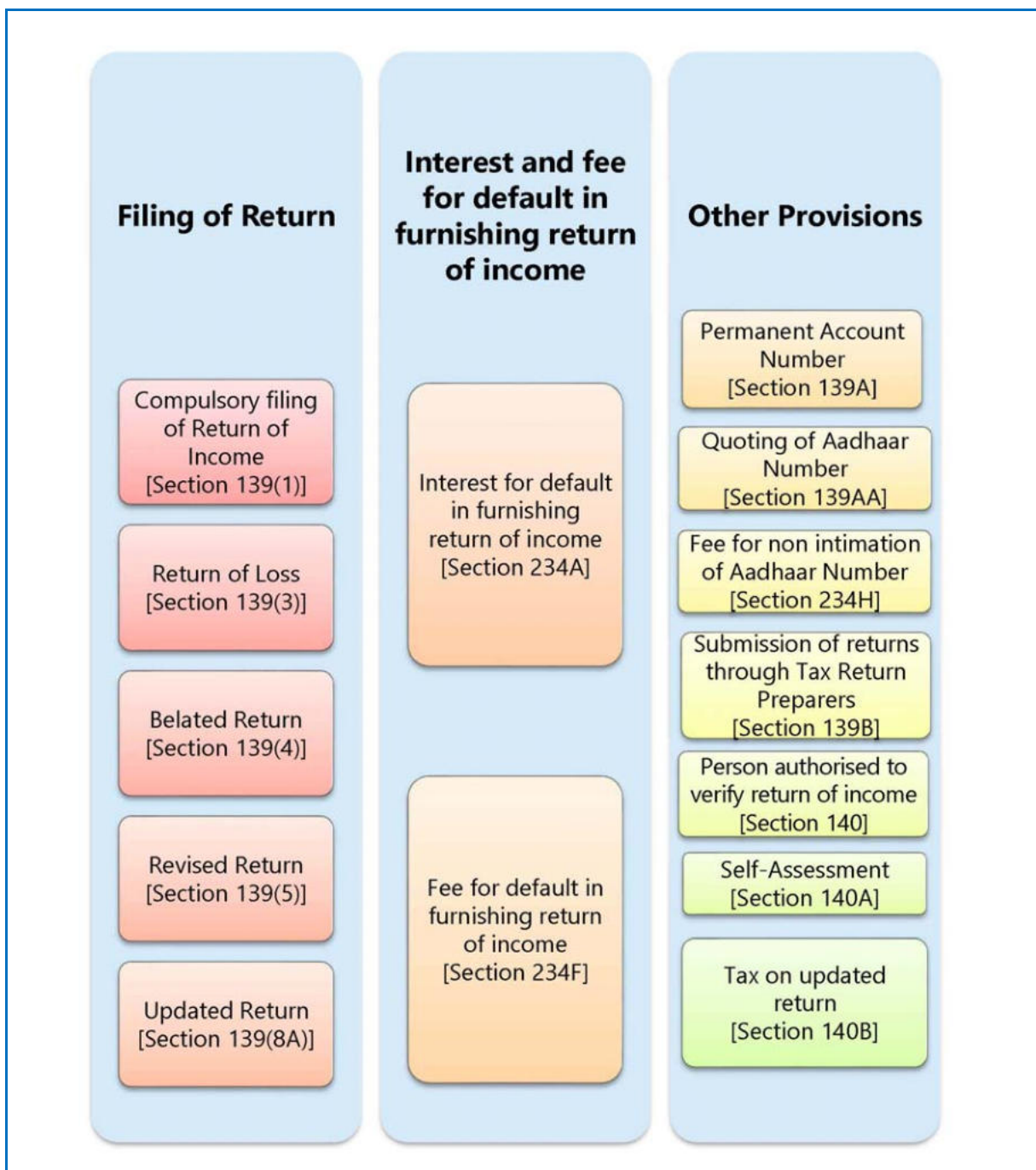
Solution :

The term 'overseas tour program package' is defined as to mean any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.

It is clarified that purchase of only international travel ticket or purchase of only hotel accommodation, by in itself is not covered within the definition of 'overseas tour program package'. To qualify as 'overseas tour program package', the package should include at least two of the followings:-

- (i) international travel ticket,
- (ii) hotel accommodation (with or without food)/boarding/lodging,
- (iii) any other expenditure of similar nature or in relation thereto.



CHAPTER - 8**PROVISIONS FOR FILING RETURN
OF INCOME AND SELF ASSESSMENT**

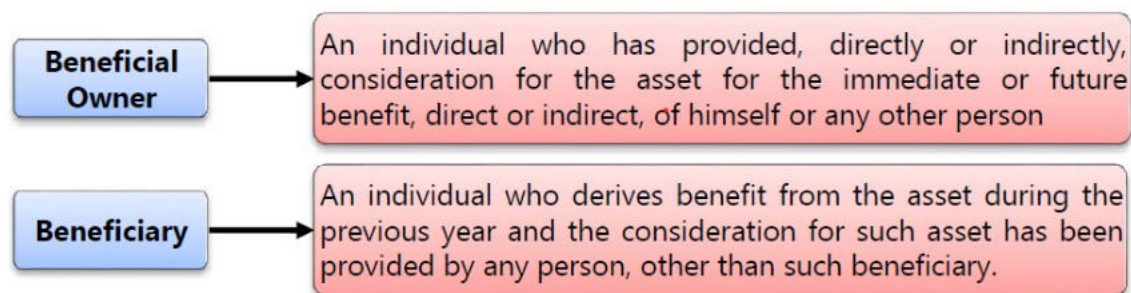
8.1 RETURN OF INCOME

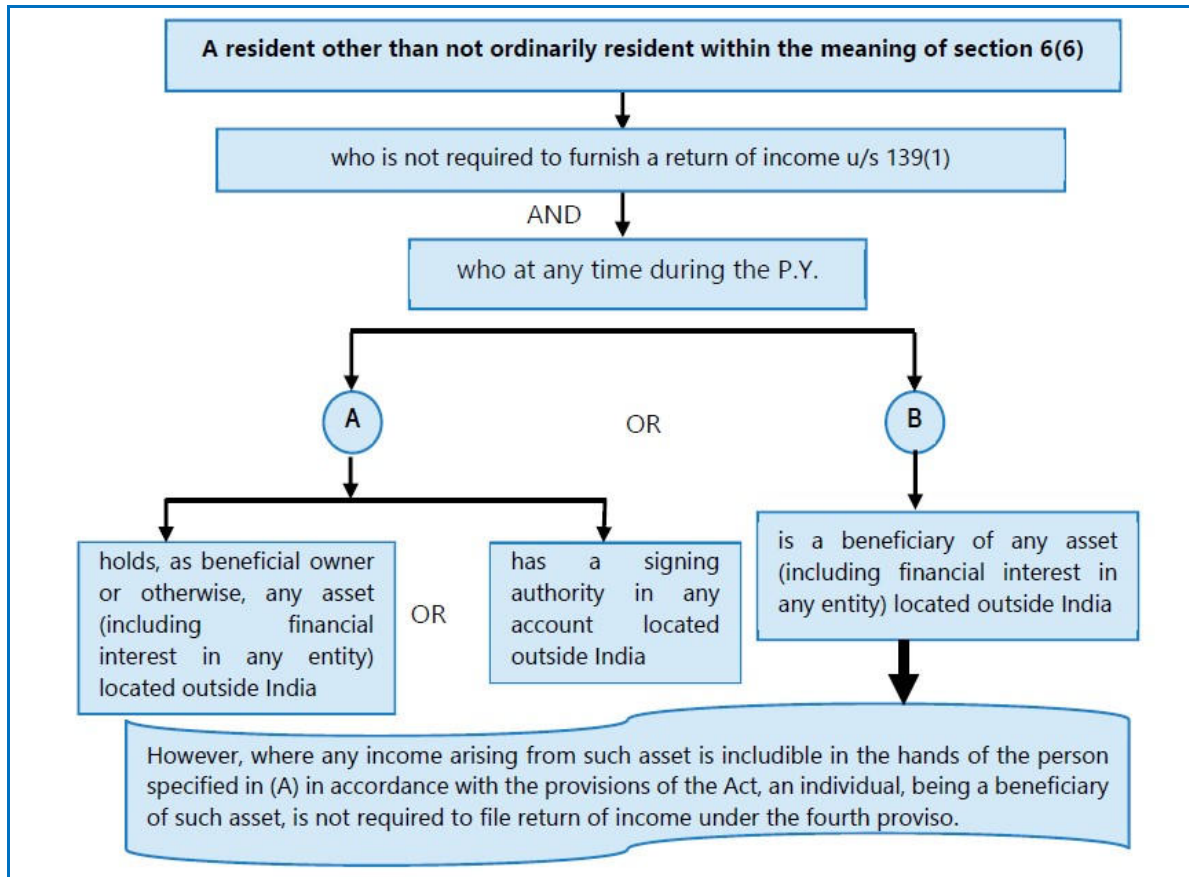
The Income-tax Act, 1961 contains provisions for filing of return of income. Return of income is the format in which the assessee furnishes information, as self- declaration, regarding his total income and tax payable. The format for filing of returns by different assesseees is notified by the CBDT. The particulars of income earned under different heads, gross total income, deductions from gross total income, total income and tax payable by the assessee are generally required to be furnished in a return of income. In short, a return of income is the declaration of income and the resultant tax by the assessee in the prescribed format.

8.2 COMPULSORY FILING OF RETURN OF INCOME [SECTION 139(1)]

- (1) As per section 139(1), it is compulsory for companies and firms to file a return of income or loss for every previous year on or before the due date in the prescribed form.
- (2) In case of a person other than a company or a firm, filing of return of income on or before the due date is mandatory, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeds the basic exemption limit.
- (3) Every person, being a resident other than not ordinarily resident in India within the meaning of section 6(6), who is not required to furnish a return under section 139(1), would be required to file a return of income or loss for the previous year in the prescribed form and verified in the prescribed manner on or before the due date, if such person, at any time during the previous year, -
 - (a) holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has a signing authority in any account located outside India; or
 - (b) is a beneficiary of any asset (including any financial interest in any entity) located outside India.
- (4) However, an individual being a beneficiary of any asset (including any financial interest in any entity) located outside India would not be required to file return of income under this clause, where, income, if any, arising from such asset is includible in the income of the person referred to in (a) above in accordance with the provisions of the Income- tax Act, 1961.

Meaning of "beneficial owner" and "beneficiary" in respect of an asset for the purpose of section 139:



Requirement of filing of return of income as per the fourth and fifth proviso to section 139(1)

(5) Further, every person, being an individual or a HUF or an AOP/BOI, whether incorporated or not, or an artificial juridical person -

- whose total income or the total income of any other person in respect of which he is assessable under this Act during the previous year
- without giving effect to the provisions of Chapter VI-A or section 54/54B/54D/54EC/54F¹
- exceeded the basic exemption limit

is required to file a return of his income or income of such other person on or before the due date in the prescribed form and manner and setting forth the prescribed particulars.

The basic exemption limit is ₹3,00,000 for individuals/HUF/AOPs/BOIs and artificial juridical persons under default tax regime under section 115BAC. This amount denotes the level of total income, which is arrived at after claiming the admissible deductions under Chapter VI-A i.e., 80CCD(2), 80CCH(2) and 80JJAA under default tax regime and exemption under section 54/54B/54D/ 54EC or 54F in respect of capital gain. However, the level of total income to be considered for the purpose of filing return of income is the income before claiming the admissible deductions under Chapter VI-A and exemption under section 54/54B/54D/54EC or 54F.

However, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), the basic exemption limit would be ₹2,50,000 for individuals/HUF/AOPs/ BOIs and artificial juridical persons, ₹3,00,000 for resident individuals of the age of 60 years but less than 80 years and ₹5,00,000 for resident individuals of the age of 80 years or more at any time during the previous year. Also, the assessee would be eligible for other deductions under Chapter VI-A subject to fulfilling the stipulated conditions.

- (6) Any person other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person –
- (a) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
 - (b) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or
 - (c) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity; or
 - (d) fulfils such other prescribed conditions.

Accordingly, the CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner –

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more

- (i) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

- (7) All such persons mentioned in (1) to (5) above should, on or before the due date, furnish a return of his income or the income of such other person during the previous year in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed.

Meaning of due date :

‘Due date’ means –

- (i) **31st October** of the assessment year, where the assessee, other than an assessee referred to in (ii) below, is –
 - (a) a company,
 - (b) a person (other than a company) whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force; or
 - (c) a partner of a firm whose accounts are required to be audited under the Income-tax Act, 1961 or any other law for the time being in force².
- (ii) **30th November** of the assessment year, in the case of an assessee including the partners of the firm² being such assessee who is required to furnish a report referred to in section 92E.
- (iii) **31st July** of the assessment year, in the case of any other assessee.

Note – Section 92E is not covered within the scope of syllabus of Intermediate Paper 4A: Income-tax Law. Section 139(1) provides an extended due date, i.e., 30th November of the assessment year, for assessee who have to file a transfer pricing report i.e., accountant’s report u/s 92E (i.e. assessee who have undertaken international transactions with associated enterprises). Therefore, reference has been made to this section, i.e. section 92E, for explaining this provision in section 139(1).

ILLUSTRATION 1 :

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?

SOLUTION :

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.

8.3 SPECIFIED CLASS OR CLASSES OF PERSONS TO BE EXEMPTED FROM FILING RETURN OF INCOME [SECTION 139(1C)]

- (1) Every person who falls within the ambit of the conditions mentioned under section 139 has to furnish a return of his income on or before the due date specified under section 139(1).
- (2) For reducing the compliance burden of small taxpayers, the Central Government has been empowered to notify the class or classes of persons who will be exempted from the requirement of filing of return of income, subject to satisfying the prescribed conditions.

8.4 RETURN OF LOSS [SECTION 139(3)]

- (1) This section requires the assessee to file a return of loss in the same manner as in the case of return of income within the time allowed u/s 139(1).
- (2) Section 80 requires mandatory filing of return of loss u/s 139(3) on or before the due date specified u/s 139(1) for carry forward of the following losses -
 - (a) Business loss u/s 72(1)
 - (b) Speculation business loss u/s 73(2)
 - (c) Loss from specified business u/s 73A(2) [In case assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]
 - (d) Loss under the head "Capital Gains" u/s 74(1)
 - (e) Loss from the activity of owning and maintaining race horses u/s 74A(3)
- (3) Consequently, section 139(3) requires filing of return of loss mandatorily within the time allowed u/s 139(1) for claiming carry forward of losses mentioned in (2) above.
- (4) However, loss under the head "Income from house property" u/s 71B and unabsorbed depreciation u/s 32 can be carried forward for set-off even though return of loss has not been filed before the due date.
- (5) A return of loss has to be filed by the assessee in his own interest and the non-receipt of a notice from the Assessing Officer requiring him to file the return cannot be a valid excuse under any circumstances for the non-filing of such return.

