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TAXATION

SECTION A : DIRECT TAX



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ABC Analysis



Very Important,
Read on priority



Moderately
Important



Less critical but still
essential

Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.

CHAPTER 1: BASIC CONCEPTS

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CONCEPTS OF THIS CHAPTER - Understand tax and its types - Differentiate between direct and indirect taxes - Recognize components of income-tax law - Learn income computation for tax levy - Understand key terms in Income-tax Act, 1961 - Grasp agricultural income and its scope - Identify agricultural vs non-agricultural income - Recognize previous and assessment years - Examine income assessment in the previous year - Apply tax rates under default tax regime (section 115BAC) - Apply tax rates for optional tax regime under normal provisions	 LDR Questions Q 6 Q 8
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Questions & Answers

Question 6

 LDR

Compute the tax liability of Ms. Kajal for A.Y. 2025-26, a female resident aged 40 years, where her total income is ₹2,00,50,000 comprising of business income. Ms. Kajal opts for the provisions of section 115BAC. (MTP 3 Marks, Apr'22) (Same concept different figures SM)

Answer 6

		₹	₹
(A)	Tax payable including surcharge on total income of ₹ 2,00,50,000		
	Up to ₹ 3,00,000 Nil	Nil	
	₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
	₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
	₹ 10,00,001 – ₹ 12,00,000 [₹2,00,000 @ 15%] 30,000	30,000	
	₹ 12,00,001 – ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000	60,000	
	Above ₹ 15,00,000 @30%	55,65,000	
		57,05,000	
	Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore)	14,26,250	71,31,250
(B)	Tax payable on total income of ₹ 2 crore [(₹ 20,000 plus ₹ 30,000 plus ₹ 30,000 plus ₹ 60,000 plus ₹ 55,50,000) plus surcharge @15%]		65,43,500

(C)	Excess tax payable (A)-(B)		5,87,750
(D)	Marginal Relief (₹ 5,87,750 – ₹ 50,000, being the amount of income in excess of ₹ 2,00,00,000)		5,37,750
(E)	Tax payable before cess (A – D)		65,93,500
	Add: Health and education cess @4%		2,63,740
	Tax payable		68,57,240

Computation of tax liability of Ms. Kajal under section 115BAC for the A.Y.2025-26

Alternative Presentation

Computation of tax liability of Ms. Kajal for the A.Y.2025-26

		₹	₹
(A)	Tax payable including surcharge on total income of ₹ 2,00,50,000		
	Up to ₹ 3,00,000 Nil	Nil	
	₹ ₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
	₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
	₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000	30,000	
	₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
	Above ₹ 15,00,000 @30%	<u>55,65,000</u>	
		57,05,000	
	Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore)	<u>14,26,250</u>	71,31,250
(B)	Tax payable on total income of ₹ 2 crore [(₹ 15,000 plus ₹ 30,000 plus ₹ 45,000 plus ₹ 60,000 plus ₹ 55,50,000) plus surcharge @15%]		65,43,500
(C)	Total income less ₹ 2 crore		50,000
(D)	Tax payable on total income of ₹ 2 crore plus excess of total income over ₹ 2 crore (B + C)		65,93,500
(E)	Tax payable: Lower of A and D		65,93,500
	Add: Health and education cess @4%		2,63,740
	Tax payable		68,57,240
(F)	Marginal Relief (A -D)		5,37,750



Mr. Sharma aged 62 years and a resident in India, has a total income of ₹2,30,00,000, comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital gain taxable under section 111A of ₹64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. (SM)

Answer 8

**Computation of tax liability of Mr. Sharma for the A.Y.2025-26
under default tax regime**

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@12.5% of ₹ 52,00,000		6,50,000
Tax@20% of ₹ 64,00,000		12,80,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	20,000	
₹ 7,00,000 – ₹ 10,00,000 @10%	30,000	
₹ 10,00,000 – ₹ 12,00,000 @15%	30,000	
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 – ₹ 1,14,00,000 @30%	29,70,000	31,10,000
		50,40,000
Add: Surcharge @15%		7,56,000
		57,96,000
Add: Health and education cess @4%		2,31,840
Tax Liability		60,27,840

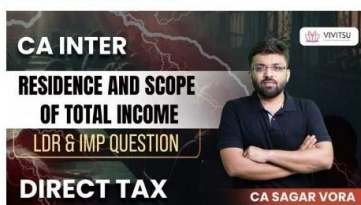
Computation of tax liability of Mr. Sharma for the A.Y.2025-26 under normal provisions of the Act

Particulars		₹
Tax on total income of ₹ 2,30,00,000		
Tax@12.5% of ₹ 52,00,000		6,50,000
Tax@20% of ₹ 64,00,000		12,80,000
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
		51,60,000
Add: Surcharge @15%		7,74,000
		59,34,000
Add: Health and education cess @4%		2,37,360
Tax Liability		61,71,360

CHAPTER 2: RESIDENCE AND SCOPE OF TOTAL INCOME

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CONCEPTS OF THIS CHAPTER

- Understand provisions for determining residential status
- Apply provisions to determine residential status of persons
- Examine scope of income based on residential status
- Apply provisions to determine total income based on residential status



LDR Questions

Q 16

Q 18

Q 22

Question & Answers

Question 16



Mr. Sushant furnished the following particulars of his income for the year ended 31.3.2025.

	Particulars	₹
(a)	Income earned from business in Dubai which is controlled from Delhi (₹ 65,000 is received in India)	80,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000
(c)	Dividend from an Oil Company, a Dubai based company, received in Dubai	15,000
(d)	Rent from property in Dubai, deposited in a bank in Dubai and later on, remitted to India through approved banking channels	70,000
(e)	Dividend from Sunset Ltd., an Indian company, received in Dubai	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000
(g)	Agricultural income from a land in Bhutan, received in India	25,000

Compute his gross total income for the assessment year 2025-26, if he is:

- Resident and ordinarily resident;
- Resident but not ordinarily resident;
- Non-resident (MTP 7 Marks, Mar'22)

Answer 16

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

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in Dubai which is controlled from Delhi, out of which ₹ 65,000 is received in India	80,000	80,000	65,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000	24,000	24,000
(c)	Dividend received in Dubai from an Oil company, a Dubai based company	15,000	-	-
(d)	Rent from property in Dubai, deposited in a bank in Dubai	49,000	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	78,000	78,000	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000	-	-
(g)	Agricultural income from a land in Bhutan, received in India (Taxable)	25,000	25,000	25,000
Gross Total Income		3,26,000	2,07,000	1,92,000

Notes:

- (a) As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:
- Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
- Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India. Accordingly, the entire income earned from business in Dubai which is controlled from Delhi would be chargeable to tax in the hands of Mr. Sushant if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.
- (b) Agricultural income from a land in Bhutan, received in India is taxable in all cases.
- (c) Pension for services rendered in India but received in Dubai and dividend from Sunset Ltd., an Indian company would be taxable in all cases, since it has accrued or arisen in India.
- (d) Dividend from a Dubai based company, received in Dubai and interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company, would be taxable in the hands of Mr. Sushant, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.
- (e) Likewise, rental income from property in Dubai would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

	₹
Rent received (assumed as gross annual value)	70,000
Less: Deduction under section 24 (30% of ₹ 70,000)	<u>21,000</u>
Income from house property	<u>49,000</u>

Question 18
 **LDR**

Mrs. Sarika, an Indian citizen, is in employment with an overseas company located in UAE. She is not liable to tax in UAE. During the P.Y. 2024-25, she comes to India for 121 days. She was in India for 50 days, 100 days, 76 days and 145 days in the financial years 2020-21, 2021-22, 2022-23 & 2023-24 respectively. Her annual income for the previous year 2024-25 is as follows:

	Particulars	Amount (₹)
(i)	Salary accrued or arisen in UAE	15,00,000
(ii)	Income accrued and arisen in India	2,00,000
(iii)	Income deemed to be accrued and arisen in India	7,00,000
(iv)	Income arising and received in UAE, from a business set up in India	5,00,000
(v)	Life Insurance premium paid by cheque in India	1,00,000

Mrs. Sarika has opted out of the default tax regime under section 115BAC. From the information given above,

- You are required to determine the residential status and total income of Mrs. Sarika for the A.Y. 2025-26.
- What would be your answer if income arising and received in UAE, from a business set up in India is ₹10,00,000 instead of ₹5,00,000?
- In continuation to point (ii), what would be your answer if Mrs. Sarika comes to India in P.Y. 2023-24 for 45 days instead of 145 days? (RTP Sep'24) (Same concepts different figures PYP 4 Marks May'22)

Answer 18

- Mrs. Sarika is an Indian citizen and in employment in UAE. She comes on a visit to India during the P.Y. 2024-25 for 121 days. Her stay in India in the four immediately preceding previous years i.e., in P.Y. 2020-21 to P.Y. 2023-24 is 371 days (50 + 100 + 76 + 145 days).

Her total income, other than the income from foreign sources, during the P.Y. 2024-25 would be –

Particulars	Amount (₹)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (to be included since the business is controlled from India, even though such income accrues and is received outside India)	5,00,000
	14,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	1,00,000
Total income (excluding income from foreign sources)	13,00,000

Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources not exceeding ₹ 15 lakhs and visiting India during the P.Y. 2024-25, would be a resident in India for the A.Y. 2025-26, if she has stayed in India for 182 days or more during the P.Y. 2024-25.

Since she has stayed only for 121 days in India during the P.Y. 2024-25, she is a non-resident for the A.Y. 2025-26. Her total income during the P.Y. 2024-25 would be –

Particulars	Amount (₹)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (not taxable)	-
Gross Total Income	9,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	1,00,000
Total income	8,00,000

- If Income arising and received in UAE, from a business set up in India is ₹ 10,00,000 instead of ₹ 5,00,000, her total income, other than the income from foreign sources, during the P.Y. 2024-25 would have been ₹18 lakhs.

In such a case, Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources exceeding ₹ 15 lakhs and visiting India during the P.Y. 2024-25, can be a resident in India for A.Y. 2025-26, if she has been in India for 120 days or more but less than 182 days in the P.Y. 2024-25 and during the 4

years immediately preceding the P.Y. 2024-25 for a total period of 365 days or more.

Since she has stayed in India for 121 days during the P.Y. 2024-25 and her stay in India in the four immediately preceding previous years is 371 days, she would be a resident in India for A.Y. 2025-26 and by default, she would be treated as resident but not ordinarily resident.

In such case, income arising and received in UAE, from a business set up in India would also form part of total income of Mrs. Sarika and her total income during the P.Y. 2024-25 would be ₹ 18 lakhs [₹ 8,00,000 (computed in (i) above) plus ₹10,00,000].

- (iii) If Mrs. Sarika comes to India in P.Y. 2023-24 for 45 days instead of 145 days, she would not be a resident in India for the P.Y. 2024-25 as per section 6(1) since her stay in India in the four immediately preceding previous years would be less than 365 days.

However, since she is an Indian citizen having total income (excluding income from foreign sources) of ₹ 18 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and not liable to tax in UAE, she would be a deemed resident in India for the P.Y. 2024-25 by virtue of section 6(1A).

A deemed resident is always a resident but not ordinarily resident. In such case, her total income during the P.Y. 2024-25 would be same i.e., ₹18 lakhs as computed in point (ii) above.

EXAM INSIGHTS: This question requires the examinees to determine the residential status of Mrs. Shruti for the P.Y. 2024-25. In order to determine the residential status of an Individual who comes on a visit to India and stay during the previous year for 120 days or more but less than 182 days, computation of total income (excluding income from foreign sources) is essential. Only if, the income so computed exceeds ₹ 15 lakhs, this condition would be attracted for determination of residential status. However, some examinees had determined the residential status directly without first computing total income (excluding income from foreign sources), though the question specifically requires to support the answer with computation.



Mrs. Sia D'Souza is an American, got married to Mr. Kabir of India in New York on 14.02.2024 and came to India for the first time on 18.03.2024. She left for Australia on 16.08.2024. She returned to India again on 23.03.2025. On 01.04.2024, she had purchased a Flat in Mumbai, which was let out to Mr. Sameer on a rent of ₹ 26,000 p.m. from 1.6.2024. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 2,05,000 upto 31.03.2025.

While in India, during the previous year 2024-25, she had received a gold chain from her in laws worth ₹ 1,50,000 and ₹ 1,65,000 from very close friends of her husband.

From the information given above, you are required to determine her the residential status and compute her total income chargeable to tax for the Assessment Year 2025-26 assuming she has shifted out of the default tax regime under section 115BAC. (MTP 6 Marks Apr'24 & Mar'23, MTP 7 Marks Oct'21 & Oct'19)

Answer 22

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

- He has been in India during the previous year for a total period of 182 days or more, or
- He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Mrs. Sia D'Souza, an American, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e. P.Y.2024-25 and in the preceding four assessment years.

Her stay in India during the previous year 2024-25 and in the preceding four years are as under:

P.Y. 2024-25

01.04.2024 to 16.08.2024	-	138 days
23.03.2025 to 31.03.2025	-	9 days
		Total <u>147 days</u>

Four preceding previous years

P.Y.2023-24 [1.4.2023 to 31.3.2024]	-	14 days
P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
Total		<u>14 days</u>

The total stay of Mrs. Sia D'Souza during the previous year in India was less than 182 days and during the four years preceding this year was for 14 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.

