Chapter – 1

Basic concepts

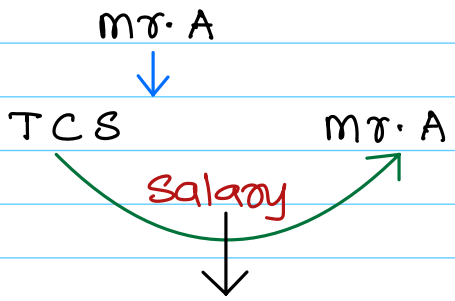
Learning objectives

* Direct Tax v/s Indirect tax
* constitutional background
* Section 4 – Basis of charge
* Tax rates vis-a-vis finance Act
* various definitions
    1. Assessment year [section 2(9)]
    2. Previous year [section 3]
    3. Person [Section 2(31)]
    4. Assessee [section 2(7)]
    5. Assessment [section 2(8)]
* Capital receipt v/s Revenue receipt
* Treatment of illegal income for tax purposes
* Diversion of income by overriding title
* mutual activity (or) principle of mutuality.
* Receipts treated as income [section 2(24)]
* Gross total income [section 14]
* concept of marginal relief
* Rebate u/s 87A
* Exception to AY [section 172, 174 ...] (Accelerated assessment)
* Agricultural income
* Exemption v/s Deduction
* method of acco ting [section 145]
* Rounding off [section 288B]

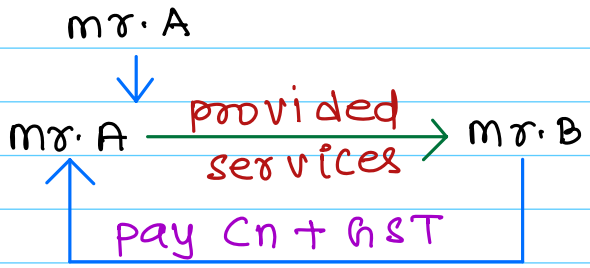
1. Direct tax v/s Indirect tax

* Direct tax is imposed on same person on whom incidence is attracted. However, in case of Indirect tax, incidence is on one person and imposition of tax is on another.

Example



mr. A has to pay tax on his salary



'A' is making revenue but tax is paid by 'B'.

* Shifting of tax burden to another is not possible in DT but possible in IDT.

* Deferring the payment of tax is possible in case of DT but not possible in IDT.

2. Constitutional background

Constitution of India
↓
A. 246
↓
VIIth schedule
↓
List I
↓
Union list
↓
Entry No. 82

(Power to levy tax on income except on agricultural income)

3. Basis of charge [section 4]

Income tax shall be charged for any assessment year in respect of total income of previous year of every person @ rates prescribed in the annual finance Act relevant to the AY.

4. Definitions

a) Previous year [section 3]

Previous year for the purposes of this Act means a financial year immediately preceeding assessment year

b. Assessment year [section 2(9)]

Assessment year means a period 12ms commencing on 1st of April every year.

Interpretation notes

1. P.y is the year in which income is earned.
2. A.y is the year in which tax liability is emerged.
3. All assessees shall follow a uniform PY+AY.

Illustration:-

Accounting year	Income as per books	Quarterly break up of income	
	₹	Jan – march	April – Dec
2023	60,000	18,000	42,000
2024	~~70~~,000	26,000	44,000
2025	90,000	21,000	69,000

Calculate income assessable to tax for the PY 2023-24, 2024-25

Solution:

P y	A y	Income (₹) (as per IT Act)
2023-24	2024-25	68,000 (42,000 + 26,000)
2024-25	2025-26	65,000 (44,000 + 21,000)

An assessee may follow any year (may/ may not be a FY) as Accounting year and maintain books accordingly. But, assessment for the purpose of IT Act shall be only financial year which starts on 1st April and ends on 31st march of next year.

4. Different PY's for different sources (proviso to s.3)

- In respect of existing B/P (or) existing source of income
  - No, different sources cannot have different PY's
- In respect of newly setup B/P (or) new source of income coming into existence
  - Yes, new source / B(or) P shall start from the date of its coming into existence and ends with FY.