8.5 BELATED RETURN [SECTION 139(4)]

- Any person who has not furnished a return within the time allowed to him under section 139(1) may furnish the return for any previous year at any time-
 - (i) before three months prior to the end of the relevant assessment year (i.e., 31.12.2024 for P.Y. 2023-24); or
 - (ii) before the completion of the assessment, whichever is earlier.
- Hence, belated return cannot be filed after 31st December of the relevant assessment year.

8.6 REVISED RETURN [SECTION 139(5)]

If any person having furnished a return under section 139(1) or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time -

- (i) before three months prior to the end of the relevant assessment year (i.e., 31.12.2024 for P.Y. 2023-24); or
- (ii) before completion of assessment,

whichever is earlier.

Hence, belated return cannot be filed after 31st December of the relevant assessment year.

QUICK RECAP :

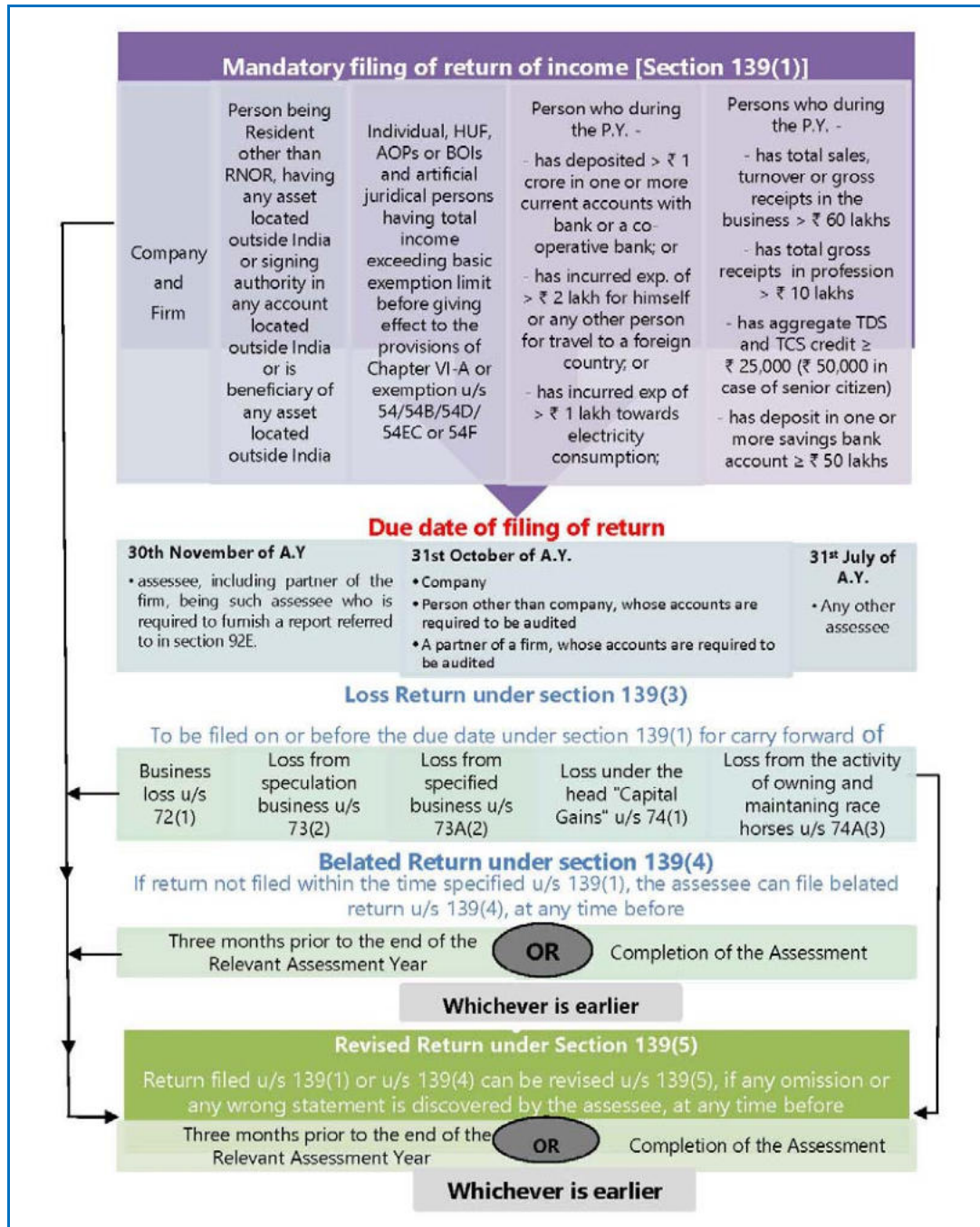


ILLUSTRATION 2

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases :

- Belated return filed under section 139(4).
- Return already revised once under section 139(5).
- Return of loss filed under section 139(3).

SOLUTION :

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).

8.7 INTEREST FOR DEFAULT IN FURNISHING RETURN OF INCOME [SECTION 234A]

- (1) Interest under section 234A is attracted for failure to file a return of income on or before the due date under section 139(1) i.e., interest is payable where an assessee furnishes the return of income after the due date or does not furnish the return of income.
- (2) Simple interest @1% per month or part of the month is payable for the period commencing from the date immediately following the due date and ending on the following dates -

Circumstances	Ending on the following dates
Where the return is furnished after due date	the date of furnishing of the return
Where no return is furnished	the date of completion of assessment

- (3) The interest has to be calculated on the amount of tax on total income as determined under section 143(1) and where a regular assessment is made, on the amount of the tax on the total income determined under regular assessment, as reduced by the advance tax paid and any tax deducted or collected at source, any relief of tax allowed under section 89 and any tax credit allowed to be set-off in accordance with section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (4) No interest under section 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.
- (5) The interest payable under section 234A shall be reduced by the interest, if any, paid on self-assessment under section 140A towards interest chargeable under section 234A.
- (6) Tax on total income as determined under section 143(1) would not include the additional income-tax, if any, payable under section 140B or section 143.
- (7) Tax on total income determined under regular assessment would not include the additional income-tax payable under section 140B.

Note : Section 143(1) provides that if any sum is found due on the basis of a return of income after adjustment of advance tax, relief of tax allowed under section 89, tax deducted at source, tax collection at source and self-assessment tax, an intimation would be sent to the assessee and such intimation is deemed to be a notice of demand issued under section 156. If any refund is due on the basis of the return, it shall be granted to the assessee and intimation to this effect would be sent to the assessee. Where no tax or refund is due, the acknowledgement of the return is deemed to be intimation under section 156.

8.8 SELF-ASSESSMENT [SECTION 140A]

(1) Payment of tax, interest and fee before furnishing return of income [Section 140A(1)]

Where any tax is payable on the basis of any return required to be furnished under, *inter alia*, section 139, after taking into account -

- (i) the amount of tax, already paid, under any provision of the Income-tax Act, 1961
- (ii) the tax deducted or collected at source
- (iii) any relief of tax claimed under section 89
- (iv) any tax credit claimed to set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A); and
- (v) any tax or interest payable as per the provisions of section 191(2),

the assessee shall be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax before furnishing the return. The return has to be accompanied by the proof of payment of such tax, interest and fee.

(2) Order of adjustment of amount paid by the assessee

Where the amount paid by the assessee under section 140A(1) falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter towards interest and the balance, if any, shall be adjusted towards the tax payable.

(3) Interest under section 234A [Section 140A(1A)]

For the above purpose, interest payable under section 234A shall be computed on the amount of tax on the total income as declared in the return, as reduced by the amount of-

- (i) advance tax paid, if any;
- (ii) any tax deducted or collected at source;
- (iii) any relief of tax claimed under section 89
- (iv) any tax credit claimed to be set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(4) Interest under section 234B [Section 140A(1B)]

Interest payable under section 234B shall be computed on the assessed tax or on the amount by which the advance tax paid falls short of the assessed tax.

For this purpose “assessed tax” means the tax on total income declared in the return as reduced by the amount of

- tax deducted or collected at source on any income which forms part of the total income;
- any relief of tax claimed under section 89
- any tax credit claimed to be set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(5) Consequence of failure to pay tax, interest or fee [Section 140A(3)]

If any assessee fails to pay the whole or any part of such of tax or interest or fee, he shall be deemed to be an assessee in default in respect of such tax or interest or fee remaining unpaid and all the provisions of this Act shall apply accordingly.

8.9 UPDATED RETURN OF INCOME [SECTION 139(8A)]

- (1) Option to furnish updated return** - Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

This is irrespective of whether or not he has furnished a return under section 139(1) or belated return under section 139(4) or revised return under section 139(5) for that assessment year.

For example, an updated return for A.Y. 2023-24 can be filed till 31.3.2026.

- (2) Non applicability of the provisions of updated return** – The provisions of updated return would not apply, if the updated return of such person for that assessment year –

- (i) is a loss return; or
- (ii) has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1) or section 139(4) or section 139(5); or
- (iii) results in refund or increases the refund due on the basis of return furnished under section 139(1) or section 139(4) or section 139(5).

- (3) Updated return can be filed if original return is a loss return and updated return is a return of income** - If any person has a loss in any previous year and has furnished a return of loss on or before the due date of filing return of income under section 139(1), he shall be allowed to furnish an updated return if such updated return is a return of income.

For example if Mr. X has furnished his return of loss for A.Y. 2023-24 on 31.5.2023 consisting of ₹ 5,00,000 as business loss, he can furnish an updated return for A.Y. 2023-24 upto 31.3.2026 if such updated return is a return of income.

- (4) Updated return to be furnished for subsequent previous year in case (3) above** - If the loss or any part thereof carried forward under Chapter VI or unabsorbed depreciation carried forward under section 32(2) or tax credit carried forward under section 115JD is to be reduced for any subsequent previous year as a result of furnishing of updated return of income for a previous year, an updated return is required to be furnished for each such subsequent previous year [In case assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)].

- (5) Circumstances in which updated return cannot be furnished:** No updated return shall be furnished in the following scenarios –

S.No.	Scenarios	Updated return cannot be furnished
(i)	Where a person has furnished an updated return under this sub-section for the relevant assessment year.	for such relevant Assessment Year.
(ii)	Where any proceeding for assessment, reassessment, recomputation, or revision of income is pending or has been completed for the relevant assessment year in his case.	

- (6) Updated return for the relevant assessment year cannot be furnished by such person or belongs to such class of persons, as may be notified by the Board in this regard.

Note - There are other circumstances also in which updated return cannot be furnished for the relevant assessment year. For example, where prosecution proceedings are initiated under the relevant provisions of the Income-tax Act, 1961. Those circumstances will be dealt with at Final level.

8.10 TAX ON UPDATED RETURN [SECTION 140B]

(1) Payment of tax, additional tax, interest and fee before furnishing updated return of income

(a) In a case where no return is furnished earlier [Section 140B(1)]

(i) Tax to be paid along with interest and fee before furnishing of updating return :

Where no return of income under section 139(1) or 139(4) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together **with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax**, along with the payment of additional tax computed under section 140B(3), before furnishing the return.

The updated return shall be accompanied by proof of payment of such tax, additional income-tax, interest and fee.

(ii) Manner of computation of tax payable on the basis of updated return

The tax payable is to be computed after taking into account the following -

- (i) the amount of tax, if any, already paid, as advance tax;
 - (ii) the tax deducted or collected at source;
 - (iii) any relief of tax claimed under section 89; and
 - (iv) any tax credit claimed to set-off in accordance with the provisions of section 115JD, *in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)*.
- (iii) Interest under section 234A if no earlier return has been furnished
- In a case, where no earlier return has been furnished, the interest payable under section 234A has to be computed on the amount of the tax on the total income as declared in the updated return under section 139(8A), in accordance with the provisions of section 140A(1A).

(b) In a case where return is furnished earlier [Section 140B(2)]**(i) Tax to be paid along with interest before furnishing updated return :**

Where, return of income under section 139(1) or 139(4) or 139(5) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together with interest payable under any provision of this Act for any default or delay in payment of advance tax, along with the payment of additional tax computed under section 140B(3) **(as reduced by the amount of interest paid under the provisions of this Act in the earlier return)** before furnishing the return.

The updated return shall be accompanied by proof of payment of such tax, additional income-tax and interest.

(ii) Manner of computation of tax payable on the basis of updated return :

The tax payable has to be computed after taking into account the following –

(i) the amount of relief or tax referred to in section 140A(1), the credit for which has been taken in the earlier return;

(ii) **the tax deducted or collected at source**, in accordance with the provisions of Chapter XVII-B, on any income which is subject to such deduction or collection and which is taken into account in computing total income **and which has not been included in the earlier return**;

(iii) any tax credit claimed, to set-off in accordance with the provisions of section 115JD, **which has not been claimed in the earlier return**, *in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)*; and

the aforesaid tax would be increased by the amount of refund, if any, issued in respect of such earlier return.

(iii) Interest under section 234B where earlier return has been furnished [Section 140B(4)]

In a case where an earlier return has been furnished, interest payable under section 234B has to be computed on the assessed tax.

“Assessed tax” means the tax on the total income as declared in the updated return to be furnished under section 139(8A), after taking into account the following:

(i) the amount of relief or tax referred to in section 140A(1), the credit for which has been taken in the earlier return, *if any*;

(ii) the tax deducted or collected at source, in accordance with the provisions of Chapter XVII-B, on any income which is subject to such deduction or collection and which is taken into account in computing total income and which has not been included in the earlier return;

(iii) any tax credit claimed, to set-off in accordance with the provisions of section 115JD, which has not been claimed in the earlier return, *in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)*; and

the aforesaid tax would be increased by the amount of refund, if any, issued in respect of such earlier return.

(iv) Interest under section 234C if earlier return has been furnished

Interest payable under section 234C, where an earlier return has been furnished, has to be computed after taking into account the total income furnished in the updated return as

returned income.

(2) Additional income-tax payable at the time of updated return [Section 140B(3)]

The additional income-tax payable at the time of furnishing the updated return under section 139(8A) would be :

S. No.	Time of furnishing updated return	Additional Income- tax Payable
(i)	If such return is furnished after expiry of the time available under section 139(4) or 139(5) of the assessment year and before completion of the period of 12 months from the end of the relevant assessment year;	25% of aggregate of tax and interest payable, as determined in (1) above
(ii)	If such return is furnished after the expiry of 12 months from the end of the relevant assessment year but before completion of the period of 24 months from the end of the relevant assessment year.	50% of aggregate of tax and interest payable, as determined in (1) above

Computation of Additional income-tax :

For the purpose of computation of Additional income-tax”,

- tax would include surcharge and cess, by whatever name called, on such tax.
- the interest payable would be interest chargeable under any provision of the Act, on the income as per updated return furnished under section 139(8A), as reduced by interest paid in the earlier return, if any.