Computation of total income of Mrs. Sia D'Souza for the A.Y. 2025-26

Particulars		₹	₹
Income from house property			
Flat located in Mumbai let-out from 01.06.2024 to 31.03.2025 @ ₹ 26,000 p.m. Gross Annual Value $[26,000 \times 10]^1$		2,60,000	
Less: Municipal taxes		<u>Nil</u>	
Net Annual Value (NAV)		2,60,000	
Less: Deduction under section 24			
30% of NAV	78,000		
Interest on loan [fully allowable as deduction, since property is let-out]	<u>2,05,000</u>	<u>2,83,000</u>	(23,000)
Income from other sources			
- Gold chain worth ₹ 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.		Nil	
- Gift received from friends of her husband aggregating to ₹ 1,65,000 is taxable under			

section 56(2)(x) since the amount of cash gifts of ₹ 1,65,000 exceeds ₹ 50,000.	<u>1,65,000</u>	<u>1,65,000</u>
Gross Total income/ Total Income		<u>1,42,000</u>



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CHAPTER 3.1: SALARIES

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CONCEPTS OF THIS CHAPTER

- Determine when salary income is chargeable to tax
- Understand salary, profits in lieu, allowances, perquisites, retirement benefits
- Identify exempt allowances and tax-free perquisites under both tax regimes (section 115BAC and normal provisions)
- Determine taxable portion of retirement benefits, allowances, and salary-related benefits
- Calculate perquisite value chargeable to tax under "Salaries"
- Identify admissible salary deductions under default and optional tax regimes
- Compute income under the head "Salaries" for both tax regimes



LDR Questions
Q 11
Q 12

Question & Answers

Question 11

LDR

Mr. B is a sales manager in PQR Ltd. During F.Y. 2024-25 he has received the following towards his salary and allowances/perquisites;

- Basic pay ₹ 85,000 per month up to December 2024 and thereafter an increase of ₹ 2,000 per month.
- Dearness allowance 40% of basic pay forming part of retirement benefits.
- Bonus 1-month basic pay based on the salary drawn during January month every year.
- He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- Travelling allowance of ₹ 5,000 per month towards on duty tours.
- Research and training allowance ₹ 3,000 per month.
- Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
- Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2024.
- Reimbursement of medical expenses on his treatment in private hospital ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

- Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.
- What will be the income under the head "Salaries", if he opts for the provisions under section 115BAC?

Answer 11

- I. **Computation of income chargeable to tax under the head "Salaries" for A.Y.2025-26, if Mr. B does not opt for the provisions of section 115BAC**

Particulars	₹	₹
Basic Pay [$\text{₹ } 85,000 \times 9 + \text{₹ } 87,000 \times 3$]		10,26,000
Dearness Allowance [$\text{₹ } 10,26,000 \times 40\%$]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours ¹]		-
Research and training allowance [$\text{₹ } 3,000 \times 12$]		36,000
Medical allowance [$\text{₹ } 1500 \times 12$]		18,000
Children Education allowance [$\text{₹ } 600 \times 12 \times 3$]	21,600	
Less: Exempt [$\text{₹ } 100 \times 12 \times 2$]	<u>2,400</u>	<u>19,200</u>
Salary (for the purpose of valuation of Rent-free accommodation)		15,96,600
Value of Rent-free accommodation [10% of ₹ 15,96,600]	1,59,660	
Add: Value of furniture [$\text{₹ } 2,00,000 \times 10\%$ p.a. for 6 months]	10,000	1,69,660
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000
Health insurance premium paid by PQR Ltd. [Exempt]		-
Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 ($\text{₹ } 10,26,000 + \text{₹ } 4,10,400$)		28,728
Gross Salary		18,09,988
Less: Deductions under section 16		
Standard deduction		50,000
Income chargeable under the head "Salaries"		17,59,988

- II. **Computation of income chargeable to tax under the head "Salaries" for A.Y.2025-26, if Mr. B opts for the provisions of section 115BAC**

Income chargeable under the head "Salaries"		17,59,988
Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2400
		17,62,388
Less: Value of rent-free accommodation (As per regular provisions)		1,69,660
		15,92,728
Add: Value of Rent-free accommodation [10% of ₹ 15,99,000 ($\text{₹ } 15,96,600$ (as calculated above) + ₹ 2,400)]	1,59,900	
Add: Value of furniture [$\text{₹ } 2,00,000 \times 10\%$ p.a. for 6 months]	10,000	1,69,900
Less: Standard Deduction is Rs 75,000 under 115BAC. Hence excess Rs 25,000 ($\text{Rs } 75,000 - \text{Rs } 50,000$) will be reduced		(25,000)
Income chargeable under the head "Salaries"		17,37,628

EXAM INSIGHTS: Examinees failed to provide for standard deduction of ₹ 50,000 while computing income under the head "Salaries" though Mr. B has not opted for section 115BAC.



(Includes concepts of Income of Other Person included in Assesses Total Income)

Mr. Rohan, an employee of ABC Ltd. is posted at Mumbai. He was appointed on 1st March 2024 on the scale of ₹ 60,000 - ₹ 2,000 - ₹ 80,000. Details of his other income for the previous year 2024-25 areas follows:

- Dearness allowance: 40% of basic salary (60% forms part of pay for retirement benefits)
- Telephone allowance @₹500 per month
- Both Mr. Rohan and the company contribute 15% of basic salary to RPF. Interest accrued in this Fund@12% p.a. amounted to ₹25,800.
- The company has provided him with the rent free unfurnished accommodation in Mumbai owned by the company.
- The salary of ₹ 2,500 p.m. of domestic servant is reimbursed by the company.
- Rohan has used his own motor car of 1.8 ltr engine capacity for both official and personal purposes. The running and maintenance costs of ₹50,000 are borne by the company.
- Professional tax paid ₹ 2,500 of which ₹ 1,500 was paid by the employer.

During the year 2023-24, Mr. Rohan gifted a sum of ₹ 6,00,000 to Mrs. Rohan. She started a business by introducing such amount as her capital. On 1st April, 2024, her total investment in business was ₹ 10,00,000. During the previous year 2024-25, she has suffered a loss of ₹1,20,000 from such business Determine the gross total income of Mr. Rohan for the A.Y. 2025-26 under normal provisions of the Act. (RTP Jan'25)

Answer 12

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

	Particulars	Amount(₹)	Amount(₹)
I	Salaries		
	Basic Salary (₹ 60,000 x 11 + ₹62,000 x 1)		7,22,000
	Dearness Allowance (40% of ₹7,22,000)		2,88,800
	Telephone allowance (₹500 x 12)		6,000
	Employer's contribution to RPF (15% of ₹ 7,22,000)	1,08,300	
	Less: Exempt [12% of salary i.e., 12% x 8,95,280 (7,22,000 + 60% of 2,88,800)]	1,07,434	866
	Interest accrued in the RPF@12%	25,800	
	Less: Exempt@9.5% p.a.	20,425	5,375
	Value of Rent Free accommodation		
	From April 2024 to March 2025		
	[10% of ₹9,01,280 i.e., ₹7,22,000 (60,000 x 11 + 62,000 x 1) + 1,73,280 (₹ 7,22,000 x 40% x 60%) + ₹6,000 (₹500 x 12)]		90,128
	Reimbursement of salary of domesticservant [₹2,500 x 12]		30,000
	Perquisite value of motor car		
	Running and maintenance costs incurred by employer	50,000	
	Less: Specified as per Rule 3 [₹2,400 x 12]	28,800	21,200
	Professional tax paid by employer		1,500
	Gross Salary		11,65,869
II	Less: Deduction under section 16		
	Standard deduction	50,000	
	Professional tax paid	2,500	52,500
	Taxable Salary		11,13,369
	Profit and gains from business or profession		
	Where the amount of Mr. Rohan (₹ 6 lakh, in this case) is invested by Mrs. Rohan in a business as her capital, proportionate share of profit or loss, as the case may be, computing taking into account the value of the investment as on 1.4.2024 to the total investment in the business (₹ 10 lakhs) would be included in the income of Mr. Rohan [loss of ₹1,20,000 x 6/10][Business loss of ₹ 72,000 cannot be set off against salary income. It has to be carried forward to next year]	(72,000)	-
	Gross Total Income		11,13,369

CHAPTER 3.2: INCOME FROM HOUSE PROPERTY

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CONCEPTS OF THIS CHAPTER

- Understand when income is chargeable under "Income from house property"
- Learn meaning and tax treatment of composite rent
- Determine annual value for different house property categories
- Compute income from house property for various categories
- Apply tax treatment on recovery of unrealized rent and arrears
- Compute income from co-owned property



LDR Questions
Q 3
Q 10

Question & Answers

Question 3



Mr. Sailesh constructed a house in P.Y. 2018-19 with 3 independent units. During the P.Y. 2024-25, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2025 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2025 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000

Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000

Municipal taxes - ₹ 30,000 paid by Mr. Sailesh

Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000,

Ground rent - ₹ 6,000 and

Fire insurance premium paid - ₹ 60,000.

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure). Determine the taxable income of Mr. Sailesh for the assessment year 2025-26 if he opts to be taxed under section 115BAC. (MTP 7 Marks, Apr'22, MTP 5 Marks Dec'24) (Same concepts different figures PYP 6 Marks, Jul'21)

Answer 3

Computation of taxable income of Mr. Sailesh for A.Y. 2025-26

Particulars		Amount	Amount
Income from house property			
<u>Unit - 1 [50% of floor area - Let out]</u>			
Gross Annual Value, higher of			
- Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]			
- Actual rent ₹ 1,80,000 i.e., [₹ 20,000 x 10] less unrealized rent of January, 2025 ₹ 20,000			
Gross Annual Value		1,80,000	
Less: Municipal taxes [50% of ₹30,000]		<u>15,000</u>	
Net Annual Value		1,65,000	
Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		49,500	
(b) Interest on loan [50% of ₹ 90,000]		<u>45,000</u>	70,500
<u>Unit – 3 [25% of floor area – Self occupied]</u>			
Net Annual Value		-	
Less: Interest on loan [Not allowed as Mr. Sailesh is opting for section 115BAC.]		<u>-</u>	<u>-</u>
Income from house property			70,500
Profits and gains from business or profession			
Business Income [without deducting expenditure of Unit - 2 25% floor area used for business purposes]		2,40,000	
Less: Expenditure in respect of Unit -2			
- Municipal taxes [25% of ₹ 30,000]	7,500		
- Repairs [25% of ₹ 7,000]	1,750		
- Interest on loan [25% of ₹ 90,000]	22,500		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	<u>15,000</u>	<u>48,250</u>	<u>1,91,750</u>
Taxable Income			<u>2,62,250</u>

Note: Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being higher of unexpected rent of ₹ 1,39,000 and actual rent of ₹ 2,00,000. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 15,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,65,000

EXAM INSIGHTS: The computation of business income in respect of Unit -2 used for business purpose was wrongly made by many examinees. The treatment of expenses incurred in respect of this unit was wrongly done.

Mr. Raj, a resident in India, owns two house property, one in Delhi and another in Kanpur. The property in Kanpur is self-occupied by Mr. Raj, however, the property in Delhi is let out throughout the year. The particulars of the Delhi house for the P.Y. 2024-25 are as under:

Standard rent	₹ 1,72,000 p.a.
Municipal valuation	₹ 2,05,000 p.a.
Fair rent	₹ 1,95,000 p. a
Rent received	15,000 p.m.
Municipal tax (Paid by Mr. Raj)	5% of municipal valuation

Municipal tax paid by Mr. Raj on 10.6.2024 for Kanpur house is ₹ 3,500. Mr. Raj had taken a loan from SBI of ₹ 35 lakhs@12 p.a. in April, 2021 for purchase of Delhi house. The stamp duty value of this house was ₹ 40 lakhs. Mr. Raj purchased a plot in Kanpur in May, 2022 and the construction of the Kanpur house was began in June, 2022 and was completed on December, 2023. Mr. Raj took a loan of ₹ 25,00,000@10% on 1-7-2022 for the construction of this house. No repayment has been done so far for both the loans.

During the P.Y. 2024-25, Mr. Raj has earned a salary income of ₹ 18,00,000. Compute total income of Mr. Raj for the A.Y. 2025-26 under both tax regimes. (RTP May'24)

Answer 10

Computation of total income of Mr. Raj for A.Y. 2025-26 under default tax regime

Particulars		₹	₹
I. Salaries			
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	75,000	17,25,000
II. Income from house property			
	<u>Rented property at Delhi</u>		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of ₹ 2,05,000 and Fair Rent of ₹ 1,95,000, but restricted to Standard Rent of ₹ 1,72,000	1,72,000	
	Step II - Actual Rent		
	Actual rent received or receivable (₹ 15,000 x 12)	1,80,000	
	Step III – Computation of Gross Annual Value		
	GAV is the higher of Expected Rent and Actual rent received/ receivable	1,80,000	
	Gross Annual Value	1,80,000	
	Less: Municipal taxes (5% of ₹ 2,05,000)	10,250	
	Net Annual value	1,69,750	
	Less: Deductions under section 24 -		
	(i) 30% of net annual value	50,925	
	(ii) Interest on loan (₹ 35 lakhs x 12%)	4,20,000	(3,01,175)
	<u>Self-occupied property at Kanpur</u>		
	Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
	Less: Deduction under section 24 -		
	Interest on borrowed capital [Not allowable under section 115BAC]	Nil	Nil
	Income from house property		(3,01,175)
	Gross Total Income [Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC]		17,25,000
	Less: Deduction under section 80EEA		Nil
	Total Income		17,25,000

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

Particulars		₹	₹
I. Salaries			

	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	50,000	17,50,000
II.	Income from house property		
	Rented property at Delhi		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of ₹ 2,05,000 and Fair Rent of ₹ 1,95,000, but restricted to Standard Rent of ₹ 1,72,000	1,72,000	
	Step II - Actual Rent		
	Actual rent received or receivable (₹ 15,000 x 12)	1,80,000	
	Step III – Computation of Gross Annual Value		
	GAV is the higher of Expected Rent and Actual rent received/ receivable	1,80,000	
	Gross Annual Value	1,80,000	
	Less: Municipal taxes (5% of ₹ 2,05,000)	10,250	
	Net Annual value	1,69,750	
	Less: Deductions under section 24 -		
	30% of net annual value	50,925	
	Interest on loan (₹ 35 lakhs x 12%) [₹ 4,20,000 - ₹ 1,50,000, being the interest for which deduction under section 80EEA is claimed]	2,70,000	(1,51,175)
	Self-occupied property at Kanpur		
	Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
	Less: Deduction under section 24 -		
	Interest on borrowed capital [₹ 2,50,000 (₹ 25,00,000 x 10%) plus pre construction interest of ₹ 37,500, being 1/5 th of (₹ 25,00,000 x 10% x 9/12)] [₹ 2,87,500, restricted to ₹ 2,00,000]	2,00,000	(2,00,000)
	Income from house property		(3,51,175)
	Gross Total Income [As per section 71(3A), loss from house property can be set off against income under any other head to the extent of ₹ 2,00,000 only. Balance loss of ₹ 1,51,175 to be carried forward to A.Y. 2026-27]		15,50,000
	Less: Deduction under section 80EEA [Since the loan is sanctioned between 1.4.2019 and 31.3.2022 and the stamp duty value of the property does not exceed ₹ 45 lakhs, deduction of ₹ 1,50,000 is allowed in respect of interest on loan for Delhi house]		1,50,000
	Total Income		14,00,000

CHAPTER 3.3: PROFITS AND GAINS OF BUSINESS OR PROFESSION

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CONCEPTS OF THIS CHAPTER

- Meaning of "business" and "profession" for tax purposes
- Scope of income chargeable to tax under these heads
- Speculative transactions and tax treatment of speculative business losses
- Admissible deductions and conditions for eligibility
- Limits on admissible deductions
- Deductions under section 115BAC (default tax regime)
- Deductions under normal provisions of the Income Tax Act
- Non-admissible expenditures/payments
- Deductions allowed only on actual payment
- Taxable receipts under the business head
- Assesses required to maintain books and get audits
- Presumptive tax provisions for eligible business/profession
- Computing business income with applicable deductions
- Income computation in mixed agricultural and business cases



LDR Questions

Q 13

Q 15

Q 17

Questions & Answers

Question 13



Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2024	30.00
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10.00
New machinery purchased on 1-12-2024	8.00
Computer purchased on 3-1-2025	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.

- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.
 Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2025 if -
 - He exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
 - He pays tax under the default tax regime under section 115BAC. (SM)

Answer 13

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 3.1.2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year		
Written Down Value (as on 31.03.2025)	Nil	Nil
	43.25	4.00

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

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for A.Y. 2025-26

	Particular	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
i.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)	2.00	
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (₹ 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
ii.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024	-	0.80

	[₹ 4 lacs x 20% (50% of 40%)]		
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, inter alia,–
- any office appliances or road transport vehicles;
 - any machinery or plant installed in, inter alia, office premises.
- In view of the above provisions, additional depreciation cannot be claimed in respect of –
- Machinery purchased on 1.12.2024, installed in office and
 - Computer purchased on 3.1.2025, installed in office.
- (2) Balance additional depreciation @10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.
- Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2022-23 and put to use for less than 180 days in that year can be claimed in P.Y. 2023-24 being immediately succeeding previous year.
- (i) **If Mr. Venus pays tax under default tax regime under section 115BAC**
- In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2023 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2023 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	5.89	0.80

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2025:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax	1,62,525		
demand paid			
Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		66,66,000

Following are the further information relating to the financial year 2024-25:

- (i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (ii) Salary includes ₹ 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.
- (iii) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (iv) Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque.
- (v) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (vi) Mr. Amit had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2024 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (vii) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000 excluding depreciation on warehouse building.
- (viii) Interest on loans includes an amount of ₹ 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2025-26 in a most beneficial manner.

(MTP 15 Marks, Mar'24) (RTP Nov'22)

Answer 15

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2025-26

Particulars	₹
Net profit as per profit and loss account	50,85,000
Less: Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	
	30,000
	50,55,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	

- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)	2,500
- Payment made to political party by cheque (See Note 2)	1,00,000
- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 3)	5,300
- Depreciation as per books	1,07,250
- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	52,99,050
Less: Depreciation allowable as per Income-tax Act, 1961 65,000	
Depreciation on building [₹ 20 lakhs x 10%] 2,00,000	2,65,000
Profits and gains from business or profession	50,34,050
Income from Other Sources	
Interest on income-tax refund	4,570
Gross Total Income	50,38,620
Less: Deduction under section 80GGC [Contribution to Political Party] [Not allowable]	Nil
Total Income	50,38,620

Notes –

- (1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,38,620		
Up to ₹ 3,00,000 Nil	Nil	
₹ ₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000	30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @ 30%	10,61,586	
		12,01,586
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,20,159
		13,21,745
Less: Marginal relief (See computation below)		83,125
		12,38,620
Add: Health and education cess@4%		49,545
Total tax liability		12,88,165

Total tax liability (Rounded off)		12,88,170
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Computation of marginal relief

Particulars		₹
(A)	Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B)	Tax payable on total income of ₹ 50 lakhs as per section 115BAC	<u>12,00,000</u>
(C)	Excess tax payable (A-B)	<u>1,21,745</u>
(D)	Marginal relief (₹ 1,21,745 – ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs)	83,125

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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

Particulars		₹	₹
Gross Total Income as per default tax regime under section 115BAC			50,38,620
Add: Depreciation on building [₹ 20 lakhs x 10%]			<u>2,00,000</u>
			52,38,620
Less: Warehousing charges			<u>22,50,000</u>
Gross Total Income excluding profits and gains from specified business under section 35AD			29,88,620
Profits and gains from specified business under section 35AD			
Warehousing charges		22,50,000	
Less: Deduction under section 35AD (See Note 1)		<u>20,00,000</u>	<u>2,50,000</u>
Gross Total Income as per normal provisions of the Act			32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)			1,00,000
Total Income as per regular provisions of the Act			31,38,620

Notes –

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.
- (2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

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

Particulars		₹	₹
Tax on total income of ₹ 31,38,620			
Up-to ₹ 2,50,000		Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]		12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]		1,00,000	
₹ 10,00,001- ₹ 31,38,620 [@30% of ₹ 21,38,620]		6,41,586	7,54,086
Add: Health and education cess@4%			<u>30,163</u>
Total tax liability			<u>7,84,249</u>
Total tax liability (rounded off)			7,84,250

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2024-25

Particulars		₹	₹
Total Income (computed above as per regular provisions of income tax)			31,38,620
Add: Deduction under section 35AD		20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]		<u>(2,00,000)</u>	<u>18,00,000</u>
Adjusted Total Income			<u>49,38,620</u>
Alternative Minimum Tax@18.5%			9,13,645
Add: Health and education cess@4%			<u>36,546</u>
Total tax liability			<u>9,50,191</u>
Total tax liability (rounded off)			9,50,190

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 cess@4%. Therefore, liability as per section 115JC is ₹ 9,50,190.

Since the tax liability of Mr. Amit 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. 2025-26 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the	7,84,250
Income-tax Act, 1961	
	1,65,940



Mr. Samar, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:
 The following other information relates to financial year 2024-25:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

- (A) The expenses on Employees' Remuneration & Benefits includes:
- Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Samar, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (B) Amount received by Mr. Samar as Employees' Contribution to EPF for the month of February, 2025 – ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (C) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Samar. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (D) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (E) Written down value of the depreciable assets as on 1st April, 2023 were as follows:
 Professional Books ₹ 90,000, Computers ₹ 35,000
- (F) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2024 and was put to use on the same day. The payment was made as under:
- ₹ 18,000 paid in cash at the time of purchase of new furniture on 31.08.2024.
 - ₹ 19,000 paid by account payee cheque on 05.09.2024 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31.08.2024 to the transporter as freight charges for the new furniture.
- (G) Mr. Samar purchased a car on 02.04.2023 for ₹ 3,35,000 for personal use. However, on 30.04.2024 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2024 was ₹ 2,50,000.
- (H) Mr. Samar made a contribution of ₹ 1,00,000 in his PPF A/c on 31.01.2025.
- (I) The Gross Professional Receipts of Mr. Samar for P.Y. 2023-24 was ₹ 52,00,000.
 Compute the total income and tax liability of Mr. Samar for A.Y. 2025-26, assuming that he has not opted for payment of tax under section 115BAC.
 Ignore provisions under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income. (MTP 14 Marks, Mar'23) (Same concept different figures PYP 14 Marks, Jul'21)

Answer 17

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

Particulars	₹	₹	₹
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I	Income from business or profession			
	Excess of income over expenditure		39,43,000	
	Add: Items debited but not allowable while computing business income			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" ¹ for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar's sister-in-law]	Nil		
	- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
	- Commission to Ms. Anjaleen without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2023-24. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2025-26]	7,500		
	- Depreciation as per books of account	90,000		
	- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000	2,45,500	
			41,88,500	
	Add: Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2024 is deposited after the due date under the relevant Act, no deduction would be available]		10,000	
	Less: Depreciation as per Income-tax Rules		41,98,500	
	- On Professional Books [₹ 90,000 x 40%]	36,000		
	- On Computers [₹ 35,000 x 40%]	14,000		
	- On Furniture [₹ 19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of	1,900		

	actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture]			
	- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., ₹ 3,35,000]	50,250	1,02,150	
			40,96,350	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000		
	- Interest on National Savings Certificates VIII Issue (3 rd Year) [Taxable under the head "Income from other sources"]	21,000	1,01,000	
				39,95,350
II	Income from Other Sources			
	Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3 rd Year)		21,000	41,000
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A			
	<u>Deduction under section 80C</u>			
	Contribution to PPF	1,00,000		
	Interest on NSC (3 rd Year) (Reinvested)	21,000	1,21,000	
	<u>Deduction under section 80D</u>			
	Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
	<u>Deduction under section 80TTA</u>			
	Interest on savings bank account to the extent of ₹ 10,000		10,000	1,81,000
	Total Income			38,55,350

Computation of tax liability of Mr. Samar for A.Y.2025-26

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	8,56,605	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		10,07,869
Tax liability (rounded off)		10,07,870

EXAM INSIGHTS:

The following common errors were noticed:

- Family planning expenses were wrongly allowed as deduction while computing business income of Mr. Ashish, being an individual though the same is allowable only to company assesses.
- Disallowance u/s 40A(2) wrongly made in respect of salary paid to sister-in-law, without considering that she is not a relative for this purpose.
- 30% disallowance of expenditure for non-deduction of tax at source from commission payment was not made.
- Exemption not provided for interest on PPF. Consequently, total income and tax liability were also not correctly computed.



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CHAPTER 3.4: CAPITAL GAINS

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CONCEPTS OF THIS CHAPTER

- Scope of income chargeable under capital gains
- Assets classified as “capital assets” for tax purposes
- Meaning of short-term vs long-term capital assets
- Computing holding period to determine asset type
- Transactions considered as transfer for capital gains
- Transactions not regarded as transfer
- Computing capital gains from asset transfer
- Determining cost of acquisition and indexed cost for long-term assets
- Capital gains on depreciable assets
- Capital gains on market-linked debentures and specified securities
- Capital gains on slump sale
- Exemption on investment of capital gains/net consideration
- Calculating capital gains after exemptions
- Concessional tax treatment for short-term/long-term gains on listed shares/equity funds
- Tax liability on short-term/long-term capital gains applying special tax rates



LDR Questions

Q 13
Q 17
Q 21
Q 22

Questions & Answers

Question 13



Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2014 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2022.

Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2022. The said house property was sold on 31.10.2024 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2025. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2022-23 and 2025-26. All workings should form part of your answer: Cost inflation index for various financial years are as under:

(MTP 7 Marks, Sep'23, PYP 6 Marks May'19)

2014-15	-	240
2021-22	-	317
2022-23	-	331
2024-25	-	363

Answer 13

Computation of capital gains chargeable to tax for A.Y. 2022-23

Particulars	₹
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [$₹ 30,00,000 \times 317/240$]	39,62,500
Long-term capital gain	1,17,37,500
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2022 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	<u>1,17,37,500</u>
Taxable long term capital gain	<u>Nil</u>

Computation of capital gains chargeable to tax for A.Y. 2025-26

Particulars	₹
(i) 20% with Indexation Benefits	
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2022, in this case) is transferred within 3 years of its purchase (i.e., on 31.10.2024, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,17,37,500,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [$₹ 85,62,500$ ($₹ 2,05,00,000 - ₹ 1,17,37,500$) $\times 363/331$]	<u>96,09,630</u>
Long-term capital gain [Since the residential house is held for more than 24 months]	2,28,90,370
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2025 i.e., within two years from 31.10.2024, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	<u>2,28,90,370</u>
Taxable long term capital gain	<u>Nil</u>
(ii) 12.5% without Indexation Benefits	
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Cost of acquisition ($(₹ 2,05,00,000 - ₹ 1,17,37,500)$)	<u>87,62,500</u>
	2,37,37,500
Less: Exemption under section 54	<u>2,37,37,500</u>
Taxable long term capital gain	<u>Nil</u>

Hence Long term Capital Gains is Nil irrespective of 20% with indexation or 12.5% without indexation.

Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2024, he has transferred Unit 2, which he started in 2004-05, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2024 is as under:

Liabilities	₹	Assets	Unit 1 ₹	Unit 2 ₹	Total
Own Capital	20,50,000	Land	12,75,000	7,50,000	20,25,000
Revaluation reserve	2,50,000	Furniture	2,00,000	5,00,000	7,00,000
Bank Loan (70% for Unit 1)	8,50,000	Debtors	2,00,000	3,50,000	5,50,000
Trade Creditors (20% for Unit 2)	4,50,000	Patents	-	7,25,000	7,25,000
Unsecured Loan (30% for Unit 2)	4,00,000				
	40,00,000		16,75,000	23,25,000	40,00,000

Other Information:

- Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2005 and revalued at ₹ 7,50,000 as on 31.3.2024.
 - No individual value of any asset is considered in the transfer deed.
 - Patents were acquired on 01-12-2022 on which no depreciation has been provided.
 - Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2023 on which no depreciation has been provided.
 - Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹ 18,10,000.
- Compute the capital gain for A.Y. 2025-26. (RTP May'22)

Answer 17

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Computation of capital gain on slump sale of Unit 2

Particulars	₹
Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹ 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹ 18,00,000) whichever is higher]	18,10,000
Less: Expenses on sale [professional fees & brokerage]	<u>78,000</u>
Net full value of consideration	17,32,000
Less: Cost of acquisition, being the net worth of Unit 2 (Note 1)	<u>13,35,781</u>
Long term capital gains arising on slump sale (The capital gains is long-term as the Unit 2 is held for more than 36 months)	<u>3,96,219</u>

Notes

Particulars		₹
(1) Book value of non-depreciable assets		
(i) Land (Revaluation not to be considered)		5,00,000
(ii) Debtors		3,50,000
(2) Written down value of depreciable assets under section 43(6)		
(i) Furniture (See Note 2)		4,75,000
(ii) Patents (See Note 3)		<u>4,75,781</u>

Aggregate value of total assets		18,00,781
Less: Current liabilities of Unit 2		
Bank Loan [₹ 8,50,000 x 30%]	2,55,000	
Trade Creditors [₹ 4,50,000 x 20%]	90,000	
Unsecured Loan [₹ 4,00,000 x 30%]	<u>1,20,000</u>	<u>4,65,000</u>
Net worth of unit 2		<u>13,35,781</u>

1. Computation of net worth of Unit 2

2. Written down value of furniture as on 1.4.2024

Value of patents	₹
Cost as on 1.12.2023	5,00,000
Less: Depreciation @ 10% x 50% for Financial Year 2023-24	<u>25,000</u>
WDV as on 1.4.2024	<u>4,75,000</u>

3. Written down value of patents as on 1.4.2024

Value of patents	₹
Cost as on 1.12.2022	7,25,000
Less: Depreciation @ 25% x 50% for Financial Year 2022-23	<u>90,625</u>
WDV as on 1.4.2023	6,34,375
Less: Depreciation @ 25% for Financial Year 2023-24	<u>1,58,594</u>
WDV as on 1.4.2024	<u>4,75,781</u>



Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2025. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y. 2025-26. Also, Compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

(SM, MTP 7 Marks, Mar'23 & Aug '18)

Answer 21

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars	Amount (₹)
On LTCG of ₹ 25,20,500 x 12.5%	3,15,063
Add: Health and Education cess @4%	12,603

On LTCG with indexation benefit		3,27,666
Net Sale consideration	38,69,500	
Less: Indexed cost of acquisition (₹ 9,59,000 x 363/100)	34,81,170	
Less: Indexed cost of Improvement [₹ 3,90,000 x 363/254]	5,57,362	
Long-term capital loss	(1,69,032)	
Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.		

Notes:

(1) Computation of cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2024 was ₹ 1,70,00,000;
- (b) on 15.12.2024 was ₹ 1,71,00,000; and
- (c) on 14.01.2025 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 35,00,000 on 28.5.2025.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2024-25 – 363 (SM) (Same concepts different figures RTP May'24, MTP 7 Marks Oct'19, MTP Aug'24, MTP 6 Marks, Oct'22, RTP Nov'18)

Answer 22

**Computation of income chargeable under the head "Capital Gains"
of Mr. Sarthak for A.Y. 2025-26**

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]		
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]		1,70,00,000
Less: Cost of acquisition of residential house		30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]		1,40,00,000
Less: Exemption u/s 54		55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹		

20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	85,00,000
Long term capital gains chargeable to tax	

Note: It may be noted that since Sarthak has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.



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CHAPTER 3.5: INCOME FROM OTHER SOURCES

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CONCEPTS OF THIS CHAPTER

- Income chargeable under "Income from other sources"
- Taxability of receipts without or for inadequate consideration
- Admissible deductions while computing income under this head
- Inadmissible deductions under this head
- Tax computation on casual income
- Computing income chargeable to tax under "Income from other sources"



LDR Questions
Q 8

Question & Answers

Question 8

LDR

From the following calculate the taxable amount under the proper head of income for the Financial Year 2024-25 of Mr L, who is resident and 56 years old. The reasons should form part of your answer:

- Dividend of ₹ 50,000 received in April 2024. The dividend was declared by the company - LMN Limited at its annual general meeting held in October 2023.
- Advance forfeited amounting to ₹ 1,00,000 on 01.05.2024 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.
- Cash Gift received from non-relative on the occasion of marriage of son ₹ 51,000.
- During the Financial Year 2024-25, he received ₹ 99,000 as pension from employer of deceased wife. (PYP 4 Marks Nov'23)

Answer 8

Computation of taxable amount of Mr. L for the A.Y.2025-26

Particulars	₹
Income from other Sources	
(i) Dividend from LMN Ltd. would be chargeable to tax under the head "Income from Other Sources". Since dividend was declared by LMN Ltd. at its annual general meeting held in October 2023, the amount of dividend was taxable in the A.Y. 2024-25. Accordingly, the dividend of ₹ 50,000 would not be taxable in the current A.Y. 2025-26.	-
Note - Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis.4 Consequently, the amount of dividend received in April, 2024, would be chargeable to tax in the current A.Y. 2025-26. Accordingly, the total income of Mr. L for A.Y. 2025-26 would be ₹ 2,85,000	

(ii) Advance of ₹ 1,00,000 forfeited on 1.5.2024 - The advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix) under the head "Income from Other Sources".	1,00,000
(iii) Cash gifts from non-relative on marriage of son of ₹ 51,000 – Since gift is received by Mr. L from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x) under the head "Income from Other Sources".	51,000
(iv) Pension from employer of deceased wife of ₹ 99,000 - Pension after deducting lower of ₹ 33,000 i.e., 1/3 of such income or ₹ 15,000, is chargeable to tax under the head "Income from Other Sources". [₹ 99,000 – ₹ 15,000] (In case of default tax regime it is lower of 33,000 i.e. 1/3 of such income or 25000, is chargeable to tax under the head "Income from Other Sources". [₹ 99,000 – ₹ 25,000]= 74,000 hence taxable amount would be 2,25,000.)	84,000
Taxable amount	2,35,000

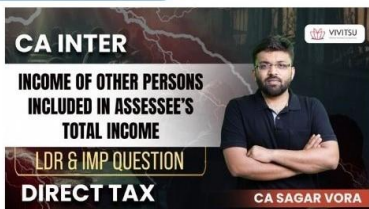


CHAPTER 4: INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

B

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INCLUDED IN ASSESSEE'S
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CONCEPTS OF THIS CHAPTER

- When clubbing provisions apply in computing total income
- Spouse's income inclusion in individual's total income
- Son's wife's income inclusion in individual's total income
- Income of minor where clubbing provisions don't apply
- Minor's income clubbing in parent's hands and computation
- Income of HUF included in a member's hands



LDR Questions

Q 12

Q 15

Q 16

Question & Answers

Question 12



(Includes concepts of Deductions from Gross Total Income)

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

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" from scholarship received from his school	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024-25 assuming that they have not opted to be taxed under section 115BAC. (PYP 5 Marks, Jul'21, MTP 5 Marks Oct '23)

Answer 12

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

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

Note - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16).

Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

Mr. Mohan, aged 30 years, submits the information of following transaction/income during the P.Y. 2024-25.

- (i) Mr. Mohan had a house in Delhi. During financial year 2021-22, he had transferred the said house to Ms. Veena, daughter of his brother without any consideration. House would go back to Mr. Mohan after the life time of Ms. Veena. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Mohan. Rent received by Ms. Veena during the previous year 2024-25 from such house property is ₹ 6,50,000.
- (ii) Mr. and Mrs. Mohan forms a partnership firm with equal share in profits. Mr. Mohan transferred a fixed deposit of ₹ 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹ 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Mohan at the end of the year.
- (iii) Mr. Mohan holds preference shares in M/s X Pvt. Ltd. He instructed the company to pay dividends to Ms. Roshni, daughter of his servant. The transfer is irrevocable for the life time of Roshni. Dividend received by Ms. Roshni during the previous year 2024-25 is ₹ 10,00,000.
- (iv) Mr. Mohan has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.
- (v) Other income of Mr. Mohan includes
 - Interest from saving bank account of ₹ 2,00,000
 - Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
 - Income from betting of ₹ 34,000
 - Income from card games of ₹ 46,000
 - Loss on maintenance of race horses of ₹ 14,600

Compute the total income of Mr. Mohan for the Assessment Year 2025-26 and the losses to be carried forward if he pays tax under normal provisions of the Act. (MTP 7 Marks Dec'24)

Answer 15
Computation of Total Income of Mr. Mohan for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Income from house property		
House in Delhi [Since Mr. Mohan receives direct or indirect benefit from income arising to his brother's daughter, Ms. Veena, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Mohan as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Veena]		
Gross Annual Value ¹	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains ² . Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹ 15,000 ³ .	15,000	-
Income from other sources		

Dividend on preference shares [Taxable in the hands of Mr. Mohan as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	<u>46,000</u>	<u>13,55,000</u>
Gross Total Income		18,10,000
Less: Deduction under Chapter VI-A		
Deduction under section 80TTA [Interest from savings bank account]	<u>10,000</u>	10,000
Total Income		18,00,000

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

Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000
Loss on maintenance of race horses [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. Hence, such loss has to be carried forward to A.Y.2026-27]	14,600



Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2024-25:

Mr. Suraj

- (i) Salary received as a partner from a partnership firm - ₹ 6,15,000
He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).
- (ii) Income (loss) from house property:
Brought forward loss from House -A (let out) - ₹ 96,000 Current year loss from House B (let out) - ₹ 2,30,000
- (iii) Interest received on enhanced compensation - ₹ 2,00,000
It relates to transfer of a piece of land in the financial year 2019-20.
Out of the above ₹ 35,000 relates to previous year 2024-25 and the balance relate to preceding previous year.
- (iv) Gift from grandfather's younger sister by cheque - ₹ 1,25,000
- (v) Dividend on listed equity shares of domestic companies (Gross) - ₹ 50,000
- (vi) On 1st December 2024, Mr. Suraj received ₹ 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2012. He paid ₹ 6,00,000 as annual premium and the sum assured was ₹ 65 lakhs.

Mrs. Megha

- (i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - ₹ 8,10,000.
- (ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1st April, 2024 out of love and affection. The FMV of the house on the date of transfer was ₹ 51 lakhs.

Master Dev

Rent received from house property received from Mrs. Megha - ₹ 35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2025-26 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item. (Chapter Income of Other Persons included in Assesses Total Income)

(PYP 6 Marks Sep'24)

Answer 16

Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2025-26

Particulars	Mr. Suraj [Under default tax regime] ₹	Mrs. Megha [Under normal provisions] ₹	Dev [Under normal provisions] ₹
Income from house property			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [₹35,000 x12]		4,20,000	
Less: Deduction @30% of NAV		1,26,000	
		2,94,000	
Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		



Profits and gains from business or profession			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of ₹ 8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	6,15,000		
Income from Other Sources	-		
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @50%	1,00,000		
	1,00,000		
Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds ₹ 50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt under section 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of ₹ 1,95,000	1,95,000		
	80,000		NIL
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]			
Taxable Income	80,000	2,94,000	-

CHAPTER 5: AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

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CONCEPTS OF THIS CHAPTER

- Permissible inter-source and inter-head adjustments
- Restrictions on inter-source and inter-head loss set-off
- Conditions for carry forward and set-off of losses
- Maximum period for carrying forward different losses
- Order of set-off of losses
- Applying these provisions to compute total income



LDR Questions

Q 6
Q 12
Q 20

Question & Answers

Question 6



Compute the total income of Mr. Veer for the assessment year 2025-26 under proper heads from the following information furnished by him for the financial year 2024-25

Particulars	₹
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self-occupied property	2,00,000
Income from Textile business	5,75,000
Brought forward business loss of Assessment Year 2021-22	1,05,000
Short-term capital loss	70,000
Brought forward long-term loss from Assessment Year 2023-24	90,000
Long-term capital gain on sale of house	75,000
Interest on enhanced compensation from Government for acquisition of land in 2020	5,00,000
Dividend from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 15.02.2025 in his Public Provident fund account	75,000
Loss from owning and maintaining race horse of Assessment Year 2024-25	20,000
Loss from Gambling	8,000

Also state the loss that can be carried forward to A.Y. 2026-27. Mr. Veer filed the return of income for assessment year 2021-22 after the expiry of due date for filing the return. (MTP 7 Marks, Nov'21)

Answer 6

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

Particulars	₹	₹
Income from house property		
Income from let out house property	3,50,000	

Less: Set-off of loss from self-occupied house property by virtue of section 70(1) [Whole of interest i.e., ₹ 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self-occupied property; The said amount represents loss from self-occupied property]	<u>(2,00,000)</u>	1,50,000
Profits and gains of business or profession		
Income from textile business	5,75,000	
[As per section 80, brought forward business loss of ₹ 1,05,000 of assessment year 2021-22 cannot be set-off, since return of income for that year was filed after the expiry of due date specified under section 139(1)]	<u>Nil</u>	5,75,000
Capital Gains		
Long-term capital gains on sale of house	75,000	
Less: Short-term capital loss can be set-off against long-term capital gains [section 70(2)]	<u>70,000</u>	
	5,000	
Less: Brought forward long-term capital loss of ₹ 90,000 from A.Y. 2023-24, set-off to the extent of ₹ 5,000	<u>5,000</u>	Nil
Income from Other Sources		
Interest on enhanced compensation from Government	5,00,000	
Less: Deduction @50%	<u>2,50,000</u>	
	2,50,000	
Dividend from ABC Ltd.	<u>15,000</u>	2,65,000
Gross Total Income		9,90,000
Less: Deduction under section 80C – Deposit in PPF		<u>75,000</u>
Total Income		9,15,000
Losses to be carried forward to A.Y.2026-27		
Long-term capital loss of A.Y. 2023-24 (₹ 90,000 – ₹ 5,000) to be set-off against long-term capital gains, if any, in that year	85,000	
Loss from owning and maintaining racehorse of the A.Y. 2024-25 to be set-off against income, if any, from owning and maintaining race horses in that year.	20,000	
Loss from gambling (it can neither be set-off against any income during the previous year nor can it be carried forward for set-off against any income in the subsequent assessment years).		