Summary:

Particulars	w.r.t. new source: First PY	Subsequent PYs
Begin	Date of existence	1st April
Ending	31st march next year	31st march next yr
Duration	< 12m	12m

Illustration :-

1. Assessee = mr. A
Join employment = 23rd August 2024
No other source of income
Compute the PY for AY 2025-26, 2026-27

Solution :

AY	PY
2025-26	23rd Aug 2024 – 31st march 2025
2026-27	1st April 2025 – 31st march 2026

2. Assessee = mr. X
Sources of income

Type	Remarks
Property	From 2005
Business	10th march 2024

Property income = ₹ 42,000/annum
Business income = ₹ 69,000 from 10th march 2024 to 31st march 2025
(₹ 10,000 is blw 10th march 24 & 31st marchay)

Calculate taxable income for
AY 2023-24
AY 2024-25
AY 2025-26

Solution:

AY	Property income (₹)	Business income (₹)	Taxable income (₹)
2023-24	42,000	–	42,000
2024-25	42,000	10,000 *1	52,000
2025-26	42,000	59,000 *2	1,01,000

*1 w.r.t. Business income, since it is new source PY will 10th march 2024 to 31st march 2024
*2 In ₹ 69,000, ₹ 10,000 is income of preceeding previous year.

c. Defn of person [section 2(31)]

Person includes ——

1. Individual
2. HUF
3. Company
4. Firm
5. AOP
6. BOI
7. Local authority
8. Artificial juridical person

d. Defn of company [section 2(17)]

Company means ——

1. Any Indian company
2. Any BC incorporated outside India.
3. Any institution, association (or) body which was assessed to tax in any AY under Indian Income tax Act, 1922 (or) was assessed in any AY on (or) before 1st of April 1970.
4. Any I/A/B declared as company by the CBDT.

5. **Structure of finance Act**

FA 2025
↓ 1st schedule

Part I
↓
contains the rates of IT as applicable for relevant A.Y.
i.e. AY 2025-26
PY 2024-25

Part II
↓
contains the TDS rates as applicable for PY
i.e. PY 2024-25

Part III
↓
contains the rates of TDS on salary & provisions of advance tax for PY
i.e. PY 2025-26
AY 2026-27

Also found in the Part III of FA 2024 (Rates for AY 2025-26)

6. **Relevant law applicable**

Charge of income tax
↓
As per sec. 4, 'income tax shall be charged as per the provisions of this Act for that PY .....'
So, law relevant till 1st April of AY, i.e. 1/4/25 is relevant for assessment of income i.e. for PY 2024-25.

Any other procedural changes
↓
As per sec. 4, only charge of income tax is referred. Therefore, any kind of procedural change brought even after 1st April of AY is relevant.

Illustration:

Rate of depreciation : 20% : Till 20/12/24
New rate of depn : 30% : From 21/12/24
Revised New rate : 35% : From 10/4/25.
What rate will you consider for AY 2025-26.

Ans: Since, the rate of depn will have impact of tax liability and income tax computation, amendments made till 1st April relevant AY are considered.
∴ Rate of depn as at 1st April 2025 i.e. 30% is relevant.

7. **Accelerated assessments** [Sec 172, 174, 174A, 176]

Generally, income of the PY will be assessed to tax and charged thereon in the relevant AY. However, in some exceptional cases, levy + collection may not be deferred to AY but is done in the same PY. Such assessments are called as accelerated assessments.

8. **Shipping business of non-residents** [Sec 172]

1. **conditions attracting s. 172**

cond	Explanation
1.	There is a non-resident
2.	carries on shipping business
3.	owns / charters a ship
4.	ship carries passengers, livestock, mail goods shipped at a port in India.

2. **what if conditions are satisfied?**

If all the above conditions are satisfied, then, 7.5% of freight + other charges

paid / payable to NR shall be deemed to be the income chargeable to tax.

3. Other points :-

* This section has a overriding effect over all other provisions of this Act and therefore,
  - Charging section donot apply fully. (S.4)
  - NO deductions allowed U/H PGBP.
  - NO set off and carry forward.
  - NO deductions under sec. 80.