However, the interest paid in the earlier return would be considered to be nil, if no earlier return has been furnished.

Note - An updated return furnished under section 139(8A) would be regarded as defective return as referred u/s 139(9) unless such return of income is accompanied by the proof of payment of tax as required under section 140B.

(3) Power to CBDT to issue guidelines

In case of any difficulty arises in giving effect to the provisions of this section, the CBDT may issue guidelines for the purpose of removing the difficulty, with the approval of the Central Government. Every guideline issued shall be laid before each House of Parliament.

8.11 DEFECTIVE RETURN [SECTION 139(9)]

- (1) Under this section, the Assessing Officer has the power to call upon the assessee to rectify a defective return.
- (2) Where the Assessing Officer considers that the return of income furnished by the assessee is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within 15 days from the date of intimation. The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee in this behalf. The period of 15 days will have to be reckoned from the date on which the communication is served upon the assessee.
- (3) If the defect is not rectified within the period of 15 days or such further extended period, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to

furnish the return.

- (4) Where, however, the assessee rectifies the defect after the expiry of 15 days or the further extended period, but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.
- (5) A return of income would be regarded as defective unless the annexures, statements and columns therein relating to computation of income chargeable under each head of income, gross total income and total income have been duly filled in.
- (6) A return of income u/s 139 would also be regarded as defective if it is not accompanied by proof of payment of taxes, whether by way of advance tax or self-assessment tax.

8.12 FEE FOR DEFAULT IN FURNISHING RETURN OF INCOME [SECTION 234F]

- Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹ 5,000.
- However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000.

8.13 PERMANENT ACCOUNT NUMBER (PAN) [SECTION 139A]

- (1) Sub-section (1) requires the following persons mentioned in column (2), who have not been allotted a permanent account number (PAN), to apply to the Assessing Officer within the time specified in column (3) for the allotment of a PAN –

(1)	(2)	(3)
	Persons required to apply for PAN	Time limit for making such application (Rule 114)
(i)	Every person, if his total income or the total income of any other person in respect of which he is assessable under the Act during any previous year exceeds the maximum amount which is not chargeable to income-tax	On or before 31st May of the assessment year for which such income is assessable
(ii)	Every person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakhs in any previous year	Before the financial year. End of that
(iii)	Every person being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year	On or before 31 st May of the immediately following financial year
(iv)	Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (iii) above or any person competent to act on behalf of such person referred in (iii) above	On or before 31 st May of the immediately following financial year in which the person referred in (iii) enters into financial transaction specified therein.

Further, every person who has not been allotted a PAN and intends to enter into such transaction as prescribed by the CBDT is also required to apply for PAN to the Assessing Officer. Accordingly, Rule 114BA has been inserted to prescribe the following transactions:

	Person required to apply for PAN [Rule 114BA]	Time limit for making application for PAN [Rule 114]
(i)	Every person, who intends to deposit cash in his one or more accounts with a banking company, co- operative bank or post office, if the cash deposit or the aggregate amount of cash deposit in such accounts during a financial year is ≥ 20 lakh or more	At least 7 days before the date on which he intends to deposit cash over the specified limit, i.e., ≥ 20 lakh or more .
(ii)	Every person, who intends to withdraw cash from his one or more accounts with a banking company, co-operative bank or post office, if the cash withdrawal or the aggregate amount of cash withdrawal from such accounts during a financial year is ≥ 20 lakh or more	At least 7 days before the date on which he intends to withdraw cash over the specified limit, i.e., ≥ 20 lakh or more .
(iii)	Any person, who intends to open a current account or cash credit account with a banking company or a co-operative bank, or a post Office	At least 7 days before the date on which he intends to open such account.

- (2) The Central Government is empowered to specify, by notification in the Official Gazette, any class or classes of persons by whom tax is payable under the Act or any tax or duty is payable under any other law for the time being in force. Such persons are required to apply within such time as may be mentioned in that notification to the Assessing Officer for the allotment of a PAN [Sub-section (1A)].
- (3) For the purpose of collecting any information which may be useful for or relevant to the purposes of the Act, the Central Government may notify any class or classes of persons, and such persons shall within the prescribed time, apply to the Assessing Officer for allotment of a PAN [Sub-section (1B)].
- (4) The Assessing Officer, having regard to the nature of transactions as may be prescribed, may 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 [Sub-section (2)].
- (5) Any person, other than the persons mentioned in (1) or (4) above, may apply to the Assessing Officer for the allotment of a PAN and the Assessing Officer shall allot a PAN to such person immediately.
- (6) Such PAN comprises of 10 alphanumeric characters.
- (7) Quoting of PAN is mandatory in all documents pertaining to the following prescribed transactions [Section 139A(5)]:
- in all returns to, or correspondence with, any income-tax authority;
 - in all challans for the payment of any sum due under the Act;
 - in all documents pertaining to such transactions entered into by him, as may be prescribed by the CBDT in the interests of revenue. In this connection, CBDT has notified the following transactions *vide* Rule 114B, namely:

S. No.	Nature of transaction	Value of transaction
1.	Sale or purchase of a motor vehicle or vehicle, as defined in the Motor Vehicles Act, 1988 which requires	All such transactions

	registration by a registering authority under that Act, other than two wheeled vehicles.	
2.	Opening an account [other than a time-deposit referred to at Sl. No.12 and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act).	All such transactions
3.	Making an application to any banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution, for issue of a credit or debit card.	All such transactions
4.	Opening of a demat account with a depository, participant, custodian of securities or any other person registered under section 12(1A) of the SEBI Act, 1992.	All such transactions
5.	Payment to a hotel or restaurant against a bill or bills at any one time.	Payment incash of an amount exceeding ₹ 50,000.
6.	Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.	Payment amount ₹ 50,000. In cash of an exceeding
7.	Payment to a Mutual purchase of its units Fund for	Amount ₹ 50,000 exceeding
8.	Payment to a company or an institution for acquiring debentures or bonds issued by it.	Amount exceeding ₹ 50,000
9.	Payment to the Reserve Bank of India for acquiring bonds issued by it.	Amount exceeding ₹ 50,000
10.	Deposit with a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act); or post office	Cash deposits exceeding ₹ 50,000 during any one day.
11.	Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act).	Payment in cash of an amount exceeding ₹ 50,000 during any one day.
12.	A time deposit with, - (i) a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act); (ii) a Post Office;	Amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year.

	(iii) a Nidhi referred to in section 406 of the Companies Act, 2013; or (iv) a non-banking financial company which holds a certificate of registration under section 45-IA of the Reserve Bank of India Act, 1934, to hold or accept deposit from public.	
13.	Payment for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India under the Payment and Settlement Systems Act, 2007, to a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution.	Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than ₹ 50,000 in a financial year.
14.	Payment as life insurance premium to an insurer as defined in the Insurance Act, 1938.	Amount aggregating to more than ₹ 50,000 in a financial year.
15.	A contract for sale or purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.	Amount exceeding ₹ 1 lakh per transaction.
16.	Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange.	Amount exceeding ₹ 1 lakh per transaction.
17.	Sale or purchase of any immovable property.	Amount exceeding ₹ 10 lakh or valued by stamp valuation authority referred to in section 50C at an amount exceeding ₹ 10 lakh
18.	Sale or purchase, by any person, of goods or services of any nature other than those specified at Sl. No. 1 to 17 of this Table, if any.	Amount exceeding ₹ 2 lakh per transaction

Minor to quote PAN of parent or guardian

Where a person, entering into any transaction referred to in this rule, is a minor and who does not have any income chargeable to income-tax, he shall quote the PAN of his father or mother or guardian, as the case may be, in the document pertaining to the said transaction.

Declaration by a person not having PAN

Further, any person who does not have a PAN and who enters into any transaction specified in this rule, shall make a declaration in Form No.60 giving therein the particulars of such transaction either in paper form or electronically under the electronic verification code in accordance with the procedures, data structures, and standards specified by the Principal Director General of Income-tax (Systems) or Director General of Income-tax (Systems).

Non-applicability of Rule 114B

The provisions of this rule shall not apply to the following class or classes of persons, namely:-

- (i) the Central Government, the State Governments and the Consular Offices;
- (ii) the non-residents referred to in section 2(30) in respect of the transactions other than a transaction referred to at Sl. No. 1 or 2 or 4 or 7 or 8 or 10 or 12 or 14 or 15 or 16 or 17 of the Table.

Meaning of certain phrases :

	Phrase	Inclusion
(1)	Payment in connection with travel	Payment towards fare, or to a travel agent or a tour operator, or to an authorized person as defined in section 2(c) of the FEMA, 1999
(2)	Travel agent Or tour perator	A person who makes arrangements for air, surface or maritime travel or provides services relating to accommodation, tours, entertainment, passport, visa, foreign exchange, travel related insurance or other travel related services either severally or in package
(3)	Time deposit	Any deposit which is repayable on the expiry of a fixed period.

- (8) If there is a change in the address or in the name and nature of the business of a person, on the basis of which PAN was allotted to him, he should intimate such change to the Assessing Officer [Section 139A(5)(d)].

- (8) Every person who receives any document relating to any transaction cited above shall ensure that the PAN or the Aadhaar number is duly quoted in the document.

(10) Intimation of PAN to person deducting or collecting tax at source

Every person who receives any amount from which tax has been deducted at source shall intimate his PAN to the person responsible for deducting such tax [Section 139A(5A)].

Similarly, every buyer or licensee or lessee referred to in section 206C shall intimate his PAN to the person responsible for collecting such tax [Section 139A(5C)]

(11) Quoting of PAN in certain documents

Where any amount has been paid after deducting tax at source, the person deducting tax shall quote the PAN of the person to whom the amount was paid in the following documents:

- (i) in the statement furnished under section 192(2C) giving particulars of perquisites or profits in lieu of salary provided to any employee;
- (ii) in all certificates for tax deducted issued to the person to whom payment is made;
- (iii) in all returns prepared and delivered or caused to be delivered to any income-tax authority in accordance with the provisions of section 206;
- (iv) in all statements prepared and delivered or caused to be delivered in accordance with the provisions of section 200(3) [Section 139A(5B)].

Also, every person collecting tax in accordance with the provisions of section 206C shall quote PAN of every buyer or licensee or lessee in the following documents:

- (i) in all certificates issued for tax collected in accordance with the provisions of section 206C(5);
- (ii) in all returns prepared and delivered or caused to be delivered to any income-tax authority in accordance with the provisions of section 206C(5A)/(5B);
- (iii) in all statements prepared and delivered or caused to be delivered in accordance with the provisions of section 206C(3) [Sub-section (5D)].

(12) Requirement to intimate PAN and quote PAN not to apply to certain persons

Section 139A(5A)/(5B) shall not apply to a person who –

- (i) does not have taxable income or
- (ii) who is not required to obtain PAN

if such person furnishes a declaration under section 197A in the prescribed form and manner that the tax on his estimated total income for that previous year will be Nil.

(13) Inter-changeability of PAN with the Aadhaar number

- Every person who is required to furnish or intimate or quote his PAN may furnish or intimate or quote his Aadhaar Number in lieu of the PAN, if he
 - (i) has not been allotted a PAN but possesses the Aadhaar number
 - (ii) has been allotted a PAN and has intimated his Aadhaar number to prescribed authority in accordance with the requirement contained in section 139AA(2).
- PAN would be allotted in prescribed manner to a person who has not been allotted a PAN but possesses Aadhaar number.
- Accordingly, the CBDT has, vide *Notification No. 59/2019, dated 30.8.2019*, provide that any person, who has not been allotted a PAN but possesses the Aadhaar number and has furnished or intimated or quoted his Aadhaar number in lieu of the PAN, shall be deemed to have applied for allotment of PAN and he shall not be required to apply or submit any documents.
- Further, any person, who has not been allotted a PAN but possesses the Aadhaar number may apply for allotment of the PAN under section 139A(1)/(1A)/(3) by intimating his Aadhaar number and he shall not be required to apply or submit any documents.

(14) Quoting and authentication of PAN or Aadhaar number

- (a) Every person entering into such prescribed transactions is required to quote his PAN or Aadhaar number, as the case may be, in the documents pertaining to such transactions and also authenticate such PAN or Aadhaar number in the prescribed manner **[Section 139A(6A)]**.
- (b) Every person receiving such document relating to transactions referred to in (a) has to ensure that PAN or Aadhaar number has been duly quoted in such document and also ensure that such PAN or Aadhaar number is so authenticated **[Section 139A(6B)]**.

Accordingly, Rule 114BB has been inserted to prescribe that every person has to, at the time of entering into a transaction specified in column (2) of the Table below, quote his permanent account number or Aadhaar number, as the case may be, in documents pertaining to such transaction, and every person specified in column (3) of the said Table, who receives such document, has to ensure that the said number has been duly quoted and authenticated:

(1)	(2)	(3)
S. No.	Nature of transaction	Person
1.	Cash deposit or deposits aggregating to c 20 lakhs or more in a financial year, in one or more account of a person with a bank or a co-operative bank or Post Office.	A bank or a co-operative bank or Post Master General of a Post Office.

(1)	(2)	(3)
S. No.	Nature of transaction	Person
2.	Cash withdrawal or withdrawals aggregating to ₹ 20 lakhs or more in a financial year, in one or more account of a person with a bank or a co-operative bank or Post Office	A bank or a co-operative bank or Post Master General of a Post Office.
3.	Opening of a current account or cash credit account by a person with a bank or a co-operative bank or Post Office	A bank or a co-operative bank or Post Master General of a Post Office.

Note : Quoting of PAN or Aadhaar number is, however, not required in case where the person depositing money as per Sl. No.1 or withdrawing money as per Sl. No.2 or opening a current account or cash credit account as per Sl. No.3 is the Central Government, the State Government or the Consular Office.

(15) Power to make rules :

The CBDT is empowered to make rules with regard to the following :

- the form and manner in which an application for PAN may be made and the particulars to be given therein;
- the categories of transactions in relation to which PAN or the Aadhaar number, as the case may be, is required to be quoted on the related documents;
- the categories of documents pertaining to business or profession in which PAN or the Aadhaar number, as the case may be, shall be quoted by every person;
- the class or classes of persons to whom the provisions of this section shall not apply;
- the form and manner in which a person who has not been allotted a PAN shall make a declaration;
- the manner in which PAN or the Aadhaar number, as the case may be, shall be quoted for transactions cited in (b) above;
- the time and manner in which such transactions cited in (b) above shall be intimated to the prescribed authority.

(16) Meaning of certain terms

	Term	Meaning
(i)	Aadhaar number	An identification number issued to an individual by the Authority on receipt of the demographic information and biometric information after verifying the information by the authority. It includes any alternative virtual identity generated by the Authority in the prescribed manner.
(ii)	Authentication	The process by which the PAN or Aadhaar number along with demographic information or biometric information of an individual is submitted to the income-tax authority or such other prescribed authority or agency for its verification and such authority or agency verifies the correctness, or the lack thereof, on the basis of information available with it.