Question 12
LDR

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

- (i) Income from House property (computed) ₹ 2,00,000.
- (ii) Income from Proprietary Business ₹ 3,00,000.
- (iii) Short Term Capital Gain on sale of Land ₹ 2,00,000.
- (iv) Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) ₹ 75,000.
- (v) Interest on Bank fixed deposit ₹ 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2023.
- (vi) Loss from Speculation Business ₹ 40,000.
- (vii) Loss from Owning and Maintenance of Race Horses ₹ 50,000.

Following are the brought forward losses:

- (a) Brought forward House property loss of assessment year 2022 -23 ₹ 2,50,000.
- (b) Brought forward business loss of Proprietary business from assessment year 2014-15 ₹ 50,000.
- (c) Unabsorbed Depreciation relating to assessment year 2015 -16 ₹ 1,00,000.
- (d) Brought forward Long Term Capital Loss from assessment year 2019-20 ₹ 90,000. Return of income for that year was filed on 31.01.2020, after due date of filing the return.

Compute the total income of Mr. Joshi for the assessment year 2025 -26 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A). (PYP 6 Marks, May'24)

Answer 12
Computation of total income of Mr. Joshi for the A.Y.2025 -26

Particulars	₹	
Income from house property	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2022-23 is allowed, since 8 years period not yet lapsed	<u>2,00,000</u>	Nil
Profits and gains from business or profession		
Income from proprietary business	3,00,000	
Less: Set off of brought forward business loss of A.Y. 2014-15 not allowable as 8 years' time has already lapsed in the A.Y. 2022-23	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2015-16	<u>1,00,000</u>	2,00,000
[Note – Alternatively, unabsorbed depreciation can be set-off against short-term capital gains]		
Capital Gains		
Short-term capital gain on sale of land	2,00,000	
Less: Set-off of short-term capital loss on sale of listed equity shares	<u>75,000</u>	1,25,000
Brought forward long-term capital loss is not allowed to be carried forward and set-off, since return of income for the A.Y. 2019-20 was filed after the due date of filing return of income.		
Income from Other Sources		
Interest on fixed deposit not includible in the hands of Mr. Joshi since his son is major		Nil
Gross Total Income		3,25,000
Less: Deduction under Chapter VI-A		<u>Nil</u>
Total Income		3,25,000

Items eligible for carried forward

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



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

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

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

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

Mr. Mayank filed his return of income for A.Y. 2024-25 on 28.7.2024 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2025-26 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC. (RTP Jan'25) (Same concepts different figures RTP May'22)

Answer 20

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

Particulars	Amount (₹)	Amount (₹)
Income from Salary (Computed)		27,40,000
Income from house property		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	
Less: Loss from let out property in Delhi of A.Y. 2024-25 cannot be set off against income from house property of A.Y. 2025-26 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2024-25 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
		1,75,000
Profits and gains from business or profession		
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	
Less: Brought forward business loss of A.Y. 2024-25	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	29,91,000
Capital Gains		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
Income from Other Sources		
Net winnings from online games [₹35,000/70%]		50,000
Gross Total Income		59,56,000

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

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



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CHAPTER 6: DEDUCTIONS FROM GROSS TOTAL INCOME

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CONCEPTS OF THIS CHAPTER

- Deductions under default tax regime (section 115BAC)
- Deductions under optional tax regime (section 115BAC(1A))
- Assesses eligible for deductions under various sections
- Deductions for payments under relevant sections
- Deductions for certain income under relevant sections
- Deductions for persons with disabilities
- Deductions under section 10AA for SEZ units



LDR Questions
Q 10

Question & Answers

Question 10

LDR

For the A.Y. 2025-26, 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 31.3.2025, in a tax efficient manner. (SM)

Answer 10

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime

Particulars	₹
Gross total income incl. long term capital gain	8,18,240
Less: Deductions under Chapter VI-A	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	8,18,240
Tax on total income	
LTCG ₹ 2,45,000 x 20%*	49,000
Balance total income ₹ 5,73,240	<u>13,662</u>
	62,662
Add: Health and Education cess @4%	<u>2,506</u>
Total tax liability	<u>65,168</u>

Total tax liability (Rounded off)	65,170
--	---------------

*Assumed as before 23.07.2024

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		<u>2,45,000</u>
		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)	<u>50,000</u>	<u>2,37,662</u>
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:

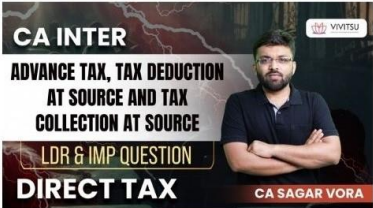
Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction under section 80C, 80D & 80TTB	<u>2,20,000</u>
	<u>3,53,24</u>
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324
Deduction under section 80G – 50% of ₹ 35,324	17,662

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
- Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

CHAPTER 7: ADVANCE TAX, TAX DEDUCTED AT SOURCE & INTRODUCTION TO TAX COLLECTION AT SOURCE

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CONCEPTS OF THIS CHAPTER

- Modes of income tax recovery from an assessee
- Tax deduction at source (TDS) on specified income/payments
- Determining when tax is deductible at source
- Computing tax deductible at source in specific cases
- Cases where tax is not required to be deducted at source
- Duty of the person deducting tax
- Consequences of failing to deduct or pay TDS
- Liability and computation of advance tax
- Tax collection at source (TCS) and its applicability
- Difference between TDS and TCS



LDR Questions

Q 12
Q 14
Q 15

Question & Answers

Tax Deduction at Source (TDS)

Question 12



- (a) Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.
- (i) Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2025 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
 - (ii) Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2024. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.
 - (iii) Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2024 to February, 2025) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.
- (b) Mr. Subhash engaged in the business of trading of electrical appliances. His turnover for F.Y. 2023-24 and F.Y. 2024-25 was ₹ 12 crore and 9.5 crore, respectively. During the previous year, Wivitzu Ltd. placed order for purchase of electric appliances for ₹ 55 lakhs on 01.08.2024. He again placed order for ₹ 35 lakhs on 01.11.2024. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from Wivitzu Ltd. (RTP May'21, MTP 8 Marks Sep '23) (MTP 4 Marks Jul'24)

Answer 12**(a) TDS implications****(i) On pre-mature withdrawal from EPF**

No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% (wef 1.10.2024 the TDS rate u/s 194M is reduced from 5% to 2%). under section 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2024 to February 2025) from the rent of ₹ 32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹ 50,000.

(b) As per section 206(1H), tax is required to be collected at source @0.1% on the sale consideration exceeding ₹ 50 lakhs at the time of receipt of consideration. Tax is required to collected at source by a seller, being a person whose total turnover from the business exceeds ₹ 10 crore during the financial year immediately preceding the financial year in which sale of goods is carried out.

Since the threshold of ₹ 50 lakhs is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under section 206C(1H) shall be computed from 1st April, 2024.

Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding ₹ 50 lakhs, TCS is required to be collected at source @0.1%, on amount of ₹40 Lakhs (₹55 Lakh + ₹ 35 lakhs= ₹ 90 Lakhs).



- (A) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2024, Wivitzu Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of ₹ 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.
- (B) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him: ₹ 25,00,000/- on 10th August, 2024 and ₹ 30,00,000 on 22nd November, 2024. Determine the amount of tax to be deducted/ collected at source, if any. Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.
- (C) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.
 (PYP 7 Marks, May'23)

Answer 14

- (i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax @10% of the value of such benefit or perquisite, if the same exceeds ₹ 20,000.
- However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.
- Accordingly, in the present case, since Miss Tara has returned the car to Wivitzu Ltd., TDS provisions under section 194R would not apply.
- (ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.
- In this case, tax is required to be deducted at source from such amount under section 194M @5% (wef 1.10.2024 the TDS rate u/s 194M is reduced from 5% to 2%. Hence since the transaction where it crosses 50 lakhs is done after 1.10.2024 the TDS rate will be 2%), since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹50 lakhs during the P.Y.2024-25.
- Accordingly, ₹ 1,10,000, being 2% of ₹ 55,00,000 [₹25,00,000 + ₹ 30,00,000], is required to be deducted at source.
- In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ₹ 1 crore in P.Y. 2023-24], she is not required to deduct tax at source under section 194C. In such case also, she is required to deduct tax at source of ₹ 1,10,000 under section 194M.
- Note** – In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds ₹ 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-
- her turnover exceeds ₹ 1 crore but does not exceed ₹ 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
 - her turnover exceeds ₹ 1 crore but does not exceed ₹ 2 crore and she is declaring profits under the presumptive provisions of section 44AD.
- Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds ₹ 1 crore.

Alternative answer - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2023-24, she would be required to deduct tax at source @ 1% under section 194C amounting to ₹ 55,000 (since payment is made to Mr. Suresh, an individual) of ₹ 55,00,000.

- (iii) According to section 194C, the definition of “work” include catering. In the present case, nationalised bank is required to deduct tax source @2% on ₹ 7,20,000 [₹ 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ₹ 60,000 paid every month exceeds the threshold of ₹ 30,000.

Therefore, nationalised bank is required to deduct tax at source of ₹ 1,200 per month amounting to ₹ 14,400 for the year.

EXAM INSIGHTS: Examinees depicted lack of knowledge of the newly inserted TDS provisions of section 194R applicable in respect of any benefit or perquisite provided to a resident.



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Question 15
 **LDR**

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2025-26. (State applicable provision and give brief reasons for your answer, wherever applicable)

- (i) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2024-25 are as given:

Particulars	Date of Payment	Amt (₹)
Advance payment	1.4.2024	40,00,000
Payment for supplies	2.7.2024	20,00,000
Advance payment	4.8.2024	12,00,000

XYZ achieved gross turnover of ₹ 12 crore from the business during the financial year 2023-24 and the gross business turnover for financial year 2024-25 turns out to be ₹ 9 crores. Gross business turnover of ABC for the financial year 2023-24 was ₹ 6 crores.

Will your answer be same, if the gross turnover of XYZ during the financial year 2023-24 includes ₹ 4 crore towards supply of material for charitable purposes?

- (ii) MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2024 to 31.03.2025.
- (iii) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹ 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account ₹ 15,000 during the P.Y. 2024-25. His pension is also credited in this account. In the same bank he has deposited ₹ 10 Lakh in a Term Deposit @7% simple interest on 01.07.2024. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also. (PYP 7 Marks, Nov'23)

Answer 15

- (i) Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its turnover in the immediately preceding financial year i.e., F.Y. 2023-24 exceeds ₹ 10 crores and it has purchased goods exceeding ₹ 50 lakhs in the F.Y. 2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source –

On 2.7.2024 of ₹ 1,000, being @0.1% on ₹ 10 lakhs exceeding ₹ 50 lakhs (₹ 40,00,000 on 1.4.2024 + ₹ 20,00,000 on 2.7.2024).

On 4.8.2024 of ₹ 1,200, being @0.1% ₹ 12 lakhs.

No, in such case, the amount of turnover of XYZ would not exceed ₹ 10 crores in F.Y. 2024-24, since ₹ 4 crores towards supply of material for charitable purposes, being a non-business activity, would not be considered for the purpose of turnover.

Accordingly, XYZ is not required to deduct tax at source under section 194Q.

- (ii) ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @10% on ₹ 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible under section 192.

Therefore, ₹ 24,900 (₹ 2,49,000 x 10%) is required to be deducted at source.

- (iii) Bank of Baroda, being a specified bank notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows:

Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2025-26

	Particulars	₹	₹
I	Salaries		
	Pension (₹ 72,000 x 12)	8,64,000	
	Less: Standard deduction u/s 16(ia)	<u>50,000</u>	8,14,000

II	Income from Other Sources		
	Interest on savings account	15,000	
	Interest on fixed deposit (₹ 10 lakh x 7% x 9/12)	<u>52,500</u>	
			<u>67,500</u>
	Gross total income		8,81,500
	Less: Deductions under Chapter VI-A		
	Under section 80TTB		
	Interest on fixed deposit and savings account, restricted to ₹ 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	<u>50,000</u>	<u>50,000</u>
	Total Income		<u>8,31,500</u>
	Computation of tax liability for A.Y.2025-26		
	Tax on ₹ 8,31,500 [20% on income exceeding ₹ 5 lakhs, being the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		66,300
	Add: Health and Education Cess@4%		<u>2,652</u>
	Tax liability		<u>68,952</u>
	Tax liability (Rounded off)		<u>68,950</u>

Accordingly, Bank of Baroda is required to deduct tax at source of ₹ 68,950 for the P.Y. 2024 -25. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2025-26.

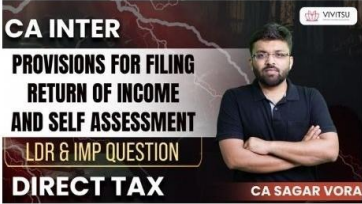
Note – The question mentions that Mr. Kumar has deposited ₹ 10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above solution is given assuming that term deposit is not for 5 years. However, alternate assumption that such term deposit is for 5 years is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of ₹ 1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be ₹ 2,00,000, total income would be ₹ 6,81,500 and tax liability (rounded off) would be ₹ 37,750.