* Goods must be shipped at a port in India.
* Payment is not relevant (payment may be made / may be payable)
* Place of payment is also not relevant.
* Any demurrage charges / handling charges (or) any other charges are included into the frieght charges.
* Generally, master of ship should declare by filing a return to A.O before departure of the ship as to the amount paid to NR and pay tax accordingly. However, if AO is satisfied that master cannot submit return as aforesaid, he may given 30 days time to do so if master has provided sufficient alternative and other person to pay + file.
* The owner / charterer of ship may claim to apply other provisions of this Act to assess his total income for the previous year and in such case, tax already paid U/s 172 is treated as advance tax paid + balance amount as difference will either be payable / refunded.

claim before the completion of AY relevant to PY.

2. Selective assessment for non-residents carrying on shipping business [S. 44B]

1. Conditions attracting S. 44B

Cond	Explanation
1.	There is a non-resident
2.	carries on shipping business
3.	owns / charters a ship
*4.	ship carries passengers, livestock, mail goods shipped at a port in India.

Note: From AY 2025-26, this section excludes cruise shipping and was brought to the purview of S. 44BBC.

* Port may be located either in/outside India.

2. What if conditions are attracted?

Income shall calculated as 7.5% of —

- Amount paid / payable in India for the goods etc shipped from a port o/s India.
- \+
- Amount paid / payable o/s India for the goods etc shipped from a port within India

Amount as referred shall include —

* Demurrage charges
* Handling charges
* Other charges.

3. Other points

* Section 44B overrides S. 28 to S. 43A.
* It won't override other provisions of PGBP chapter like sec 44AA, 44AB etc.
* set off and Clf provisions, clubbing provisions shall apply as it is. This is due to use of language 'not withstanding anything contrary contained in sec 28 to sec 43A ....'

4. Comparison b/w S. 172 & S. 44B

Particulars	S. 172	S. 44B
1. overriding effect	overrides all provisions of this Act.	overrides only S. 28 to 43A and not whole Act.
2. setoff and Clf of losses	Not available	Available
3. Deductions u/s 80	Not available	Available
4. Tax Liability	7.5% of amount received on a/c of frieght for goods shipped in Indian port	7.5% of amount received on a/c of frieght for goods shipped at any port provided, there is business connection in India.
5. option of assessment	Can opt for a regular assess-ment u/s 172(7)	Not possible since other incomes are also present
6. subject matter	Recovery of Tax	Assessment

5. Illustration of Sec 172 + S. 44B

Assessee (Non-resident) = Mr. X (62 years) (engaged in shipping business)

Details of frieght collection during PY 2024-25

Date	Nature	Amount (₹)
6/8/24	shipping cost including handling and demurrage	40,00,000
10/1/25	shipping cost with no other costs	25,00,000

Other details:-

1. shipping made on 6/8/24:
   - shipped from Cochin port
   - Demurrage charges : ₹ 10,000
   - Handling charges : ₹ 60,000
2. shipping made on 10/1/25:
   - shipped from Bombay port.
   - payment made in New York.
   - Frieght includes all costs.
3. Mr. X has collected ₹ 42,70,000 in India on march 3, 2025 for goods shipped from Karachi to California.
4. X doesnot have any other income in India.
5. B/f business loss = ₹ 5,000.
6. Expenditure = ₹ 2,40,000 (₹ 65,000 out of it is paid in cash)

Compute the tax liability for AY 2025-26.

Solution :-

Option 1: Accelerated assessment U/s 172 for first 2 receipts and regular asst for 3rd receipt U/s 44B

Particulars	Amount (₹)
A. Collections from goods shipped from Cochin port	40,00,000
B. Deemed income as on 6/8/24 (40,00,000 x 7.5%)	3,00,000
C. Collections from goods shipped from Bombay port	25,00,000
D. Deemed income as on 10/1/25 (25,00,000 x 7.5%)	1,87,500
E. Recovery of Tax (Case-1) (₹ 3,00,000 x 40%) + 4%	1,24,800
F. Recovery of Tax (Case-2) (₹ 1,87,500 x 40%) + 4%	₹8,000
G. Collections made in India for goods shipped from 'K to C'	42,70,000
H. Recovery of Tax (Case-3)	3,390

Deemed income = ₹ 3,20,250
(₹ 42,70,000 x 7.5%)
(-) Business loss = (₹ 5,000)
Net Income = ₹ 3,15,250

Slab rate taxation for reg. asst

upto ₹ 2,50,000 = No tax
₹ 2,50,000 to ₹ 5,00,000 = 5%
(₹ 3,15,250 - ₹ 2,50,000) x 5% = 3,263
(+) EC @ 4% = 131
Total tax liability = 3,394
rounded off u/s 288A = 3,390

option 2: Regular assessment of all receipts / incomes and treating tax already paid u/s 172 as advance tax and pay additional tax / claim refund.