(17) Penalty for failure to comply with the provisions of section 139A [Section 272B]

Section	Default	Penalty
272B(1)	Failure to comply with the provisions of section 139A	₹ 10,000
272B(2)	Failure to quote PAN/Aadhaar number in any document referred to in section 139A(5)(c)	₹ 10,000 for each such default
	Failure to intimate PAN/Aadhaar number as required by section 139A(5A)/(5C)	
	Knowingly quoting or intimating a number which is false	
272B(2A)	Failure to quote PAN/Aadhaar Number in documents referred to in section 139A(6A) or authenticate such number in accordance with the provisions contained therein	₹ 10,000 for each such default
272B(2B)	(i) Failure to ensure that PAN/Aadhaar Number is duly quoted in the documents relating to transactions referred to in section 139A(5)(c) or section 139A(6A)	₹ 10,000 for each such default
	(ii) Failure to ensure that PAN/Aadhaar Number has been duly authenticated in respect of transactions referred to under section 139A(6A)	

Note – It is necessary to give an opportunity to be heard to the person on whom the penalty under section 272B is proposed to be imposed.

8.14 QUOTING OF AADHAAR NUMBER [SECTION 139AA]**(1) Mandatory quoting of Aadhaar Number :**

Every person who is eligible to obtain Aadhaar Number is required to mandatorily quote Aadhaar Number :

- in the application form for allotment of Permanent Account Number (PAN)
- in the return of income

Quoting of Aadhaar Number mandatory in returns filed on or after 1.4.2019 [Circular No. 6/2019 dated 31.03.2019]

As per section 139AA(1)(ii), with effect from 01.07.2017, every person who is eligible to obtain Aadhaar number has to quote Aadhaar number in the return of income.

The Apex Court in a series of judgments has upheld the validity of section 139AA. Consequently, with effect from 01.04.2019, the CBDT has clarified that it is mandatory to quote Aadhaar number while filing the return of income unless specifically exempted as per any notification issued under section 139AA(3) [detailed in point no. (5) in the next page]. Thus, returns being filed either electronically or manually on or after 1.4.2019 cannot be filed without quoting the Aadhaar number.

(2) Mandatory quoting of Enrolment Id, where person does not have Aadhaar Number

If a person does not have Aadhaar Number, he is required to quote Enrolment ID of Aadhaar application form issued to him at the time of enrolment in the application form for allotment of Permanent Account Number (PAN) or in the return of income furnished by him.

Enrolment ID means a 28 digit Enrolment Identification Number issued to a resident at the time of enrolment

(3) Intimation of Aadhaar Number to prescribed Authority

Every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before 31st March, 2022.

Notwithstanding the last date of intimating/linking of Aadhaar Number with PAN being 31.03.2022, it is clarified that w.e.f. 01.04.2019, it is mandatory to quote and link Aadhaar number while filing the return of income, either manually or electronically, unless specifically exempted in cases detailed in point (5) below.

(4) Consequences of failure to intimate Aadhaar Number

If a person fails to intimate the Aadhaar Number, the permanent account Number (PAN) allotted to such person shall be made inoperative after the date so notified in the prescribed manner.

Accordingly, Rule 114AAA specifies the manner of making permanent account number inoperative.

Sub- Rule	Provision
(1)	If a person, who has been allotted PAN as on 1st July, 2017 and is required to intimate his Aadhaar number under section 139AA(2), has failed to intimate the same on or before 31 st March, 2022, <i>the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., ₹ 1,000³.</i>
(2)	Where such person who has not intimated his Aadhaar number on or before 31 st March, 2022, has intimated his Aadhaar number under section 139AA(2) after 31 st March, 2022, after payment of fee specified in section 234H read with Rule 114(5A), <i>his PAN would become operative within 30 days from the date of intimation of Aadhaar number.</i>
(3)	<i>A person, whose PAN has become inoperative, would be liable for following further consequences for the period commencing from the date as specified under (4) below till the date it becomes operative –</i> (i) no refund of any amount of tax or part thereof, due under the provisions of the Act; (ii) interest would not be payable on such refund for the period, beginning with the date specified under (4) below and ending with the date on which it becomes operative; (iii) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA; (iv) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC:
(4)	The consequences in (3) above would be effective from the date specified by the Board

i.e., 1.7.2023 [Circular No. 3/2023 dated 28th March, 2023]

(5) Clarification on consequences of PAN becoming inoperative

These consequences would be with effect from **1.7.2023** and continue till the PAN becomes operative. A fee of ₹ 1,000 has to be paid to make the PAN operative by intimating the Aadhaar number.

The consequences of PAN becoming inoperative would not be applicable to those persons who have been provided exemption from intimating Aadhaar number detailed in point (6) below.

(6) Provision not to apply to certain persons or class of persons

The provisions of section 139AA relating to quoting of Aadhaar Number would, however, not apply to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.

Accordingly, the Central Government has, vide Notification No. 37/2017 dated 11.05.2017 effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India

8.15 SCHEME FOR SUBMISSION OF RETURNS THROUGH TAX RETURN PREPARERS [SECTION 139B]

- (1) This section provides that, for the purpose of enabling any specified class or classes of persons to prepare and furnish their returns of income, the CBDT may notify a scheme to provide that such persons may furnish their returns of income through a Tax Return Preparer authorised to act as such under the Scheme.
- (2) The Tax Return Preparer shall assist the persons furnishing the return in a manner that will be specified in the Scheme and shall also affix his signature on such return.
- (3) **A Tax Return Preparer** means any individual, other than
 - (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.
 - (ii) any legal practitioner who is entitled to practice in any civil court in India.
 - (iii) an accountant
 - (iv) an employee of the 'specified class or classes of persons'.
 who has been authorized to act as a Tax Return Preparer under the Scheme.
- (4) The **"specified class or classes of persons"** for this purpose means any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.
- (5) The Scheme notified under the said section may provide for the following -
 - (i) the manner in which and the period for which the Tax Return Preparers shall be authorised,
 - (ii) the educational and other qualifications to be possessed, and the training and other conditions required to be fulfilled, by a person to act as a Tax Return Preparer,
 - (iii) the code of conduct for the Tax Return Preparers,

- (iv) the duties and obligations of the Tax Return Preparers,
 - (v) the circumstances under which the authorisation given to a Tax Return Preparer may be withdrawn, and
 - (vi) any other relevant matter as may be specified by the Scheme.
- (6) Accordingly, the CBDT has, in exercise of the powers conferred by this section, framed the Tax Return Preparer Scheme, 2006, which came into force from 1.12.2006.

Particulars	Contents
Applicability of the scheme	The scheme is applicable to all eligible persons.
Eligible person	Any person being an individual or a Hindu undivided family.
Tax Return Preparer	Any individual who has been issued a "Tax Return Preparer Certificate" and a "unique identification number" under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme. However, the following person are not entitled to act as Tax Return Preparer: (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings. (ii) any legal practitioner who is entitled to practice in any civil court in India. (iii) an accountant.
Educational qualification for Tax Return Preparers	An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as Tax Return Preparer.
Preparation of and furnishing the Return of Income by the Tax Return Preparer	An eligible person may, at his option, furnish his return of income under section 139 for any assessment year after getting it prepared through a Tax Return Preparer: However, the following eligible person (an individual or a HUF) cannot furnish a return of income for an assessment year through a Tax Return Preparer: (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited under section 44AB or under any other law for the time being in force; or (ii) who is not a resident in India during the previous year. An eligible person cannot furnish a revised return of income for any assessment year through a Tax Return Preparer unless he has furnished the original return of income for that assessment year through such or any other Tax Return Preparer.

Note - It may be noted that as per section 139B(3), an employee of the “specified class or classes of persons” is not authorized to act as a Tax Return Preparer. Therefore, it follows that employees of companies and persons whose accounts are required to be audited under section 44AB or any other law for the time being in force (since they are not falling in the category of specified class or classes of persons), are eligible to act as Tax Return Preparers.

ILLUSTRATION 3 :

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?

SOLUTION :

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2024-25 through a Tax Return Preparer.

8.16 PERSONS AUTHORISED TO VERIFY RETURN OF INCOME [SECTION 140]

This section specifies the persons who are authorized to verify the return of income under section 139.

	Assessee	Circumstance	Authorised Persons
1.	Individual	(i) In circumstances not covered under (ii), (iii) & (iv) below	the individual himself
		(ii) where he is absent from India	- the individual himself; or - any person duly authorised by him in this behalf holding a valid power of attorney from the individual (Such power of attorney should be attached to the return of income)
		(iii) where he is mentally incapacitated from attending to his affairs	- his guardian; or - any other person competent to act on his behalf
		(iv) where, for any other reason, it is not possible for the individual to verify the return	any person duly authorised by him in this behalf holding a valid power of attorney from the individual, which should be attached to the return of income.
2.	Hindu Undivided Family	(i) in circumstances not covered under (ii) and (iii) below	the karta
		(ii) where the karta is absent from India	- any other adult member of the HUF
		(iii) where the karta is mentally incapacitated from attending to his	any other adult member of the HUF

	Assessee	Circumstance	Authorised Persons
		affairs	
3.	Company	(i) in circumstances not covered under (i) to (vi) below	the managing director of the company
		(ii) (a) where for any unavoidable reason such managing director is not able to verify the return; or (b) where there is no managing director	- any director of the company or - any other person as may be prescribed for this purpose
		(iii) where the company is not resident in India	- the managing director of the company (or) - a person who holds a valid power of attorney from such company to do so (such power of attorney should be attached to the return).
		(iv) (a) Where the company is being wound up (whether under the orders of a court or otherwise); or (b) where any person has been appointed as the receiver of any assets of the company	- Liquidator - Liquidator
		(v) Where the management of the company has been taken over by the Central Government or any State Government under any law	the principal officer of the company
		(vi) Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under the Insolvency and Bankruptcy Code, 2016.	insolvency professional appointed by such Adjudicating Authority
4.	Firm	(i) in circumstances not covered under (ii) below	the managing partner of the firm
		(ii) (a) where for any unavoidable reason such managing partner is not able to verify the return; or (b) where there is no managing partner.	- any partner of the firm, not being a minor - any partner of the firm, not being a

	Assessee	Circumstance	Authorised Persons
			minor
5.	LLP	(i) in circumstances not covered under (ii) below	• - Designated partner
		(ii) (a) where for any unavoidable reason such designated partner is not able to verify the return; or (b) where there is no designated partner.	• } any partner of the LLP or any other person as may be prescribed for this purpose
6.	Local authority	-	• the principal officer
7.	Political party 4	-	• the chief executive officer of such party (whether he is known as secretary or by any other designation)
8.	Any other association	-	• any member of the association or the principal officer of such association
9.	Any other person	-	• that person or some other person competent to act on his behalf.

Any other person in case of company and LLP - The CBDT has, vide Notification No. 93/2021 dated 18.8.2021, specified that “any other person” referred to in section 140(c) and 140(cd) for company and LLP, respectively, shall be the person, appointed by the Adjudicating Authority (i.e., National Company Law Tribunal constituted under section 408 of the Companies Act, 2013) for discharging the duties and functions of an interim resolution professional, a resolution professional, or a liquidator, as the case may be, under the Insolvency and Bankruptcy Code, 2016 and the rules and regulations made thereunder.

LET US RECAPITULATE

Section	Particulars
139(1)	Assesseees required to file return of income compulsorily (i) Companies and firms (whether having profit or loss or nil income); (ii) a person, being a resident other than not ordinarily resident, having any asset (including any financial interest in any entity) located outside India held as a beneficial owner or beneficiary or who has a signing authority in any account located outside India, whether or not having income chargeable to tax; (iii) Individuals, HUF, AOPs or BOIs and artificial juridical persons whose total income before giving effect to the provisions of Chapter VI-A and sections 54, 54B, 54D, 54EC or 54F exceeds the basic exemption limit. (iv) Any person other than a company or a firm, who is not required to furnish a return under section 139(1), who during the previous year – • has deposited more than ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or • has incurred expenditure of more than ₹ 2 lakh for himself or any other person

Section	Particulars
	for travel to a foreign country; or - has incurred expenditure of more than ₹ 1 lakh towards consumption of electricity; or - fulfils such other conditions as may be prescribed Accordingly, the CBDT has notified that any person other than a company or a firm, who is not required to furnish a return under section 139(1) has to file their return of income on or before due date - (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or (ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more (iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year. Due date of filing return of income (i) 31st October of the assessment year, in case the assessee (other than an assessee referred to in (ii) below) is: (a) a company; (b) a person (other than company) whose accounts are required to be audited; or (c) a partner of a firm whose accounts are required to be audited. (ii) 30th November of the assessment year, in the case of an assessee including the partners of the firm being such assessee who is required to furnish a report referred to in section 92E. (iii) 31st July of the assessment year, in case of any other assessee
139(3)	Return of loss - An assessee can carry forward or set off his/its losses provided he/it has filed his/its return under section 139(3), within the due date specified under section 139(1). Exceptions - Loss from house property and unabsorbed depreciation can be carried forward for set-off even though return has not been filed before the due date.
139(4)	Belated Return A return of income for any previous year, which has not been furnished within the time allowed u/s 139(1), may be furnished at any time before the: (i) three months prior to the end of the relevant assessment year (i.e., 31.12.2024 for P.Y. 2023-24); or (ii) completion of the assessment,

Section	Particulars						
	whichever is earlier.						
139(5)	Revised Return If any omission or any wrong statement is discovered in a return furnished u/s 139(1) or belated return u/s 139(4), a revised return may be furnished by the assessee at any time before the: (i) three months prior to the end of the relevant assessment year (i.e., 31.12.2024 for P.Y. 2023-24); or (ii) completion of assessment, whichever is earlier. Thus, belated return can also be revised.						
234A	Interest for default in furnishing return of income Interest under section 234A is payable where an assessee furnishes the return of income after the due date or does not furnish the return of income. Assessee shall be liable to pay simple interest @1% per month or part of the month for the period commencing from the date immediately following the due date and ending on the following dates – <table border="1"> <thead> <tr> <th>Circumstances</th><th>Ending on the following dates</th></tr> </thead> <tbody> <tr> <td>Where the return furnished after due date is</td><td>the date of furnishing of the return</td></tr> <tr> <td>Where no return furnished is</td><td>the date of completion of assessment</td></tr> </tbody> </table> However, where the assessee has paid taxes in full on or before the due date, interest under section 234A is not leviable.	Circumstances	Ending on the following dates	Where the return furnished after due date is	the date of furnishing of the return	Where no return furnished is	the date of completion of assessment
Circumstances	Ending on the following dates						
Where the return furnished after due date is	the date of furnishing of the return						
Where no return furnished is	the date of completion of assessment						
140A	Self-Assessment tax Where any tax is payable on the basis of any return required to be furnished under section 139, after taking into account – (i) the amount of tax, already paid, (ii) the tax deducted or collected at source (iii) any relief of tax claimed under section 89 (iv) any tax credit claimed to be set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A); and (v) any tax and interest payable as per the provisions of section 191(2) the assessee shall be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax before furnishing the return. Where the amount paid by the assessee under section 140A(1) falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter, towards interest and the balance shall be adjusted towards the tax						