EXAM INSIGHTS: The question requires to discuss the TDS liability in the different situations. In point (i), the second requirement of the question is to determine the TDS liability if the Gross turnover of XYZ, a purchaser, of ₹ 12 crores includes ₹ 4 crore towards supply of material for charitable purpose. Many examinees were failed to appreciate that supply of material for charitable purpose is a non-business activity and hence, would not be included in the turnover for the purpose of calculating the limit of Rs 10 crores for attracting tax deduction provisions under section 194Q. In point (iii), many examinees could not compute the TDS amount applying the provisions of section 194P correctly.

CHAPTER 8: PROVISIONS FOR FILING RETURN OF INCOME AND SELF-ASSESSMENT

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CONCEPTS OF THIS CHAPTER

- Meaning of "return of income"
- Persons required to file a return of income
- Due date for filing return of income for different assessee
- Consequences of late filing of return
- Interest payable for delayed filing of return
- Fee payable for delayed filing of return
- Revising a return of income and time limit for revision
- Filing an updated return of income
- Tax payable on the basis of an updated return
- Persons required to apply for PAN
- Transactions mandating quoting of PAN
- Specified persons who can file return through Tax Return Preparer
- Persons authorized to verify the return of income
- Requirement to pay self-assessment tax before filing return
- Adjustment of payments against self-assessment tax, fee, and interest



LDR Questions

- Q 21
- Q 22
- Q 29

Return Filing

Question 21



In the following cases relating to P.Y. 2024-25, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y.2025-26 in each of the following independent situations:

- (i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- (ii) Mrs. Archana was born in Germany and married in India. Her residential status under section 6(6) of the Income-tax Act, 1961 is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country.

- (iii) Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. (PYP 4 Mark, Jul'21, MTP 4 Marks Apr'24)

Answer 21

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2025-26 on or before the due date under section 139(1).

- (ii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the previous year on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India.

In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of "capital asset" as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for A.Y. 2025-26 on account of owning a car for personal purposes in Germany.

Note – "Asset" for the purpose of the fourth proviso to section 139(1) has not been specifically defined in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, requires details of foreign assets for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes "any other capital assets outside India". Car used for personal purposes is not a capital asset as it is a "personal effect". Hence, it is not included in the meaning of "asset" for the purpose of the fourth proviso to section 139(1). The above answer is based on the view taken regarding the ambit of the term "asset", based on the list of assets detailed in the relevant schedule of the income-tax return forms.

Alternative view - On the plain reading of the fourth proviso to section 139(1) and the general meaning attributable to the word "asset", it is possible to take a view that Mrs. Archana is required to file her return of income as she owns an asset, i.e., a car in Germany. Accordingly, due credit may also be given to the candidates who have answered on this basis.

- (iii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the P.Y.2024-25 towards consumption of electricity, he has to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

Question 22

Mr. X would like to furnish his updated return for the A.Y. 2025-26. In case he furnished his updated return of income, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2027
- (ii) as on 28.2.2028
- (iii) as on 31.5.2028

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. (MTP 3 Marks, Apr'23)

Answer 22

Mr. X may furnish an updated return of his income for A.Y. 2025-26 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2028.'

Accordingly, Mr. X can furnish updated return for A.Y. 2025-26 as on 31.3.2027 and on 28.2.2028. However, he cannot furnish such return as on 31.5.2028, since such date falls after 31.3.2028.

Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5) i.e., 31st December 2025 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2026
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year i.e., 31.3.2026 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2028.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.2027 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2028 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

Quoting of PAN & Aadhar

Question 29



Mr. Rahul, an Indian citizen residing in Mumbai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2024. He approached you on 1.9.2024 and asked you the consequences for not doing so and the effective date from which those consequences would become effective?

What would be your answer if Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority now? (RTP May'24, MTP 4 Marks Aug'24)

Answer 29

Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative.

Consequences of failure to intimate Aadhar Number

A person, whose PAN has become inoperative, would be liable for further consequences for the period commencing from the date specified by the Board till the date it becomes operative, namely –

- I. refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- II. interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- III. where tax is deductible under Chapter XVIIIB 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 under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

The consequences specified above will be effective from 1.7.2023.

If Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority on 1.9.2024, he would be liable to pay a fee of ₹ 1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative.

CHAPTER 9: INCOME TAX LIABILITY – COMPUTATION AND OPTIMISATION

CA Inter Direct Tax Made Simple

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CONCEPTS OF THIS CHAPTER

- Compute tax liability under default tax regime (Section 115BAC)
- Compute tax liability under regular provisions of Income-tax Act, 1961
- Examine applicability of Alternate Minimum Tax (AMT)
- Compute tax liability under AMT provisions and determine tax credit, if any
- Compare tax liability under default tax regime vs. regular provisions (including AMT) and determine the more beneficial option



LDR Questions

Q 15 Q 27
Q 23 Q 28
Q 26

Questions & Answers

Question 15

LDR

Mr. Anand, a resident Indian aged 45 years, has provided you the following information for the previous year ended on 31.03.2025

- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2020-21. Total turnover of the undertaking was ₹ 200 lakhs. Export turnover received in India in convertible foreign exchange on or before 30.9.2025 is ₹ 120 lakhs. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹35 lakhs.
- Mr. Anand sold equity shares of different Indian companies on 14th March, 2025:

Name	Sale value (pershare)	Purchaseprice (per share)	Acquired on	No. of shares	FMV as on31.1.2018
Sam Ltd.	₹150	₹ 120 (STT Paid atacquisition)	2 nd Feb,2025	2000	-
Jam Ltd.	₹100	₹ 72 (STT Paid atacquisition)	16 th April,2017	1250	50

CII – F.Y. 2017-18: 272; F.Y. 2024-25: 363

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration.

- He made payment of ₹ 90,000 on 1.9.2024 vide cheque towards medical insurance as lumpsum premium for himself and his wife till 31.8.2028. He also made cash payment of ₹ 7,500 towards preventive health checkup for himself and his wife.
- He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 16% of value of books and expenditure made for earning this royalty was ₹ 40,000.

The amount remitted to India till 30th September 2025 is ₹ 2,50,000.

- (v) He received income-tax refund of ₹15,750 (including interest ₹ 1,750) relating to the assessment year 2024-25.
- (vi) He occupies ground floor of his residential building and has let out first floor for residential use for a monthly rent of ₹ 15,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both floors are of equal size. He has taken a loan from bank of ₹ 50 lakhs for the construction of this property in 2020 and has repaid ₹ 2,05,000 (including interest ₹1,00,000) during the year 2024-25.
- (vii) Mr. Anand deposited ₹ 1,30,000 in Public Provident Fund and ₹ 80,000 in 5 years term deposit in the name of his minor son, Aman.

You are required to compute the total income and tax liability of Mr. Anand under section 115BAC as well as under normal provisions for the A.Y. 2025-26. Ignore AMT provisions. (RTP Sep'24)

Answer 15

Computation of total income and tax liability of Mr. Anand for A.Y. 2025-26 under section 115BAC

	Particulars	₹	₹	₹
I.	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		1,80,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 30,000/2]		<u>15,000</u>	
	Net Annual Value (NAV)		1,65,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,65,000	49,500		
	(b) Interest on loan [₹ 1,00,000/2]	<u>50,000</u>	<u>99,500</u>	
	Self-occupied portion [Ground Floor]		65,500	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Net Annual Value (NAV)		Nil	
	Less: Interest on loan [Not allowable under section 115BAC]		<u>Nil</u>	65,500
II.	Profits and gains of business or profession			
	Income from SEZ unit			35,00,000
III.	Capital Gains			
	Short-term capital gains on sale of equity shares of Sam Ltd. (since held for not more than 12 months)			
	Full Value of Consideration [2000 x ₹ 150]	3,00,000		
	Less: Brokerage @ 0.1%	<u>300</u>		
	Net sale consideration	2,99,700		
	Less: Cost of acquisition [₹ 2000 x 120]	<u>2,40,000</u>	59,700	
	Long-term capital gains on sale of equity shares of Jam Ltd. (since held for more than 12 months)			
	Full Value of Consideration [1250 x ₹ 100]	1,25,000		
	Less: Brokerage @ 0.1%	<u>125</u>		
	Net sale consideration	1,24,875		
	Less: Cost of acquisition [No indexation benefit would be available]	<u>90,000</u>	<u>34,875</u>	94,575
	Higher of cost of acquisition of ₹ 90,000 (72 x 1250) and ₹ 62,500, being lower of FMV of ₹ 62,500 and full value of consideration of ₹ 1,25,000			
IV.	Income from Other Sources			
	Royalty from artistic book		2,88,000	

Less: Expenses incurred for earning royalty		<u>40,000</u>	
		2,48,000	
Interest on income-tax refund		<u>1,750</u>	
			<u>2,49,750</u>
Gross Total Income			39,09,825
Less: Deduction under Chapter VI-A [Not allowable under section 115BAC]			-
Total Income			39,09,825
Total Income (Rounded off)			39,09,830
Tax on total income of ₹ 39,09,830			
Tax on LTCG exceeding ₹1.25 lakhs @12.5%u/s 112A			-
Tax on STCG of ₹ 59,700 @20% u/s111A			11,940
Tax on remaining total income of ₹ 38,15,255			
Up to ₹ 3,00,000 Nil		Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000		20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000		30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹2,00,000 @ 15%] 30,000		30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹3,00,000 @ 20%] 60,000		60,000	
Above ₹ 15,00,000 @30% [@30% of ₹23,15,255]		<u>6,94,577</u>	<u>8,34,577</u>
			8,46,517
Add: Health and education cess@4%			<u>33,861</u>
Tax liability			8,80,378
Tax liability (Rounded off)			8,80,380

**Computation of total income and tax liability of Mr. Anand for
A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹	₹
Gross Total Income as per section 115BAC			39,09,825
Less: Interest on loan for self-occupied property [₹1,00,000/2]			<u>50,000</u>
Gross Total Income as per normal provisions of the Act			38,59,825
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y.2024-25, being the 5th year of operations]			21,00,000
[Profits of the SEZ x Export Turnover received in India in convertible foreign exchange on or before 30.9.2025/Total Turnover] x 100%			
[₹ 35 lakhs x ₹ 120 lakhs/ ₹ 200 lakhs x 100%]			
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Repayment of housing loan	1,05,000		
Public Provident Fund	1,30,000		
5 years Term deposit (not allowed as deduction in the name of minor son)	-		
	<u>2,35,000</u>		
Restricted to		1,50,000	
Deduction under section 80D			
Medical insurance premium [90,000 x 1/5]	18,000		
Preventive health check checkup of ₹ 7,500, subject to maximum of ₹ 5,000	<u>5,000</u>	23,000	
Deduction under section 80QQB		2,10,000	
Royalty [₹ 2,88,000 x 15/16 = ₹ 2,70,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,50,000 minus ₹ 40,000]			

expenses already allowed as deduction while computing royalty income]			
			<u>3,83,000</u>
Total Income			<u>13,76,825</u>
Total Income (Rounded off)			<u>13,76,830</u>
Tax on total income of ₹ 13,76,830			
Tax on LTCG exceeding ₹ 1.25 lakhs @12.5% u/s112A			-
Tax on STCG of ₹59,700 @20% u/s 111A			11,940
Tax on remaining total income of ₹ 12,82,255			
Up-to ₹2,50,000		Nil	
₹2,50,001 - ₹5,00,000[@5% of ₹2,50,000]		12,500	
₹5,00,001 - ₹10,00,000[@20% of ₹5,00,000]		1,00,000	
₹10,00,001 - ₹12,82,255[@30% of ₹2,82,255]		<u>84,677</u>	<u>1,97,177</u>
			2,09,117
Add: Health and education cess@4%			<u>8,365</u>
Tax liability			<u>2,17,482</u>
Tax liability (rounded off)			<u>2,17,480</u>





Mr. Pramod, a resident aged 55 years, is a retail trader; he furnished the following information for A.Y. 2025-26:

Trading and Profit and Loss Account for the year ended on 31.03.2025:

	₹		₹
To Opening Stock	1,15,000	By Sales	70,80,000
Purchases	55,40,000	Closing Stock	2,10,000
Transport charges	1,20,000		
Gross Profit c/f	15,15,000		
	72,90,000		72,90,000
To Salaries	3,40,000	By Gross Profit b/f	15,15,000
Rates and Taxes	24,000	Rent from H. Property	1,80,000
Administrative Expenses	3,25,000	Rent from furniture	1,20,000
Depreciation	80,000		
Net Profit	10,46,000		
	18,15,000		18,15,000

- (1) All the sales are by account payee cheque or through bank transfers.
 - (2) The opening and closing stocks have been over valued by ₹ 15,000 and ₹ 20,000 respectively.
 - (3) Rates and taxes include GST liability of ₹ 5,000 paid on 01.05.2025 and municipal taxes for let out property ₹ 7,000.
 - (4) Administrative expenses include ₹ 25,000 paid as donation to National Children's Fund, and a payment for laptop purchased on 15.05.2022 for ₹ 60,000 through bank transfer.
 - (5) Transport charges include ₹ 30,000 paid in cash on 01.09.2024.
 - (6) He incurred a loss of ₹ 8,000 on sale of equity shares on 10.02.2025, which were purchased on 10.06.2024.
 - (7) Depreciation includes ₹ 1,200 as depreciation on Trade Marks wrongly charged at 15%.
 - (8) He deposited ₹ 50,000 in PPF a/c and has paid life insurance premium ₹ 60,000.
 - (9) He paid interest of ₹ 70,000 on loan availed in F.Y. 2019-20 for higher education of his wife.
- Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2025-26, if,
- (i) The business profit is computed as per normal provisions and he opts for section 115BAC.
 - (ii) He opts to compute business profit under presumptive taxation under section 44AD and does not opt for section 115BAC.
 - (iii) The business profit is computed as per normal provisions of Income-tax Act and he does not opt for section 115BAC.

Which option is advantageous to Mr. Pramod? (PYP 14 Marks, Nov'23)

Answer 23

- (i) **Computation of total income and tax payable by Mr. Pramod for A.Y. 2025-26 as per normal provisions of the Act (as per books of accounts) and opting for section 115BAC**

	Particulars	₹	₹
I	Income from house property		
	Gross Annual Value ¹	1,80,000	
	Less: Municipal taxes paid	7,000	
	Net Annual Value (NAV)	1,73,000	
	Less: Deduction u/s 24(a) - 30% of NAV	51,900	1,21,100
II	Profits and gains of business or profession		
	Net Profit	10,46,000	
	Add: Over statement of opening stock	15,000	
		10,61,000	
	Less: Over statement of closing stock	20,000	
		10,41,000	

	[Note - Alternatively, net of overstatement of opening stock and closing stock i.e., ₹ 5,000 can be reduced.]		
	Add: Expenses debited to profit and loss account but not allowable as deduction GST liability paid on 1.5.2025 [Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible]	-	
	Municipal taxes for let out property	7,000	
	Donation to National Children's Fund	25,000	
	Payment for Laptop	60,000	
	Transport charges of ₹ 30,000 in cash [Not disallowed since the limit for onetime cash payment is ₹ 35,000 in respect of payment to transport operators.]	-	
		<u>11,33,000</u>	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	Rent from house property	1,80,000	
	Rent from furniture	<u>1,20,000</u>	
		8,33,000	
	Less: Depreciation		
	- On Trade Marks [Trade Marks are eligible for depreciation @25%] [₹1,200/15% x 25% - ₹ 1,200, being the wrong depreciation]	800	
	[Note - Alternatively, depreciation of ₹ 1,200 wrongly claimed can be added and the amount of correct depreciation of ₹ 2,000 can be deducted.]		
	- On laptop [₹ 60,000 x 40%]	<u>24,000</u>	8,08,200
III	Capital Gains		
	Short term capital loss of ₹ 8,000 on sale of equity shares [Can be set off against capital gain only. Hence, carried forward to A.Y. 2026-27]		-
IV	Income from Other Sources		
	Rent from furniture		<u>1,20,000</u>
	Gross Total Income/Total income		<u>10,49,300</u>
	[Deduction under Chapter VI-A is not allowed under section 115BAC]		
	Computation of Tax payable		
	Tax on ₹ 10,49,300		
	Up-to ₹ 3,00,000	Nil	
	₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
	₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
	₹ 10,00,001 – ₹ 10,49,300 [₹49,300 @ 15%] 7,395	7,395	
			57,395
	Add: Health and education cess @4%		<u>2,296</u>
	Tax payable		<u>59,691</u>
	Tax payable (Rounded off)		<u>59,690</u>

(ii) **Computation of total income and tax payable by Mr. Pramod for A.Y. 2025 -26 as per presumptive provisions under section 44AD and not opting for section 115BAC**

	Particulars	₹	₹
I	Income from house property		1,21,100

	[Computed in (i) above]		
II	Profits and gains of business or profession		4,24,800
	[6% of sales, as all sales are by account payee cheque or through bank transfers] [₹ 70,80,000 x 6%]		
III	Income from Other Sources [Computed in (i) above]		<u>1,20,000</u>
	Gross Total Income		6,65,900
	Less: Deduction under Chapter VI-A		
	<u>Deduction under section 80C</u>		
	- Deposit in PPF A/c	50,000	
	- Life insurance premium	<u>60,000</u>	1,10,000
	<u>Deduction under section 80G</u>		
	Donation to National Children's Fund [Allowed 100% without qualifying limit]		25,000
	<u>Deduction under section 80E</u>		
	Interest on loan for higher education of his wife		<u>70,000</u>
	Total Income		<u>4,60,900</u>
	Computation of Tax Payable		
	Tax on ₹ 4,60,900		
	₹ 2,10,900 @ 5% [₹ 4,60,900 - ₹ 2,50,000]		10,545
	Less: Rebate u/s 87A – lower of ₹ 10,545 or ₹ 12,500 allowable, since total income does not exceed ₹ 5,00,000		<u>10,545</u>
	Tax Payable		<u>Nil</u>

(iii) **Computation of total income and tax payable by Mr. Pramod for AY 2025-26 as per normal provisions of the Act (as per books of accounts) and not opting for section 115BAC**

Particulars		₹
Gross Total Income [Computed in (i) above]		10,49,300
Less: Deduction under Chapter VI-A [Computed in (ii) above]		
[₹ 1,10,000 + ₹ 25,000 + ₹ 70,000]		2,05,000
Total Income		8,44,300
Computation of Tax Payable		
Tax on ₹ 8,44,300		
₹ 2,50,000 @5% [₹ 5,00,000 - ₹ 2,50,000]	12,500	
₹ 3,44,300 @20% [₹ 8,44,300 - ₹ 5,00,000]	<u>68,860</u>	
		81,360
Add: Health and education cess @4%		<u>3,254</u>
Tax payable		<u>84,614</u>
Tax payable (Rounded off)		<u>84,610</u>

Option advantageous to Mr. Pramod

It is beneficial for Mr. Pramod to opt for presumptive provisions under section 44AD and not to opt for section 115BAC

EXAM INSIGHTS: The opening stock and closing stock were overvalued, however, many examinees were not able to make correct adjustment of opening and closing stock. Many examinees were failed to mention about carry forward of short-term capital loss on equity shares. Majority of the examinees not provided rebate under section 87A while computing tax payable on income computed as per presumptive provisions under section 44AD. Some examinees had calculated the depreciation amount wrongly. Under section 44AD, 6% or 8%, as the case may, of the total turnover/ gross receipts is deemed to be the business income of the assessee. However, some examinees have wrongly considered 6% or 8% as tax rates. Consequently, profits and gains from business or profession, total income and tax payable calculation were incorrect.

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2019.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2020-21. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2025. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1st May 2024 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognized provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- (vi) He also sold his vacant land on 01.12.2024 for ₹ 15 lakhs. The stamp duty value of land at the time of transfer was ₹ 16 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100, respectively.

- (vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2024-25, in the manner so that he can make maximum tax savings.

(MTP 15 Marks, Apr'24, MTP 14 Marks Oct'23, RTP Nov'21)

Answer 26

Computation of total income of Mr. Sunil for A.Y. 2025-26 under default tax regime under section 115BAC

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 25,000/2]		12,500	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,82,500	84,750		
	(b) Interest on housing loan [₹ 1,50,000/2]	75,000	1,59,750	
			1,22,750	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan [Not allowable under section 115BAC]		Nil	
			Nil	
	Income from house property			1,22,750
II	Profits and gains of business or profession			
	Income from SEZ unit			40,00,000

III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	As sale is made after 23.07.2024			
	(i) 20% with indexation benefits			
	Full Value of Consideration [Actual consideration of ₹ 15 lakhs, since stamp duty value of ₹ 16 lakhs does not exceed actual consideration by more than 10%]		15,00,000	
	Less: Indexed Cost of acquisition [₹ 4,00,000 x 363/100]		<u>14,52,000</u>	
	Long Term Capital Gains		<u>48,000</u>	
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.			
	(ii) 12.5% without indexation benefits			
	Full Value of Consideration		15,00,000	
	Cost of acquisition		<u>4,00,000</u>	
	Long Term Capital Gains		<u>11,00,000</u>	48,000
	(20% with indexation benefits is more beneficial to the Assessee)			
IV	Income from Other Sources			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		<u>40,000</u>	<u>70,000</u>
	Gross Total Income			42,40,750
	Less: Deduction under Chapter VI-A			
	Deduction under section 80JJAA			<u>7,12,800</u>
	30% of the employee cost of the new employees employed during the P.Y. 2024-25 for 240 days or more during the P.Y. 2024-25 allowable as deduction [30% of ₹ 23,76,000 (12 x 18,000 x 11)] As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
	Total Income			35,27,950

Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 35,27,950		
Tax on LTCG of ₹ 48,000@20%		9,600
Tax on remaining total income of ₹ 34,79,950		
Upto ₹ 3,00,000	Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000	30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]	<u>5,93,985</u>	<u>7,33,985</u>
		7,43,585
Add: Health and education cess@4%		29,743
Total tax liability		7,73,328
Tax liability (rounded off)		7,73,330

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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

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

Particulars	₹	₹
Gross Total Income as per default tax regime under section 115BAC		42,40,750
Less: Interest on borrowing in respect of self-occupied house property [₹ 1,50,000/2]		<u>75,000</u>
Gross Total Income as per section 115BAC		41,65,750
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2024-25 being the 5th year of operations] [Profits of the SEZ x Export Turnover received in convertible foreign exchange/Total Turnover] x 100% [₹ 40 lakhs x ₹ 120 lakhs/ ₹ 400 lakhs x 100%]		12,00,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Repayment of principal amount of housing loan	80,000	
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Sunil	40,000	1,20,000
Deduction under section 80JJAA [As computed above]		7,12,800
Deduction under section 80TTA Interest on savings bank account, restricted to ₹ 10,000		10,000
Total Income as per regular provisions of the Act		21,22,950
Particulars	₹	₹
Tax on total income of ₹ 21,22,950		
Tax on LTCG of ₹ 48,000@20%		9,600
Tax on remaining total income of ₹ 20,74,950		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakhs]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,001 – ₹ 20,74,950[@30% of ₹ 10,74,950]	3,22,485	4,34,985
		4,44,585
Add: Health and education cess@4%		17,783
Total tax liability		4,62,368
Tax liability (rounded off)		4,62,370

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

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	21,22,950
Add: Deduction u/s 10AA	12,00,000
Deduction u/s 80JJAA	<u>7,12,800</u>
Adjusted Total Income	40,35,750
Alternative Minimum Tax@18.5%	7,46,614
Add: Health and education cess@4%	<u>29,865</u>
AMT liability	7,76,479
AMT liability (rounded off)	7,76,480

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 cess@4%.

Therefore, liability as per section 115JC is ₹ 7,76,480.

Since, tax liability as per section 115BAC of ₹ **7,73,330** is lower than the tax liability of ₹ **7,76,480**, being higher of AMT liability and tax liability computed as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Sunil to exercise the option to continue under the default tax regime under section 115BAC.



VIVITSU
STRIVING TOWARDS KNOWLEDGE

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31.03.2025, you are requested to compute his total income and tax liability under normal as well as special provisions (AMT), if any, applicable to him for the Assessment Year 2025-26.

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2018-19. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.
- (iii) He received royalty of ₹ 2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000.
- (iv) Received, 40,000 as interest on saving bank deposits.
- (v) Received ₹ 47,000 as share of profit from an AOP where all the members are individual and which had paid the tax by normal rates of income tax.
- (vi) He also sold his vacant land on 10.11.2024 for ₹ 10 lakhs. The stamp duty value of land at the time of transfer was ₹ 16.96 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.80 lakhs. He had incurred registration expenses of ₹ 10,000 at that time. The cost of inflation index for the year 2024-25 and 2001-02 are 363 and 100 respectively.
- (vii) He paid the following amounts, out of his taxable income:
 - (a) Insurance premium of ₹ 39,000 paid on life insurance policy of son, who is not dependent on him.
 - (b) Insurance premium of ₹ 48,000 on policy of his dependent father,
 - (c) Tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child. Assume that 115BAC is not opted. (PYP 14 Marks, Nov'20) (Same concept fewer adjustments different figures MTP 14 Marks Oct'21, PYP 6 Marks, May'22, PYP 15 Marks Nov'24)

(The stamp duty value of land has been changed from Rs 14 lakhs to Rs. 16.96 Lakhs to keep the essence of the question)

Answer 27

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

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]¹			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 60,000/2]		<u>30,000</u>	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		<u>59,400</u>	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit		25,00,000	
	Share income from AOP (since AOP has paid tax at normal rates, share income from AOP will be included in computation of total income of a member as per section 86 ²)		<u>47,000</u>	25,47,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	(i) 20% with Indexation benefits			

	Full Value of Consideration [Higher of stamp duty value of ₹ 16.96 lakhs and Actual consideration of ₹ 10 lakhs, since stamp duty value exceeds actual consideration by more than 10%]	16,96,000		
	Less: Indexed Cost of acquisition [₹ 4,00,000 x 363/100]	14,52,000	2,44,000	2,44,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 1.80 lakhs + ₹ 0.10 lakhs = ₹ 1.90 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4 lakhs			
	(ii) 12.5% without Indexation benefits			
	Full Value of Consideration	16,96,000		
	Cost of acquisition	4,00,000	12,96,000	
	Long Term Capital Gains			
	20% with Indexation benefits is more beneficial			
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		40,000	
				2,88,000
	Gross Total Income			32,17,600
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2020-21 being the 5th year of operations] [Profits of the SEZ x Export Turnover/Total Turnover] x 100% [₹ 25 lakhs x ₹ 140 lakhs/ ₹ 200 lakhs x 100%]			17,50,000
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)	28,000		
	³ Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Ganesh	39,000		
	³ Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Ganesh	-	67,000	
	Deduction under section 80QCB		1,90,000	
	Royalty [₹ 2,88,000 x 15/18 = ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus 40,000 expenses already allowed as deduction while computing royalty income]			
	Deduction under section 80TTA		10,000	
	Interest on savings bank account, restricted to ₹ 10,000			2,67,000
	Total income			12,00,600

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

Particulars	₹	₹
Tax on total income of ₹ 12,00,600		
Tax on LTCG of ₹ 2,44,000@20%		48,800
Tax on remaining total income of 9,56,600		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 9,56,600[@20% of ₹ 4,56,600]	91,320	1,03,820
		1,52,620

Add: Health and education cess@4%		<u>6,105</u>
Total tax liability		<u>1,58,725</u>
Tax liability (rounded off)		1,58,730

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

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	12,00,600
Add: Deduction u/s 10AA	17,50,000
Deduction u/s 80QQB	<u>1,90,000</u>
	31,40,600
AMT@18.5%	5,81,011
Add: HEC@4%	<u>23,240</u>
AMT liability	6,04,251
AMT liability (rounded off)	6,04,250
Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 31,40,600 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹ 6,04,250.	