Section	Particulars
	payable.
139(8A)	Updated Return Any person may, whether or not he has furnished a return under section 139(1) or belated return under section 139(4) or revised return under section 139(5) for that assessment year, furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year. The provisions of updated return would not apply, if the updated return of such person for that assessment year – (i) is a loss return; or (ii) has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1) or section 139(4) or section 139(5); or (iii) results in refund or increases the refund due on the basis of return furnished under section 139(1) or section 139(4) or section 139(5). No updated return can be furnished by any person for the relevant assessment year, where – (v) an updated return has been furnished by him under this sub- section for the relevant assessment year; or (vi) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case; or (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
140B	Tax on Updated Return Payment of tax, additional tax, interest and fee before furnishing updated return of income if no return is furnished earlier - Where no return of income has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional tax computed under section 140B(3), before furnishing the return. The updated return shall be accompanied by proof of payment of such tax, additional income-tax, interest and fee. The tax payable is to be computed after taking into account the following - (i) the amount of tax, if any, already paid, as advance tax (ii) the tax deducted or collected at source (iii) any relief of tax claimed under section 89; and (iv) any tax credit claimed to set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). In a case, where no earlier return has been furnished, the interest payable under section 234A has to be computed on the amount of the tax on the total income as declared in the updated return under section 139(8A), in accordance with the provisions of section

Section	Particulars
	140A(1A). Payment of tax, additional tax, interest and fee before furnishing updated return of income if return is furnished earlier Where, return of income under section 139(1) or 139(4) or 139(5) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together with interest payable under any provision of this Act for any default or delay in payment of advance tax, along with the payment of additional tax computed u/s 140B(3), as reduced by the amount of interest paid under the provisions of this Act in the earlier return, before furnishing the return. The updated return shall be accompanied by proof of payment of such tax, additional income-tax and interest. The tax payable has to be computed after taking into account the following - - the amount of relief or tax referred to in section 140A(1), the credit for which has been taken in the earlier return - the tax deducted or collected at source, in accordance with the provisions of Chapter XVII-B, on any income which is subject to such deduction or collection and which is taken into account in computing total income and which has not been included in the earlier return - any tax credit claimed, to set-off in accordance with the provisions of section 115JD, which has not been claimed in the earlier return, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The aforesaid tax would be increased by the amount of refund, if any, issued in respect of such earlier return. Additional income-tax payable at the time of updated return The additional tax payable at the time of furnishing the updated return under section 139(8A) would be - 25% of aggregate of tax and interest payable, as determined above, if such return is furnished after expiry of the time available under section 139(4) or 139(5) and before completion of the period of 12 months from the end of the relevant assessment year; or 50% of aggregate of tax and interest payable, as determined above, if such return is furnished after the expiry of 12 months from the end of the relevant A.Y. but before completion of the period of 24 months from the end of the relevant A.Y.
139(9)	Defective Return Where the Assessing Officer considers that the return of income is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within 15 days from the date of intimation or within such further period, which, the Assessing Officer may allow in his discretion on an application made by the assessee in this behalf. If the defect is not rectified within such period, the return would be treated as an invalid return. Consequently, the provisions of the Income-tax Act, 1961 would apply as if the assessee had failed to furnish the return. However, where the assessee rectifies the defect after the expiry of 15 days or further period allowed by the Assessing Officer but before the assessment is made, the Assessing Officer

Section	Particulars
	may condone the delay and treat the return as a valid return.
234F	Fee for default in furnishing return of income Where a person who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹ 5,000. However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000
139A	Permanent Account Number (PAN) Quoting of PAN is mandatory in all documents pertaining to the following prescribed transactions : - in all returns to, or correspondence with, any income-tax authority; - in all challans for the payment of any sum due under the Act; - in all documents pertaining to such transactions entered into by him, as may be prescribed by the CBDT in the interests of revenue. For example, sale or purchase of a motor vehicle, payment in cash of an amount exceeding ₹ 50,000 to a hotel against a bill or bills at any one time, etc. Inter-changeability of PAN with the Aadhaar number Every person who is required to furnish or intimate or quote his PAN may furnish or intimate or quote his Aadhaar Number in lieu of the PAN if he - has not been allotted a PAN but possesses the Aadhaar number - has been allotted a PAN and has intimated his Aadhaar number to prescribed authority in accordance with the requirement contained in section 139AA(2).
139AA	Quoting of Aadhaar Number To be quoted by every person on or after 1.7.2017 in the application for allotment of PAN and in return of income. If a person does not have Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted. Every person who has been allotted PAN as on 1.7.2017 and who is eligible to obtain Aadhaar Number, has to intimate his Aadhaar Number to the prescribed authority on or before 31.3.2022. If such person has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., ₹ 1,000. Where such person who has not intimated his Aadhaar number on or before 31st March, 2022, has intimated his Aadhaar number under section 139AA(2) after 31st March, 2022, after payment of fee specified in section 234H read with Rule 114(5A), his PAN would become operative within 30 days from the date of intimation of Aadhaar number. The consequences of inoperative PAN would be effective from the date specified by the Board i.e., 1.7.2023 [Circular No. 3/2023 dated 28th March, 2023]

TEST YOUR KNOWLEDGE

1. State with reasons whether you agree or disagree with the following statements:
 - (i) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
 - (ii) 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.
2. Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2024 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?
3. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961 :
 - (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
 - (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.
4. Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?
5. 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.

ANSWERS**1. (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 (c 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 c 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds c 1 crore, in which case, the due date for filing return would be 31st October, 2024.

- 2.** 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.

- 3. (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.

- 4.** 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).

5.

	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
5.	Applied to SBI for issue of creditcard.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Rule 114B, 114BA and 114BB relating to PAN amended [Notification No. 88/2023 dated 10.10.2023]

Amendments in Rule 114B :

As per section 139A(5) quoting of PAN is mandatory, inter alia, in all documents pertaining to such transactions entered into by him, as may be prescribed by the CBDT in the interests of revenue. In this connection, CBDT has prescribed the transactions vide Rule 114B.

However, as per second proviso to Rule 114B, the requirement of mandatorily quoting of PAN is relaxed where a person does not have a PAN and makes a declaration in Form No. 60 giving therein the particulars of such transaction.

The CBDT has, vide this notification, amended the second proviso to Rule 114B to withdraw such relaxation for a company or a firm. Therefore, w.e.f. 10.10.2023, second proviso to Rule 114B provides that any person, not being a company or a firm, who does not have a PAN and who enters into any transaction specified in Rule 114B, has to make a declaration in Form No.60 giving therein the particulars of such transaction.

However, a foreign company who does not have any income chargeable to tax in India and does not have a PAN and enters into the following transactions, in an IFSC banking unit, has to make a declaration in Form No. 60.

Nature of transaction	Value of transaction
Opening an account [other than a time deposit and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act).	All such transactions
A time deposit with, -	Amount exceeding
(i) a banking company or a cooperative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act);	₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year.
(ii) a Post Office;	
(iii) a Nidhi referred to in section 406 of the Companies Act, 2013; or	
(iv) a non-banking financial company which holds a certificate of registration under section 45-IA of the Reserve Bank of India Act, 1934, to hold or accept deposit from public.	

Meaning of IFSC banking unit – A financial institution defined under section 3(1)(c) of the IFSC Authority Act, 2019, that is licensed or permitted by the IFSC to undertake permissible activities under the IFSC Authority (Banking) Regulations, 2020.

Amendments in Rule 114BA and Rule 114BB :

As per section 139A(1)(vii) read with Rule 114BA, every person, who has not been allotted a PAN, has to apply for PAN if he intends to enter into any of the following transactions:

(i)	Deposit cash in his one or more accounts with a banking company, co-operative bank or post office, if the aggregate amount of cash deposit in such accounts during a financial year is ₹ 20 lakh or more
(ii)	Withdraw cash from his one or more accounts with a banking company, co-operative bank or post office, if the aggregate amount of cash withdrawal from such accounts during a financial year is ₹ 20 lakh or more
(iii)	Open a current account or cash credit account with a banking company or a co-operative bank, or a Post Office

Similar transactions are prescribed for the purpose of quoting PAN or Aadhar Number in the document pertaining to such transactions under section 139A(6A) read with Rule 114BB.

The CBDT has, vide this notification, amended Rule 114BA and 114BB, w.e.f. 10.10.2023, to provide that a person is not required to apply for PAN or quote PAN, in a case -

- where the person, making the deposit or withdrawal of an amount otherwise than by way of cash as per (i) or (ii) above, or opening a current account not being a cash credit account as per (iii) above, is a non-resident (not being a company) or a foreign company;
- the transaction is entered into with an IFSC banking unit; and
- such non-resident (not being a company) or the foreign company does not have any income chargeable to tax in India.



CHAPTER - 9

INCOME TAX LIABILITY - COMPUTATION AND OPTIMISATION

1. MEANING OF TOTAL INCOME

The total income of an individual is arrived at after making deductions under Chapter VI-A from the Gross Total Income. As we have learnt earlier, Gross Total Income is the aggregate of the income computed under the 5 heads of income, after giving effect to the provisions for clubbing of income and set-off and carry forward & set-off of losses.

2. INCOME TO BE CONSIDERED WHILE COMPUTING TOTAL INCOME OF INDIVIDUALS

	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(1)	In his personal capacity (under the 5 heads of income)	Income from salaries, Income from house property, Profits and gains of business or profession, Capital gains and Income from other sources.
(2)	As a partner of a firm/LLP	(i) Salary, bonus etc. received by a partner is taxable as his business income. (ii) Interest on capital and/or loans to the firm/LLP is taxable as business income of the partner. The income mentioned in (i) and (ii) above are taxable to the extent they are allowed as deduction to the firm. (iii) Share of profit in the firm is exempt in the hands of the partner [Section 10(2A)]. The profit credited to the partners' accounts in the firm would be exempt from tax in the hands of such partners, even if the income chargeable to tax becomes Nil in the hands of the firm on account of any exemption or deduction available under the provisions of the Act [Circular No. 8/2014 dated 31.03.2014].
(3)	As a member of HUF	(i) Share of income of HUF is exempt in the hands of the member [Section 10(2)]. (ii) Income from an impartible estate of HUF is taxable in the hands of the holder of the estate who is the eldest member of the HUF. (iii) Income from self-acquired property converted into joint family property, without adequate consideration.

	Capacity in which income is earned by an individual	Treatment of income earned in each capacity
(4)	Income of other persons included in the income of the individual	(i) Transferee's income, where there is a transfer of income without transfer of assets (ii) Income arising to transferee from a revocable transfer of an asset. In cases (i) and (ii), income is includible in the hands of the transferor. (iii) Income of spouse as mentioned in section 64(1)(ii)/(iv) (iv) Income from assets transferred otherwise than for adequate consideration to any person for the benefit of spouse [Section 64(1)(vii)]. (v) Income from assets transferred otherwise than for adequate consideration to son's wife or to any person for the benefit of son's wife [Section 64(1)(vi)/(viii)]. (vi) Income of minor child as mentioned in section 64(1A).

3. COMPUTATION OF TOTAL INCOME AND TAX PAYABLE BY AN INDIVIDUAL

Income-tax is levied on an assessee's total income. Such total income has to be computed as per the provisions contained in the Income-tax Act, 1961. Steps 1 to 8 given hereunder have to be followed for computing total income of an individual assessee. Thereafter, steps 9 to 15 have to be followed for computing the tax payable.

Step 1 – Determination of residential status

- The residential status of an individual has to be determined to ascertain which income is to be included in computing the total income.
- In the case of an individual, the duration for which he is present in India in the relevant previous year or relevant previous year and the earlier previous years, as the case may be, determine his residential status.
- An individual can be either a –
 - Resident and ordinarily resident
 - Resident but not ordinarily resident
 - Non-resident
- An individual who is a citizen of India, having total income, other than the income from foreign sources, exceeding ₹ 15 lakh during the previous year, would be deemed resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature. Such deemed resident would, by default, be a resident but not ordinarily resident in India in that previous year.
- The residential status of an individual determines the scope of his taxable income.
- For example, income which accrues outside India and is received outside India is taxable in the hands of a resident and ordinarily resident but is not taxable in the case of a non-resident. In the case of a resident but not ordinarily resident, such income would be taxable only if it is derived from a business controlled in India or profession set up in India.

Step 2 – Classification of income under different heads

- An individual may earn income from different sources. Under the Income Tax Act, 1961, for computation of total income, all income of an individual assessee can be classified into five different heads of income.
- There are five heads of income, namely, -
 - Salaries,
 - Income from house property,
 - Profits and gains of business or profession
 - Capital Gains
 - Income from other sources
- The income of an assessee should be identified and grouped under the respective head of income.
- Each head of income has a charging section (for example, section 15 for salaries, section 22 for income from house property).
- Deeming provisions are also contained under certain heads, by which specific items are sought to be taxed under those heads.

For example, unrealized rent and arrears of rent from house property would be deemed to be income from house property in the hands of the recipient individual even if he is not the owner of the house property at the time of receipt of such amount.

- The charging section and the deeming provisions would help you to determine the scope of income chargeable under a particular head.

Step 3 – Computation of income under each head

- Income is to be computed in accordance with the provisions governing a particular head of income.
- Assess the income under each head by -
 - applying the charging and deeming provisions,
 - excluding items of income relating to that head in respect of which specific exemptions are provided in section 10.

There are certain incomes which are wholly exempt from income-tax. These incomes have to be excluded and will not form part of Gross Total Income. For e.g. agricultural income which is exempt under both the tax regimes.

Also, some incomes are partially exempt from income-tax. These incomes are excluded while computing income under the relevant head only to the extent of the limits specified in the Act. For e.g. House Rent Allowance, Children Education Allowance are exempt upto prescribed limits under the optional tax regime as per normal provisions of the Act. However, there is no exemption for these allowances under the default tax regime under section 115BAC.

- allowing the permissible deductions under that head, and

For example, while calculating income from house property of a rented house property, municipal taxes paid by the owner and interest on loan are allowed as deduction. Standard deduction of upto ₹ 50,000 is allowed under salaries. Similarly, deductions and allowances are prescribed under other heads of income.

- disallowing the non-permissible deductions.

For example, while computing income under the head “Profits and gains from business or profession” expenditure of personal nature and expenditure which is in the nature of offence are not allowable as deduction. Hence, such expenditure, if any, debited to profits and loss account, has to be added back while computing income under this head.

Likewise, while computing net consideration for capital gains, brokerage is a permissible deduction from gross sale consideration but securities transaction tax paid is not permissible.

- In this step, it is necessary to consider whether the individual is paying tax under the default tax regime or 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. Certain deductions which are allowable under the normal provisions of the Act are not permissible under the default tax regime, for example, additional depreciation, investment linked tax deduction under section 35AD, contribution to scientific research association, national laboratory, IIT etc. However, expenditure on in-house scientific research related to the business of the assessee is allowable as deduction under both the tax regimes.

Step 4 – Clubbing of income of spouse, minor child etc.

- An individual in a higher tax bracket may have a tendency to divert his income to another person who is not subject to tax or who is in a lower tax bracket.

For example, an individual may make a fixed deposit in the name of his minor son, so that income from such deposit would accrue to his son, who does not have any other income.

- In order to prevent evasion of income-tax by such means, clubbing provisions have been incorporated in the Income-tax Act, 1961, under which income arising to certain persons (like spouse, son's wife etc.) have to be included in the income of the person who has diverted his income to such persons for the purpose of computing tax liability.

Further, income of a minor child, not being a minor child suffering from any disability of the nature specified in section 80U (other than income derived from exercise of special skills/talent or manual work done by him) is includible in the hands of the parent whose total income is higher before including minor's income. Such income will be included in the hands of the parent and if that parent has exercised the option to shift out of the default tax regime and pays tax under normal provisions of the Act, exemption of up to ₹ 1,500 under section 10(32) would be provided from that income.

Step 5 – Set-off or carry forward and set-off of losses

An individual may have different sources of income under the same head of income. He may have profit from one source and loss from the other. Similarly, he can have loss under one head of income and profits under another head of income. There are provisions in the Act for allowing inter-source and inter-head adjustment.

- **Inter-source set-off of losses**

- A person may have income from one source and loss from another source under the same head of income. For instance, a person may have profit from wholesale trade of merchandise and loss from the business of plying vehicles.

The loss of one business can be set-off against the profits of another business to arrive at the net income under the head “Profits and gains of business or profession”. However, loss from speculation business can be set-off only against profits from speculation business and not any other business.

- Set-off of loss from one source against income from another source within the same head of income is permissible, subject to certain exceptions, like long-term capital loss cannot be set-off against short-term capital gains though short-term capital loss can be set-off against long-term capital gains.

- **Inter-head set-off of losses**

- Likewise, set-off of loss from one head against income from another head is also permissible, subject to certain exceptions, like business loss cannot be set-off against salary income; loss under the head “Capital Gains” cannot be set-off against any other head of income.
- Loss from house property cannot be set-off against any other head of income, if the individual pays tax under the default tax regime under section 115BAC. If the individual exercises the option to shift out of the default tax regime and pays tax under normal provisions of the Act, loss from house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs. The remaining loss from house property has to be carried forward to the subsequent year to be set-off against income from house property in that year.

- **Carry forward and set-off of losses**

- Unabsorbed losses of the current year can be carried forward to the next year for set-off only against the respective head of income.
- Here again, if there are any restrictions relating to inter-source set-off, the same will apply, like long-term capital loss which is carried forward can be set-off only against long-term capital gains and not short-term capital gains of a later year.
- The maximum number of years up to which any particular loss can be carried forward is also provided under the Act.

For example, business loss can be carried forward for a maximum of 8 assessment years to be set-off against business income. However, loss from specified business referred to in section 35AD can be carried forward indefinitely for set-off against profits of any specified business.

It must be noted that **loss from an exempt source** cannot be set-off against profits from a taxable source of income.

Example: Share of loss from a partnership firm cannot be set-off against sole proprietary business income of the partner, since share of income of the firm is exempt under section 10(2A).

Step 6 – Computation of Gross Total Income

- The income computed under each head, after giving effect to the clubbing provisions and provisions for set-off and carry forward and set-off of losses, have to be aggregated to arrive at the gross total income.
- The process of computing GTI is depicted hereunder -

Add income computed under each head → Apply clubbing provisions → Apply the provisions for set-off and carry forward of losses

Step 7 – Deductions from Gross Total Income

Certain deductions are allowable from gross total income to arrive at the total income. These deductions are contained in Chapter VI-A. These deductions are allowable if the individual exercises the option to shift out of the default tax regime and pay tax under normal provisions of the Act, subject to satisfaction of the conditions prescribed in the relevant sections.

▪ **Deduction in respect of certain payments, for example,**

Section	Nature of Payment/Deposit
80C	Payment of life insurance premium, tuition fees of children, deposit in public provident fund, repayment of housing loan etc.
80D	Medical insurance premium paid by an individual/HUF for the specified persons/ contribution to CGHS etc.
80E	Payment of interest on educational loan taken for self or relative

▪ **Deduction in respect of certain incomes, for example,**

Section	Nature of Income
80QQB	Royalty income of authors of certain books other than text books
80RRB	Royalty on patents

▪ **Deduction in respect of other incomes**

Section	Nature of Income
80TTA	Interest on savings account with a bank, co-operative society and post office.
80TTB	Interest on deposit with a bank, co-operative society and post office in case of senior citizens

▪ **Other Deductions**

Deduction under section 80U in case of a person with disability

In addition, deduction is also allowable under section 10AA in respect of an assessee who derives profits and gains from an undertaking which manufactures or produces articles or things or provides any service in any SEZ on or before 31.3.2021 if the individual exercises the option to shift out of the default tax regime and pay tax under normal provisions of the Act.

There are limits in respect of deduction under certain sections. The payments/incomes are allowable as deduction subject to such limits. For example, the maximum deduction under section 80RRB is ₹ 3 lakhs; under section 80TTA is ₹ 10,000 and under section 80TTB is ₹ 50,000.

Note - Deduction under section 80CCD(2) [Employer's contribution to pension scheme of Central Government], section 80CCH(2) [Central Government's contribution to assessee's account in Agniveer Corpus Fund] and section 80JJAA would be available if the eligible assessee pays tax at concessional rates of tax u/s 115BAC under the default tax regime.

Step 8 – Computation of Total income

- The gross total income as reduced by the above deductions under Chapter VI-A and section 10AA is the total income.

Total income = GTI – Deductions under Chapter VI-A and section 10AA

- It should be rounded off to the nearest multiple of ₹ 10.
- Tax is calculated on the total income of the assessee.

Step 9 – Application of the rates of tax on the total income in case of an individual

- **Concessional tax rates under default tax regime under section 115BAC of the Income-tax Act, 1961**

For individuals, there is a slab rate and basic exemption limit. At present, the basic exemption limit is ₹ 3,00,000 under the default tax regime. The rates of tax and level of total income are as under –

	Total income (in ₹)	Rate of Tax
(i)	Upto ₹ 3,00,000	NIL
(ii)	From ₹ 3,00,001 to ₹ 6,00,000	5%
(iii)	From ₹ 6,00,001 to ₹ 9,00,000	10%
(iv)	From ₹ 9,00,001 to ₹ 12,00,000	15%
(v)	From ₹ 12,00,001 to ₹ 15,00,000	20%
(vi)	Above ₹ 15,00,000	30%

▪ **Tax rates prescribed by the Annual Finance Act under the optional tax regime (regular provisions of the Act)**

The slab rates for A.Y. 2024-25 applicable to Individual under normal provisions of the Act are as follows:

Total income (in ₹)	Rate of Tax
(i) Upto ₹ 2,50,000 (below 60 years)	Nil
(ii) Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India)	
(iii) Upto ₹ 5,00,000 (above 80 years and resident in India)	
₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000 [in cases (i) and (ii) above, respectively]	5%
₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%

- The rates of tax have to be applied on the total income to compute the tax liability.
- Rates of tax in respect of certain incomes are provided under the Income tax Act, 1961 itself. Slab rates are not applicable under both the tax regimes in respect of such incomes. For instance, the rates of tax for long term capital gains on certain assets, long term capital gain on other assets, certain short term capital gains, winnings from lotteries, crossword puzzles, races and winnings from online games etc. are prescribed in sections 112A, 112, 111A, 115BB and 115BBJ, respectively. The rates of tax are 10%, 20%, 15%, 30% and 30%, respectively, in the above cases. Under section 112A, long term capital gains exceeding ₹ 1,00,000 on transfer of equity shares of a company or unit of equity oriented fund or a unit of a business trust is taxable @10%.
- The special rates of tax have to be applied on the respective component of total income and the general slab rates have to be applied on the balance of total income as per the tax regime in which he pays tax.
- The unexhausted basic exemption limit can, however, be adjusted against long-term capital gains taxable under section 112/112A and short-term capital gains taxable under section 111A in case of resident individual in both the tax regime.

Step 10 – Surcharge/ Rebate under section 87A

Surcharge: Surcharge is an additional tax payable over and above the income tax. Surcharge is levied as a percentage of income-tax.

In case the assessee pays tax under default tax regime under section 115BAC

The rates of surcharge applicable for A.Y.2024-25, in case the individual assessee pays tax under default regime under section 115BAC, are as follows:

	Particulars	Rate of surcharge on income-tax
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore	25%
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A included in total income	Not exceeding 15%
(iv)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore in cases not covered under (iii) above	15%

In case the assessee exercises the option to shift out of the default regime

The rates of surcharge applicable for A.Y.2024-25, in case the individual assessee exercises the option to shift out of the default regime, are as follows:

	Particulars	Rate of surcharge on income-tax
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore but ≤ ₹ 5 crore	25%
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A included in total income	Not exceeding 15%
(iv)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 5 crore	37%
	The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A included in total income	Not exceeding 15%

out of the default tax regime under section 115BAC and are eligible to claim such deductions end up paying no income-tax or marginal income-tax though they are capable of paying higher taxes. It has to be kept in mind that our Government also needs regular/consistent inflow of tax, which is one of its major source of revenue, to fund various expenses for the welfare of the country. Hence, in order to ensure payment of reasonable tax by such zero-tax paying/marginal-tax paying entities, the concept of alternate minimum tax has been introduced in the Income-tax Act, 1961.

Chapter XII-BA contains the special provisions for levy of alternate minimum tax in case of persons other than a company¹. Any person other than a company, who has claimed deduction under any section (other than section 80P) included in Chapter VI-A under the heading “C – Deductions in respect of certain incomes” or under section 10AA or investment-linked deduction under section 35AD would be subject to AMT [Section 115JEE(1)].

The provisions of AMT would, however, not be applicable to an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh [Section 115JEE(2)].

Individual/ HUF/ AoP/ BoI and artificial juridical person, paying tax under default tax regime under section 115BAC, are also not liable to alternate minimum tax under section 115JC.

Note - At intermediate level, since profit-linked deductions provided under section 80-IA to 80-IE, section 80JJA, 80LA, 80M, 80P and 80PA have been excluded from the scope of syllabus by way of Study Guidelines and computation of total income and tax liability is restricted to individual assessee only, the discussion in relation to AMT in this chapter is limited with respect to deduction under section 10AA, section 35AD and deduction under section 80JJAA, 80QQB & 80RRB only.

Accordingly, where the regular income-tax payable by a person for a previous year computed as per the normal provisions of the Income-tax Act, 1961 is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @18.5% plus surcharge, if applicable, and HEC @4% [Section 115JC].

“**Adjusted total income**” would mean the total income before giving effect to Chapter XII-BA as increased by

- (i) the deductions claimed, if any, under section 10AA;
- (ii) the deduction claimed under section 35AD, as reduced by the depreciation allowable under section 32, as if no deduction under section 35AD was allowed in respect of the asset for which such deduction is claimed; and
- (iii) deduction under any section included in Chapter VI-A under the heading CD eductions in respect of certain incomes [For Intermediate level, the relevant sections are 80JJAA, 80QQB & 80RRB].

Tax credit for AMT [Section 115JD]

Tax credit is the excess of AMT paid over the regular income-tax payable under the provisions of the Income-tax Act, 1961 for the year. Such tax credit shall be carried forward and set-off against income-tax payable in the later year to the extent of excess of regular income-tax payable under normal the provisions of the Act over the AMT payable in that year. The balance tax credit, if any, shall be carried forward to the next year for set-off in that year in a similar manner.

AMT credit can be **carried forward for set-off upto a maximum period of 15** assessment years succeeding the assessment year in which the credit becomes allowable.

Tax Credit allowable even if Adjusted Total Income does not exceed ₹ 20 lakh in the year of set-off [Section 115JEE(3)]

In case where the assessee has not claimed any deduction under section 10AA or section 35AD or deduction under section 80JJAA, 80QQB & 80RRB in any previous year and the adjusted total income of that year does not exceed ₹ 20 lakh, it would still be entitled to set-off his brought forward AMT credit in that year. Tax credit not allowable to the assessee paying tax under the default tax regime

A person who is paying tax under the default tax regime under section 115BAC would not be eligible to claim AMT credit.

Step 13 – Examine whether to pay tax under default regime under section 115BAC or pay tax under the optional tax regime as per the regular provisions of the Act

In case of an assessee not having income from business or profession

In case of individuals not having income from business or profession, the total income and tax liability may be computed every year, both in accordance with default tax regime under section 115BAC and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial and accordingly, decide whether or not to shift out of the default regime under section 115BAC.

In effect, such individual can choose whether or not to exercise the option of shifting out in each previous year. He may choose to pay tax under default regime under section 115BAC in one year and exercise the option to shift out of default tax regime in another year.

In case of an assessee having income from business or profession:

In case of individuals having income from business or profession, the total income and tax liability may be computed, both in accordance with default tax regime under section 115BAC and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial.

Such individual has an option to shift out/opt out of the default tax regime under this section and the option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for such previous year and once such option is exercised, it would apply to subsequent assessment years.

Such person who has exercised the above option of shifting out of the default regime for any previous year shall be able to withdraw such option only once and pay tax under the default regime under section 115BAC for a previous year other than the year in which it was exercised.

Thereafter, such person shall never be eligible to exercise option under this section, except where such person ceases to have any business income in which case, option under (i) above would be available.

Step 14 – Credit for advance tax, TDS and TCS

- Tax is deductible at source at the time of payment of salary, rent, interest, fees for professional services, royalty etc.
- The payer has to deduct tax at source at the rates specified in the respective sections.
- Such tax deducted at source has to be reduced by the payee to determine his net tax liability.
- Tax is collectible by the seller in case of certain goods at the rate specified in the respective section. Credit of such tax collection at source is allowable to determine the tax liability.
- The Income-tax Act, 1961 also requires payment of advance tax in instalments during the previous year itself on the basis of estimated income, if the tax payable, after reducing TDS/TCS, is ₹ 10,000 or more.
- Individual is required to pay advance tax in four instalments, on or before 15th June, 15th September, 15th December and 15th March of the financial year.