¹ It is assumed that the ground floor and first floor are of equal area

² Since the total income of Mr. Ganesh, who is a member of the AOP, exceeds the basic exemption limit, the AOP should be taxable at maximum marginal rate and not at normal rates, in which case share income of a member would be exempt. This adjustment as well as rebate u/s 110 read with 86 is not within the scope of syllabus of this paper and hence, the same has not been considered in the given solution.

³ Deduction u/s 80C has been worked out assuming that insurance premium of Rs. 48,000 paid on policy of dependent father as given in point (vii)(b) is LIC premium, which is not allowable as deduction. However, if it is assumed that the insurance premium is in respect of health insurance, the whole amount of Rs. 48,000 is allowable as deduction u/s 80D.

EXAM INSIGHTS: Specific requirement to compute Alternate Minimum Tax (AMT) was not given in the question. This requirement has to be gathered by the examinees on their own, if deduction under section 35AD, deduction under Chapter VI-A in respect of certain incomes other than section 80P or deduction under section 10AA is claimed by an individual. However, majority of examinees had not computed AMT though deduction under section 10AA was provided, and the adjusted total income exceeded ₹ 20 lakhs.

Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) Depreciation ₹ 15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- (iv) Dividend income from Indian companies ₹ 15,00,000.
Dividend received from each company is less than ₹ 5,000.

Additional information –

- (i) Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
- (ii) Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has been paid on 31.3.2025 and the same has been debited to profit and loss account.
- (iii) Advance tax paid during the year is ₹17,50,000
- (iv) Ayush purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
- (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2016.
- (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2024, Mr. Ayush withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income. You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.
(MTP 15 Marks, Jul'24) (Same concept different figures MTP 14 Marks Apr'23, RTP May'22)

Answer 28

Computation of total income of Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	
	Add: Items of expenditure not allowable while computing business income			
	(i) Interest on loan taken for purchase of plant & machinery	1,75,000		
	[Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,75,000 [₹ 50,00,000 x 10.5% x 4/12] has to be added back, since the same is debited to the profit and loss account]			
	Purchase of goods at a price higher than the fair market value	<u>5,00,000</u>		
	[The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]		<u>6,75,000</u>	
			89,20,000	
	Less: Items of income to be treated separately under the respective head of income			

	(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
	(ii) Dividend from Indian companies	15,00,000		
	(iii) Short term capital gains on transfer of listed equity shares	<u>10,00,000</u>		
			<u>25,15,550</u>	
			64,04,450	
	Less: Depreciation on interest on loan capitalized to plant and machinery			
	₹ 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
	Normal depreciation @15% x 50% on such interest	13,125		
	Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2024-25, it is eligible for 50% of the rate of depreciation]	<u>17,500</u>	<u>30,625</u>	
				63,73,825
II	Capital Gains			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	Income from Other Sources			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		<u>15,00,000</u>	<u>15,04,550</u>
	Gross Total Income			88,78,375
	Less: Deductions under Chapter VI-A			
	- Deduction under section 80C Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured]		40,000	
	- Deduction under section 80D Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]		<u>25,000</u>	<u>65,000</u>
	Total Income			<u>88,13,375</u>
	Total Income (Rounded off)			88,13,380

Computation of tax payable by Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15%* u/s 111A [₹ 10,00,000 x 15%]		1,50,000
Tax on other Income of ₹ 78,13,380		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 78,13,380 [@30% of ₹ 68,13,380]	<u>20,44,014</u>	<u>21,56,514</u>
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		23,06,514
		<u>2,30,651</u>
		25,37,165
Add: Health and education cess@4%		<u>1,01,487</u>

Total tax liability		26,38,652
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		<u>7,88,652</u>
Tax payable (rounded off)		<u>7,88,650</u>

*Assumed that the shares were sold before 23.07.2024. If they were sold after STCG u/s 111A would be @ 20%.



VIVITSU
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OR



LDR Questions

CS 16

CS 18

CS 20

CS 16

(MTP 10 Marks Oct'22 & MTP, Mar'24)

LDR

Mr. Raj, aged 45 years, commenced operations of the business of a new three-star hotel in Mumbai, Maharashtra on 1.4.2024. He incurred capital expenditure of ₹ 90 lakh on land in March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, he incurred capital expenditure of ₹ 2.50 crore (out of which ₹ 1 crore was for acquisition of land and ₹ 1.50 crore was for acquisition of building) exclusively for the above business. The payments in respect of the above expenditure were made by account payee cheque. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2025-26 is ₹ 75 lakh. Mr. Raj is not opting for section 115BAC.

Mr. Viraj, brother of Mr. Raj, has commenced the business of manufacture of apparel on 1.10.2024. He employed 220 new employees during the P.Y.2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	40	1.10.2024	Regular	24,000
(ii)	80	1.10.2024	Regular	24,500
(iii)	50	1.11.2024	Casual	25,500
(iv)	30	1.11.2024	Regular	25,000
(v)	20	1.12.2024	Casual	24,000

All regular employees participate in Recognized Provident Fund and their emoluments are paid by account payee cheque. The profits and gains derived from manufacture of apparel that year is ₹ 80 lakhs and his total turnover is ₹ 11 crores.

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

- Assuming that Mr. Raj has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes", what would be the quantum of deduction under section 35AD, which he is eligible to claim as deduction for A.Y.2025-26? (Chapter: Profits & Gains from Business Profession)
 - ₹ 340 lakh
 - ₹ 250 lakh
 - ₹ 190 lakh
 - ₹ 150 lakh

Ans: (d)

2. Assuming that Mr. Raj also has another existing business of running a four-star hotel in Ahmedabad, which commenced operations twenty years back, the profits from which are ₹ 130 lakh for the A.Y.2025-26, what would be its income chargeable/loss under the head "Profits and gains of business or profession" for the A.Y.2025-26? (Chapter: Profits & Gains from Business Profession)

- | | |
|----------------|---------------|
| (a) ₹ 130 lakh | (b) ₹ 55 lakh |
| (c) ₹ 20 lakh | (d) ₹ 15 lakh |

Ans: (b)

3. If, out of the amount of ₹ 1 crore paid for acquisition of land in the P.Y.2024-25, ₹ 50 lakh was paid by way of cash, what would be the answer to questions (i) and (ii) above? (Chapter: Profits & Gains from Business Profession)

- | | |
|---|--|
| (a) ₹ 150 lakh; ₹ 55 lakh, respectively | (b) ₹ 100 lakh; ₹ 105 lakh, respectively |
| (c) ₹ 290 lakh; ₹ 85 lakh, respectively | (d) ₹ 140 lakh; ₹ 65 lakh, respectively |

Ans: (a)

4. Considering the assumption given in question (ii) above, what would be the tax payable (rounded off) by Mr. Raj for A.Y.2024-25? (Chapter: Basic Concepts)

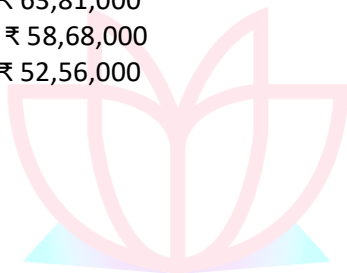
- | | |
|-----------------|-----------------|
| (a) ₹ 16,73,100 | (b) ₹ 42,03,940 |
| (c) ₹ 2,73,000 | (d) ₹ 15,21,000 |

Ans: (b)

5. Would Mr. Viraj be eligible for deduction under section 80JJAA in the A.Y.2025 -26 ? If so, what is the quantum of deduction? (Chapter: Deductions from Gross Total Income)

- (a) No, he would not be eligible for deduction u/s 80JJAA since the employees have not been employed for 240 days in the P.Y.2024-25.
- (b) Yes; ₹ 63,81,000
- (c) Yes; ₹ 58,68,000
- (d) Yes; ₹ 52,56,000

Ans: (b)



VIVITSU
STRIVING TOWARDS KNOWLEDGE



Sagar LLP is an LLP unit set up in Special Economic Zone (SEZ) in the financial year 2019-20 for manufacture of textiles. The unit fulfils all the conditions under section 10AA of the Income-tax Act, 1961. The details of this unit for the financial year 2024-25 are given:

Particulars	₹
Profits of unit located in SEZ	58,00,000
Export sales of above unit received in India in convertible foreign exchange on or before 30.9.2025	1,00,00,000
Domestic sales of above unit	60,00,000

Sagar LLP has three partners, Mr. Ram, Mr. Shyam and Mr. Ganesh. Mr. Ram and Mr. Shyam are working partners while Mr. Ganesh is a non-working partner. All the three partners are receiving remuneration of ₹ 1 lakh per month from the LLP which is already debited to the profits and loss account of the LLP.

Apart from this, Mr. Ganesh was employed in XYZ Ltd. till 30.9.2024 and having a salary of ₹ 80,000 per month. He resigned then and decided to start his own business. He set up a warehousing facility in Pune for storage of agricultural produce, fulfilling the conditions for claim of deduction under section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 90 lakhs (including cost of land ₹ 30 lakhs) was incurred during the P.Y. 2024-25. The warehouse became operational with effect from 1st December 2024. The profit from operation of warehousing facility (before considering deduction under section 35AD) during the F.Y. 2024-25 is ₹ 1,10,00,000.

He pays lumpsum premium of ₹ 90,000 towards health insurance for self and his wife (age 43 years) for 36 months on 01.10.2024 by account payee cheque. He also contributes ₹ 1,50,000 towards PPF.

From the information given above, choose the most appropriate answer to the following questions –

1. What is the amount of remuneration allowable as deduction to the LLP for A.Y. 2025-26 under the head "Profits and gains of business or profession"? (Chapter Profits and Gains of Business or Profession)

- (a) ₹ 36.00 lakhs (b) ₹ 57.30 lakhs
(c) ₹ 35.70 lakhs (d) ₹ 24.00 lakhs

Ans: (d)

2. What is the amount of deduction available under section 10AA to Sagar LLP and under section 35AD to Mr. Ganesh while computing income under the regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26? (Chapter Profits and Gains of Business or Profession)

- (a) ₹ 36.25 lakhs and ₹ 60 lakhs, respectively (b) ₹ 21.875 lakhs and ₹ 60 lakhs, respectively
(c) ₹ 18.125 lakhs and ₹ 60 lakhs, respectively (d) ₹ 21.875 lakhs and ₹ 90 lakhs, respectively

Ans: (b)

3. What is the total income of Mr. Ganesh under the regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26? (Chapter Income Tax Liability – Computation and Optimization)

- (a) ₹ 52,57,500 (b) ₹ 52,55,000
(c) ₹ 53,05,000 (d) ₹ 64,55,000

Ans: (a)

4. What is the tax liability (rounded off) of Mr. Ganesh under default tax regime under section 115BAC for A.Y. 2025-26? (Chapter Basic Concepts)

- (a) ₹ 36,13,710 (b) ₹ 40,18,560
(c) ₹ 36,22,680 (d) ₹ 40,65,200

Ans: (a)

5. What is the tax liability (rounded off) of Mr. Ganesh if he has opted out of the default tax regime for A.Y. 2025-26? (Chapter Basic Concepts)

- (a) ₹ 15,89,870 (b) ₹ 24,24,460
(c) ₹ 15,89,020 (d) ₹ 24,90,280

Ans: (b)



Mr. Anay (aged 52 years) is the CEO of XYZ Enterprise Limited. During the previous year 2024-25, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares (STT paid) amounting to ₹1,06,500. He earned interest of ₹4,82,778 on saving bank account.

Further, he has provided the following other information for filing his return of income:

He does not receive house rent allowance from his employer. Mr. Anay took a loan from State Bank of India on 27th October 2022 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹ 80,000 and ₹1,50,000 towards principal amount during the previous year 2024-25.

Mr. Anay has made the following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: ₹13,500 (by cheque)

Medical premium for his parents: ₹17,670 (by cheque)

Medical premium for self and his wife: ₹21,000 (by cheque).

He also incurred ₹ 6,400 towards preventive health check-up of his wife in cash. He deposited ₹ 1,00,000 towards PPF. He also deposited ₹50,000 and ₹2,50,000 towards Tier I and Tier II NPS A/c, respectively.

He has paid ₹ 5,30,000 as advance tax. His employer has deducted tax at source of ₹ 51,89,000. He is of the opinion that the balance amount of tax, if any, he will pay on 27th July 2025.

Mr. Anay shift out of the default tax regime under section 115BAC.

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

1. What would be the amount of deduction available to Mr. Anay under Chapter VI-A for the assessment year 2024-25? (Chapter Deductions from Gross Total Income)

(a) ₹ 2,04,070

(b) ₹ 2,42,670

(c) ₹ 2,52,670

(d) ₹ 2,02,670

Ans: (d)

2. Assume that, for the purpose of answering this question alone, that Mr. Anay pays rent of ₹ 65,000 per month for his rented house at Mumbai to Mr. C, a resident individual. Is Mr. Anay liable to deduct TDS on such rent? If so, what would be the rate and amount of TDS? (Chapter Advance Tax, Tax Deduction at Source and Tax Collection at Source)

(a) Yes, Mr. Anay is liable to deduct TDS @2% amounting to ₹15,600 in the month of March 2025

(b) Yes, Mr. Anay is liable to deduct TDS @5% amounting to ₹3,250 every month i.e., at the time of payment of such rent

(c) Yes, Mr. Anay is liable to deduct TDS @5% amounting to ₹39,000 in the month of March 2025

(d) No, Mr. Anay is not liable to deduct TDS, since he is a salaried person

Ans: (a)

3. What would be the amount of interest chargeable under section 234B on account of short payment of advance tax? (Chapter Advance Tax, Tax Deduction at Source and Tax Collection at Source)

(a) ₹ 1,980

(b) Nil

(c) ₹ 3,130

(d) ₹ 2,410

Ans: (b)