- Assessee declaring profits under presumptive taxation provisions under section 44AD or under section 44ADA can, however, pay the entire advance tax on or before 15th March of the financial year.
- From the total tax due, deduct the TDS, TCS and advance tax paid for the relevant assessment year to arrive at the tax payable.

Tax Payable = Total tax liability – TDS – TCS – Advance tax paid

Step 15 - Tax Payable/ Tax Refundable

After adjusting the advance tax, tax deducted and collected at source, the assessee would arrive at the amount of net tax payable or refundable. Such amount should be rounded off to the nearest multiple of ₹ 10. The assessee has to pay the amount of tax payable (called self-assessment tax) before or at the time of filing of the return. Similarly, if any refund is due, assessee will get the same after filing the return of income.

Note: Students are advised to read the above steps carefully and follow the given procedure while solving problems on computation of total income and tax liability.

4. TAX PLANNING IN RESPECT OF SALARY INCOME

The definition of salary is very wide and includes not only monetary salary but also benefits and perquisites in kind. Under the default tax regime under section 115BAC, the only deduction available under section 16 in respect of salary income is the standard deduction of upto ₹ 50,000. However, under the optional tax regime as per normal provisions of the Act, the deductions available under section 16 in respect of salary income are the standard deduction upto ₹ 50,000, deduction for entertainment allowance (only for government employees) and deduction for professional tax. The following are some of the aspects which can be considered for tax planning in regard to salary income -

- (1) Salary Structure:** An employer may plan the salary structure of employees keeping in view the deductions and exemptions available under the Act. If salary is paid as a consolidated amount, without any break-up, the amount of salary after providing standard deduction of ₹ 50,000, would become taxable without any further exemption and deduction. Therefore, the employer may structure the salary by including various allowances and perquisites in addition to basic salary, so as to enable the employee to optimise his tax liability.

For example, the employer may include allowances as part of the salary structure of the employees for which exemption can be claimed under Rule 2BB if the employee exercises the option to shift out of the default tax regime, eg. Children education allowance, hostel allowance, house rent allowance. The employer will get a deduction of all the above amounts paid while computing his profits and gains of business or profession.

Further, if the employee exercises the option to shift out of the default tax regime, the employer can give such allowances like special compensatory allowance, border area allowance or remote area allowance or difficult area allowance or disturbed area allowance depending upon the place of posting of the employee. Some exemptions are available in respect of these allowances. In this connection, Rule 2BB specifies the exempt allowances. The employer has to make a careful study and fix the salary structure in such a manner that it will include allowances which are exempt.

Standard deduction of ₹ 50,000 or the amount of gross salary, whichever is less, is allowed as deduction under section 16(ia) under both the tax regimes.

- (2) Employees' welfare schemes:** There are several employees' welfare schemes such as recognised provident fund, approved superannuation fund, gratuity fund. Payments received from such funds by the employees are totally exempt or exempt upto significant amounts.

For example, gratuity received by an employee covered under the Payment of Gratuity Act, 1972 is exempt upto ₹ 20 lakh. The provident fund received by the employee from recognised provident fund is exempt, subject to limits and conditions. The employer can institute such welfare schemes for the benefit of the employees. Such amount contributed by the employer towards the above funds is deductible. However, a note of caution is necessary here in view of the restrictive provisions of section 40A(9) which disallows any contribution made to any welfare funds except where such contributions are covered by section 36(1)(iv)/(iva)/(v) or as required by or under any other law for the time being in force. Further, the employer can contribute to recognised provident fund account of the employee upto 12% of salary, and the same would not be taxable in the hands of the employees. The amount or aggregate of amounts of any contribution made in a recognised provident fund, in NPS referred to in section 80CCD(1) and in an approved superannuation fund by the employer to the account of the assessee, to the extent it exceeds ₹7,50,000, would be taxable as perquisite in the hands of the employee. Likewise, if an employee's contribution to RPF exceeds ₹ 2,50,000 p.a. or ₹ 5,00,000 p.a. (on or after 1.4.2021), as the case may be, depending on whether the employer contributes to RPF, then, interest accrued on the amount exceeding the specified threshold would be taxable. The detailed provisions have been dealt with in Unit 1 of Chapter 3.

- (3) Insurance policies:** Any payment made by an employer on behalf of an employee to maintain a life policy will be treated as perquisite in the hands of the employee. Further, payments received from the employer in respect of key man insurance policies constitute income in the hands of the employees. However, any sum reimbursed by the employer in respect of any mediclaim premium paid by the employee to keep in force an insurance on his health or the health of any member of his family under any scheme approved by the Central Government or IRDA for the purpose of section 80D is not a perquisite in the hands of the employee.

Further, the payment of premium by the employer on behalf of the employee will not be treated as a perquisite in the case of accident insurance policies. This is due to the fact that the employer has a vested interest in the safety of the life of his employee who is engaged in such dangerous occupations.

In respect of accident insurance policies, the term perquisite applies to only such sums in regard to which there was an obligation on the part of the employer to pay and a vested right on the part of the employee. If the employee has no vested interest in the policy, it cannot be considered as a perquisite. In cases where an employer takes out accident insurance policy covering all workmen and staff members and pays insurance premium and whenever any worker/staff member meets with an accident and the amount of claim is received from the insurance company and the same is paid away by the employer to the said worker or his family members, the premium paid by the employer in respect of group accident policies could not be considered as a perquisite, under section 17 to be added in the salary income of any employee. The amount received from insurance company on accident or death by employee or his dependents will not also be in the nature of income but a capital receipt and therefore the same will not be taxable.

- (4) Dearness allowance, dearness pay:** The employer should ensure that dearness allowance and dearness pay should form part of "salary". This is because certain items like employer's contribution to the recognised provident fund, commuted pension etc. are calculated on the basis of salary.

Therefore, if dearness allowance, dearness pay etc. are included in salary, the above benefits will also increase leading to higher terminal benefits in the hands of the employee.

Also, for determining the exemption in respect of employer's contribution to provident fund, house rent allowance etc., dearness allowance forming part of pay for retirement benefits is included within the meaning of "Salary".

- (5) **Leave travel facility:** If the employee exercises the option to shift out of the default tax regime, the employer should extend leave travel facility. Under section 10(5) of the Income-tax Act, 1961, exemption is provided in the hands of the employee in respect of leave travel concession. Such exemption is available for the employee, spouse, children (upto a maximum of 2 children), dependent parents, dependent brothers and dependent sisters.

However, if the employee pays tax under the default tax regime under section 115BAC, exemption under section 10(5) would not be available.

- (6) **Rent free accommodation / House Rent Allowance (HRA):** An employee should analyse the tax incidence of a perquisite and an allowance, whenever he is given an option, in order to choose the one which is more beneficial to him. In the case of Rent Free Accommodation vs. HRA, it must be noted that the perquisite of rent free accommodation is taxed as per Rule 3(1) of the Income-tax Rules, 1962 and HRA is exempt to the extent mentioned in section 10(13A) read with Rule 2A. However, exemption for HRA would be available only if the employee exercises the option to shift out of the default tax regime. The employee should therefore work out his tax liability and net cash flow under both the options and then, decide on whether to receive HRA or choose a rent free accommodation.

- (7) **Uncommuted/Commuted pension:** Uncommuted pension is fully taxable. Therefore, the employees should get their pension commuted. Commuted pension is fully exempt from tax in the case of government employees and partly exempt from tax in the case of non-government employees.

- (8) **Provident Fund:** Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) would be exempt, where an employee who is a member of a recognised provident fund and who resigns after completing five years of continuous service.

However, if he resigns before completing five years of continuous service he should ensure that he joins an organisation which maintains a recognized provident fund. The accumulated balance of the provident fund with the previous employer will be exempt from tax provided the same is transferred to the new employer who also maintains a recognised provident fund.

It may be noted the exemption would not be available in respect of income by way of interest accrued during the previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by the employee exceeding ₹ 2,50,000/₹ 5,00,000, as the case may be, in any previous year in that fund, on or after 1st April, 2021 and computed in prescribed manner.

- (9) **Other retirement benefits:** Incidence of tax on retirement benefits like leave encashment, commuted pension, accumulated balance of unrecognized provident fund is lower if they are paid in the beginning of the financial year.

The employer and the employees may mutually plan in such a way that retirement takes place in the beginning of a financial year.

- (10) **Tax free perquisites:** The following are the perquisites which are exempt from tax–

- (i) Use of computers and laptop by employee;
- (ii) Medical facility in employer's own hospital or a public hospital or Government or other approved hospital;
- (iii) Educational benefit in a school run by employer provided value of benefit does not exceed ₹ 1,000 per month per child.

- (11) **Considerations for salary structuring:** The perquisite valuation rules prescribe the method for valuing the various perquisites provided by the employer to his employees on the basis of the cost of such perquisites to the employee. For a detailed study, students are advised to refer to the Unit 1 of Chapter 3 - 'Salaries'. Accordingly, the entire salary structuring for employees will have to be done after carefully weighing the pros and cons of paying salary in monetary terms or allowing the benefit of perquisites in kind to the employees.

It may be noted that a salaried person has an option to choose whether to pay tax under the default tax regime under section 115BAC or shift out of the default tax regime and pay tax under normal provisions of the Act in each previous year.

Under section 115BAC, in respect of his total income, he cannot not avail certain exemptions/deductions like Leave Travel Concession, HRA, exemption under section 10(14) (other than those allowable under this section), interest on housing loan on self-occupied property, deductions under Chapter VI-A [other than under section 80CCD(2), 80CCH(2) and section 80JJAA] etc. The exemptions allowable under section 10(14) under the default tax regime under section 115BAC include travelling allowance, daily allowance, conveyance allowance and transport allowance to blind/deaf and dumb/orthopedically handicapped employee.

Therefore, a salaried taxpayer not availing the above deductions/ exemptions or availing a lesser amount of such deductions/ exemptions can analyse his tax liability under default tax regime under section 115BAC vis-à-vis the regular provisions of the Income-tax Act, 1961 in each year. An employee intending to shift out of the default tax regime under section 115BAC has to intimate the same to the employer.

ILLUSTRATION 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2023-24. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2024 and his parents live in that house.

Other Information

- Contribution to PPF - ₹ 1,50,000
- Contribution to pension scheme referred to in section 80CCD - ₹ 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
- Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2024-25 in the most beneficial manner.

SOLUTION

Computation of total income and tax liability of Mr. A for A.Y. 2024-25 under default tax regime under section 115BAC

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 × 12]	6,00,000
Transport allowance [₹ 15,000 × 12]	1,80,000
HRA received [₹ 20,000 × 12]	2,40,000
Gross salary	10,20,000
Less: Standard deduction u/s 16(ia)	(50,000)
	9,70,000

Particulars	₹
Income from house property	
Interest on housing loan	-
Gross Total Income	9,70,000
Less: Deductions under Chapter VI- A	
Section 80C	
Contribution in PPF	-
Section 80CCD	
Contribution to pension scheme	-
Section 80D	
Mediclaim insurance premium for self and parents	-
Total Income	9,70,000
Tax liability	
Tax @5% on ₹ 3,00,000 [₹ 6,00,000 - ₹ 3,00,000] 15,000	
Tax @10% on ₹ 3,00,000 [₹ 9,00,000 - ₹ 6,00,000] 30,000	
Tax@15% on ₹ 70,000 [₹ 9,70,000 – ₹ 9,00,000] 10,500	55,500
Add: Health & Education cess @ 4%	2,220
Total Tax Liability	57,720

**Computation of total income and tax liability of Mr. A for A.Y. 2024-25
under normal provisions of the Act**

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 x 12]	6,00,000
Transport allowance [₹ 15,000 × 12]	1,80,000
HRA received	2,40,000
Less: Least of the following exempt u/s 10(13A)	2,40,000
HRA Received	2,40,000
Actual rent paid – 10% of salary [₹ 3,00,000 – ₹ 60,000]	2,40,000
50% of salary	3,00,000
Gross salary	7,80,000
Less: Standard deduction u/s 16(ia)	(50,000)

Particulars	₹
Income from house property	7,30,000
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]	(2,00,000)
Gross Total Income	5,30,000
Less: Deductions under Chapter VI-A	
Section 80C	
Contribution to PPF	1,50,000
Section 80CCD(1B)	
Own contribution to pension scheme	50,000
Section 80D	
Mediclaime insurance premium	
For self and spouse, restricted to	25,000
For father, who is a senior citizen, restricted to	50,000
	75,000
Total Income	2,55,000
Tax liability	
Tax @ 5% on ₹ 5,000 [₹ 2,55,000 - ₹ 2,50,000]	250
Less: Rebate u/s 87A	250
Total Tax Liability	-

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹ 7,15,000. His total income under the regular provisions of the Act is less than ₹ 5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

ILLUSTRATION 2

Mr. Kadam is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

SOLUTION**Computation of tax liability of Kadam under both the options**

Particulars	Option I - HRA (₹)	Option II - RFA (₹)
Basic Salary (₹ 40,000 × 12 Months)	4,80,000	4,80,000
Perquisite value of rent-free accommodation (15% of ₹ 4,80,000)	N.A.	72,000
House rent Allowance (₹ 7,000 × 12 Months) ₹ 84,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary ₹ 2,40,000		
- Actual HRA received ₹ 84,000		
- Rent paid less 10% of salary ₹ 24,000	₹ 24,000	
Gross Salary	5,40,000	5,52,000
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	4,90,000	5,02,000
Less: Deduction under Chapter VI-A	-	-
Total Income	4,90,000	5,02,000
Tax on total income	12,000	12,900
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,000, since total income does not exceed ₹ 5,00,000	12,000	Nil
	Nil	12,900
Add: Health and Education cess@4%	Nil	516
Tax liability	Nil	13,416
Tax liability (Rounded off)	Nil	13,420

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,64,000	4,80,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	Nil	(13,420)
Net Inflow	4,92,000	4,66,580

Since the net cash inflow under option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kadam to avail Option I, i.e., House Rent Allowance.

TEST YOUR KNOWLEDGE

1. Compute the tax liability of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the A.Y. 2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. Assume that Mr. Kashyap has exercised the option of shift out of the default tax regime under section 115BAC.
2. Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for the A.Y.2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.
3. Mr. Agarwal aged 40 years and a resident in India, has a total income of ₹ 4,50,00,000, 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 ₹ 3,30,00,000. 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.
4. 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. Assume that Mr. Kashyap has exercised the option of shift out of the default tax regime under section 115BAC.
5. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2023 and came to India for the first time on 16.03.2023. She left for USA on 19.9.2023. She returned to India again on 27.03.2024. While in India, she had purchased a show room in Mumbai on 30.04.2023, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2023. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2024. She had received the following cash gifts from her relatives and friends during 1.4.2023 to 31.3.2024:
 - From parents of husband ₹ 51,000
 - From married sister of husband ₹ 11,000
 - From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)
 - (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2024-25 if she opts out of the default tax regime under section 115BAC.
 - (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

6. Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2024 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
 1.4.2023 Opening W.D.V. - ₹ 5,00,000
 7.12.2023 Acquired (cost) by cheque - ₹ 2,00,000
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2023, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2023-24.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2024 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act.

7. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2024 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled	1,37,000	Audit	27,88,000	
Assistants		Taxation services	15,40,300	

Expenditure	(₹)	Income	(₹)	(₹)
Incentive to articled Assistants	13,000	Consultancy	12,70,000	55,98,300
Office rent	12,24,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Printing and stationery	12,22,000	Income from UTI (Gross)		7,600
Meeting, seminar and conference	31,600	Honorarium received from various institutions for valuation of answer papers		15,800
Purchase of car (for official use)	80,000	Rent received from residential flat let out		85,600
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2023 to 30-09-2024.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate.
- (ix) She has paid ₹ 70,000 towards advance tax during the P.Y. 2023-24.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2024-25 in a most beneficial manner.

8. Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2024 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:

- (a) Income from UTI ₹ 22,000 (Gross)
- (b) Interest on debentures ₹ 17,500 (Gross)
- (c) Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
- Opening stock ₹ 8,000.
- Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2024 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings of ₹ 10,000 debited in the books.
- (11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2024-25 under optional tax regime as per normal provisions of the Act.

9. Balamurugan furnishes the following information for the year ended 31-03-2024:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

10. Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2023-24.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2023) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000

Receipts	₹	Payments	₹
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2024 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife)(paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2023 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2023 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2024) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2023 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
(Air-conditioners, Photocopiers, etc.) Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2024-25 assuming that he has shifted out of the default tax regime under section 115BAC.

11. From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2024-25. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
 - House Insurance ₹ 860
 - He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
 - In the year 2020-21, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
 - Siddhant received a gift of ₹ 30,000 each from four friends.
 - He contributed ₹ 50,000 to Public Provident Fund.
12. Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2024:
- Basic Salary ₹ 15,000 p.m.
 - DA (50% of it is meant for retirement benefits) 0B ₹ 12,000 p.m.
 - Commission as a percentage of turnover of the Company 0.5 %
 - Turnover of the Company ₹ 50 lacs
 - Bonus ₹ 50,000
 - Gratuity ₹ 30,000
 - Own Contribution to R.P.F. ₹ 30,000
 - Employer's contribution to R.P.F. 20% of basic salary
 - Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
 - Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
 - Music System purchased on 01.04.2023 by the company for ₹ 85,000 and was given to him for personal use.
 - Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
 - Received interest of ₹ 5,860 on bank FDRs on 24.4.2023 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2023.

- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2024-25. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

13. From the following particulars furnished by Mr. X for the year ended 31.3.2024, you are requested to compute his total income and tax payable for the assessment year 2024-25, assuming that he opts out of the default tax regime under section 115BAC.
- Mr. X retired on 31.12.2023 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
 - 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.
 - On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
 - He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
 - After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2024.
 - Mr. X has deposited ₹ 1,00,000 in public provident fund.
14. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2024:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2024-25 and tax thereon assuming both exercised the option to shift out of the default tax regime.

15. Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2022-23, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2023-24 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2024	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2024-25 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2024-25. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

ANSWERS

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

(A) Income-tax (including surcharge) computed on total income of ₹ 51,75,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 51,75,000 @30%	₹ 12,52,500	
Total	₹ 13,65,000	
Add: Surcharge @ 10%	₹ 1,36,500	₹ 15,01,500
(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		₹ 1,75,000
(D) Income-tax computed on total income of ₹ 50 lakhs plus the excess of total income over ₹50 lakhs (B + C)		₹ 14,87,500
(E) Tax liability: lower of (A) and (D)		₹ 14,87,500
Add: Health and education cess @4%		₹ 59,500
Tax liability (including cess)		₹ 15,47,000
(F) Marginal Relief (A – D)		₹ 14,000

Alternative method -

(A) Income-tax (including surcharge) computed on total income of ₹51,75,000		
₹ 2,50,000 – ₹ 5,00,000@5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 51,75,000@30%	₹ 12,52,500	
Total	₹ 13,65,000	
Add: Surcharge@10%	₹ 1,36,500	₹ 15,01,500
(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)		₹ 1,89,000
(D) Marginal Relief (₹ 1,89,000 – ₹ 1,75,000, being the amount of income in excess of ₹ 50,00,000)		₹ 14,000
(E) Tax liability (A)-(D)		₹ 14,87,500
Add: Health and education cess @4%		₹ 59,500
Tax liability (including cess)		₹ 15,47,000

2. Computation of tax liability of Mr. Gupta for the A.Y.2024-25 under default tax regime

(A) Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000		
₹ 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 – ₹ 1,02,00,000 @30%	₹ 26,10,000	
Total	₹ 27,60,000	
Add: Surcharge @ 15%	₹ 4,14,000	₹ 31,74,000
(B) Income-tax computed on total income of ₹ 1crore (₹ 1,50,000 plus ₹ 25,50,000)		₹ 27,00,000
Add: Surcharge@10%		₹ 2,70,000
		₹ 29,70,000
(C) Total Income Less ₹ 1crore		₹ 2,00,000
(D) Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore (B +C)		₹ 31,70,000

(E) Tax liability: lower of (A) and (D)	₹ 31,70,000
Add: Health and education cess @4%	₹ 1,26,800
Tax liability (including cess)	₹ 32,96,800
(F) Marginal Relief (A – D)	₹ 4,000

Alternative method -

(A) Income-tax (including surcharge) computed on total income of ₹1,02,00,000	
₹ 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 – ₹ 1,02,00,000 @30%	₹ 26,10,000
Total	₹ 27,60,000
Add: Surcharge @ 15%	₹ 4,14,000
	₹ 31,74,000
(B) Income-tax computed on total income of ₹ 1 crore [(₹ 1,50,000 plus ₹25,50,000) plus surcharge@10%]	₹ 29,70,000
(C) Excess tax payable (A)-(B)	₹ 2,04,000
(D) Marginal Relief (₹ 2,04,000 – ₹ 2,00,000, being the amount of income in excess of ₹ 1,00,00,000)	₹ 4,000
(E) Tax liability (A)-(D)	₹ 31,70,000
Add: Health and education cess @4%	₹ 1,26,800
Tax liability (including cess)	₹ 32,96,800

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

Particulars	₹
Tax on total income of ₹ 4,50,00,000	
Tax@20% of ₹ 55,00,000	11,00,000
Tax@15% of ₹ 65,00,000	9,75,000
Tax on other income of ₹ 3,30,00,000	
₹ 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 – ₹ 3,30,00,000 @30%	94,50,000
	96,00,000

Particulars	₹
	1,16,75,000
Add: Surcharge @15% on ₹ 20,75,000	3,11,250
@25% on ₹ 96,00,000	24,00,000
	1,43,86,250
Add: Health and education cess @4%	5,75,450
Tax Liability	1,49,61,700

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 ₹ 4,50,00,000	
Tax@20% of ₹ 55,00,000	11,00,000
Tax@15% of ₹ 65,00,000	9,75,000
Tax on other income of ₹ 3,30,00,000	
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 3,30,00,000 @30%	96,00,000
	1,17,87,500
Add: Surcharge @15% on ₹ 20,75,000	3,11,250
@25% on ₹ 97,12,500	24,28,125
	1,45,26,875
Add: Health and education cess @4%	5,81,075
Tax Liability	1,51,07,950

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

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 – ₹ 5,00,000 @5%	10,000
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000
	32,30,000

Add: Surcharge @15%	52,30,000
	7,84,500
	60,14,500
Add: Health and education cess @4%	2,40,580
Tax Liability	62,55,080

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

- (i) He/she has been in India during the previous year for a total period of 182 days or more, or
- (ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

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

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e., P.Y.2023-24 and in the preceding four assessment years.

Her stay in India during the P.Y.2023-24 and in the preceding four years are as under:

P.Y. 2023-24

01.04.2023 to 19.09.2023 - 172 days

27.03.2024 to 31.03.2024 - 5 days

Total 177 days

Four preceding previous years

P.Y. 2022-23 [1.4.2022 to 31.3.2023] - 16 days

P.Y. 2021-22 [1.4.2021 to 31.3.2022] - Nil

P.Y.2020-21 [1.4.2020 to 31.3.2021] - Nil

P.Y.2019-20 [1.4.2019 to 31.3.2020] - Nil

Total 16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2024-25.

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

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2023 to 31.03.2024@ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		

Particulars	₹	₹
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	1,80,000
Income from other sources		
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.		
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2024-25 under normal provisions of the Act

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	884
Total tax liability(rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
 - If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
 - Since Miss Charlie is a non-resident for the A.Y. 2024-25, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.
- (b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2023-24 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2023-24.

6. Computation of total income of Dr. Niranjana for A.Y. 2024-25 under default tax regime

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 × 12)		90,000	
	Less: Standard deduction u/s 16(ia)		50,000	40,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V.(net of TDS) – taxable under the head "Income from other sources"	35,000		
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	75,000		
	on ₹ 2,00,000@7.5%	15,000	90,000	

	Particulars	₹	₹	₹
	(On equipments acquired during the year in December 2023, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
(i)	Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
(i)	Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV	Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
	Gross Total Income			5,72,900
	Less: Deductions under Chapter VIA:			
	(a) Section 80C [Not allowed under default tax regime]			Nil
	(b) Section 80D [Not allowed under default tax regime]			Nil
	(c) Section 80E [Not allowed under default tax regime]			Nil
	Total income			5,72,900

Computation of total income of Dr. Niranjana for A.Y. 2024-25 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime		5,72,900
Less: Items of expenditure allowable while computing business income under normal provisions of the Act 100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
Gross Total Income as per normal provisions of the Act		4,22,900
Less: Deductions under Chapter VI-A:		
(a) Section 80C - Tuition fee paid to university for full time education of her daughter	1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)	28,000	
(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
Total income		2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- (iii) Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

7. **Computation of total income and tax payable by Ms. Purvi for the A.Y. 2024-25 under default tax regime under section 115BAC**

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]	-	
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 6,00,000 @5%	15,000	
₹ 6,00,001 - ₹ 9,00,000 @10%	30,000	
₹ 9,00,001 - ₹ 10,11,940 @ 15%	16,791	61,791
Add: Health and Education cess @ 4%		2,472
Total tax liability		64,263
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(7,549)
Tax Payable/ (Refundable) (rounded off)		(7,550)

Computation of total income and tax payable under normal provisions of the Act

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:**(1) Income from House Property**

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2024 to 30.9.2024 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

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

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	

Particulars	₹	₹
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))
- Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

9. Computation of total income of Balamurugan for the year ended 31.03.2024

Particulars	₹	₹
Salaries	2,70,000	
Less: Loss from house property (Cannot be set off against income under any other head)	-	2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

Computation of tax liability for A.Y.2024-25

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such

instalment is due, the entire tax should be paid by 31st March, 2024. The first proviso to section 234C(1) would be attracted only in case of nondeduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹10,000, advance tax liability is not attracted.

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

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b) Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 × 7.5% × 4/5	25,500		
Books being annual publications@40%	8,000		

Particulars	₹	₹	₹
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% × 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			23,30,500

11. Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2024-25

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		50,000
		4,23,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	

Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,54,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,54,890

Particulars	₹
Tax on total income [5% of ₹ 2,54,890 (₹ 5,54,890 - ₹ 3,00,000)]	12,745
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	12,745
Tax liability	Nil

**Computation of total income and tax liability of Siddhant
for the A.Y. 2024-25 under normal provisions of the Act**

Particulars	₹	₹
Gross total income (as per default scheme)		5,54,890
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant		1,500
Gross total income (under the normal provisions of the Act)		5,53,390
Less: Deductions under Chapter VI-A		
Under section 80C [Contribution to PPF]		50,000
Total Income		5,03,390

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2024-25.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2024;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

12. Computation of Total Income of Mr. Ramdin for the A.Y.2024-25 under normal provisions of the Act

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 × 12)		1,80,000
Dearness Allowance (₹ 12,000 × 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000

Particulars	₹	₹
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		

Particulars	₹	₹
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts 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. In such a case the Income from Salaries would be ₹ 4,00,760.
4. **Deduction under section 80G is computed as under:**

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income – Deductions under section 80C and 80D
 $= \text{₹ } 5,99,160 - \text{₹ } 1,47,870 = \text{₹ } 4,51,290$

13. Computation of total income of Mr. X for A.Y.2024-25

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 × 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 × 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	

Particulars	₹	₹
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹2,50,000)		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received ($₹ 6,000 \times 9$)	54,000
(ii) Rent paid in excess of 10% of salary ($₹ 6,500 - ₹ 2,500 \times 9$ months)	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [$(₹ 25,000 \times 15/26) \times 26$ years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary ($\text{₹ } 24,500 \times 10$)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	$= 30 \text{ days/year} \times 26 = 780 \text{ days}$
Less: Leave taken /availed by Mr. X during the period of his service	$= 15 \text{ days/year} \times 26 = 390 \text{ days}$
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	$= 390 \times \text{₹ } 24,500/30 = \text{₹ } 3,18,500$

14. **Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2024-25**

S. No.	Particulars	Mrs. Rosy (Nonresident)	Mrs. Mary (ROR)
		₹	₹
(I)	Salaries		
	Pension recd from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 16(ia) ₹ 50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction u/s 24(a)@30%	18,000	9,000
		42,000	21,000

S. No.	Particulars	Mrs. Rosy (Nonresident)	Mrs. Mary (ROR)
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction u/s 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction u/s 80D – Mediclaim premium paid		25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2024-25		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2024-25		
	Tax on STCG @15% of ₹ 1,00,000 [i.e., ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	Total tax liability	23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and shortterm capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹2,50,000 – ₹ 1,50,000) against short-term capital gains.
- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2024-25.

15. **Computation of total income and tax liability of Mr. X for A.Y.2024-25 (under default tax regime under section 115BAC)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		38,55,000
Add: Surcharge@15%		5,78,250
		44,33,250
Add: Health and Education cess@4%		1,77,330
Total tax liability		46,10,580

Notes:

- (1) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is not liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

**Computation of total income and tax liability of Mr. X for A.Y.2024-25
(under the regular provisions of the Income-tax Act, 1961)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		48,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹ 48,00,000		12,52,500
Add: Health and Education cess@4%		50,100
Total tax liability		13,02,600

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		48,00,000
Add: Deduction under section 10AA		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs ⁵	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2024-25**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Incometax Act, 1961	13,02,600
	17,61,850

Notes:

- (1) Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$\begin{aligned} & ₹ 40,00,000 \times \frac{₹ 80,00,000}{₹ 1,00,00,000} \\ &= ₹ 32,00,000 \end{aligned}$$

- (2) Deduction@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 agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2022-23 and capitalized in the books of account on 1.4.2023, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