Particulars	Amount (₹)
Total income assessable u/s 172 (₹ 40,00,000 + ₹ 25,00,000)	65,00,000
Income from other shipping	42,70,000
Total income assessable u/s 44B	1,07,70,000
Deemed income @ 7.5% (₹ 1,07,70,000 x 7.5%)	8,07,750
	– 5,000 (BL)
	8,02,750
Tax Liability calculation	
Upto 2,50,000	–
2,50,000 – 5,00,000 5%	₹ 12,500
5,00,000 – 10,00,000 20% (8,02,750 – 5,00,000) x 20%	₹ 60,550
	₹ 73,050
+ cess @ 4%	₹ 2,922
Net tax liability	₹ 75,972
Rounding off	₹ 75,970

Tax already paid u/s 172 (Advance Tax) = ₹ 2,02,800
(₹ 1,24,800 + ₹ 78,000)

Net tax liability u/s 44B = ₹ 75,970

Excess tax paid eligible for refund = ₹ 1,26,830

B. Assessment of persons leaving India [S. 174]

1. conditions attracting the section

Cond	Content
1	It appears to A.O that an ind may leave India in current AY
2	He has no intention to return

2. what if conditions are satisfied:

Total income of that individual shall be chargeable tax in the current AY for period blw the date of expiry of PY till probable date of departure.

NOTE: This shall apply notwithstanding Sec. 4.

3. Power of A.O to estimate the income

A.O may estimate the income of individual for PY / any part if it cannot be readily determined under this Act.

4. Seperate assessments

Seperate assesments shall be made in respect of total income of PY and current AY.

Illustration:

Person = mr. X

AO came to know on 12th Feb 2025 that the person is permenantly leaving India on 12th April 2025.

What an AO can do in this case?

Solution:

A.O. in this case has a power to assess the income to tax on acceleration basis.

A.O in this case has 3 assessments

- Regular assessment for PY 2023-24 (This assessment might be already completed on/ before 30th sep 2024)
- Accelerated assessment for PY 2024-25 → Total income b/w 1/4/24 to 31st march 2025
- Accelerated assessment for PY 2025-26 → Total income b/w 1/4/25 - 12/4/25

As per the rates given in Part III of 1st schedule of FA 2024.

C. Assessment of AOP/BOI/AJP formed for a particular purpose/event [S.174A]

1. conditions attracting section:

Cond	Content
1	It appears to A.O that an AOP/BOI/AJP formed for particular purpose
2	It also appears to A.O that such AOP/BOI/AJP is likely to be dissolved in the AY in which it is formed.

2. What if, conditions are attracted?

The total income of AOP/BOI/AJP for the period from expiry of PY for AY upto the date of dissolution shall be chargeable to tax in the same A.Y.

Note: 1. Sec 174A overrides S.4.

2. Sec 174A imports its procedural powers of AO from Sec. 144(2) - (6).

D. Assessment of persons who are likely to avoid the tax [Sec. 175]

1. conditions attracting section:

Cond	Content
1	where it appears to A.O that a person is likely to charge, sell (or) dispose the asset in the current A.y.
2	It also appears to A.O that such asset is charged / sold / disposed to avoid any tax under this Act.

2. what if, section is attracted?

The total income of such person from the date of expiry of PY relevant to AY till the date of commencement of proceedings u/s 175 shall be chargeable to tax is current A.y.

Notes:

* Asset may be movable / immovable
* This section overrides sec. 4.

E. Dis-continued business :- [Sec. 176]

1. conditions attracting section:

Cond	Content
1	A business / profession is discon-tinued in any A.y.
2	The person shall give a notice of such dis-continuance within 15 days there of.

2. What if, section is attracted?

The income of the period from the expiry of PY relevant to A.Y. till the date of dis-continuance may be chargeable to tax in the current A.Y.

Note:

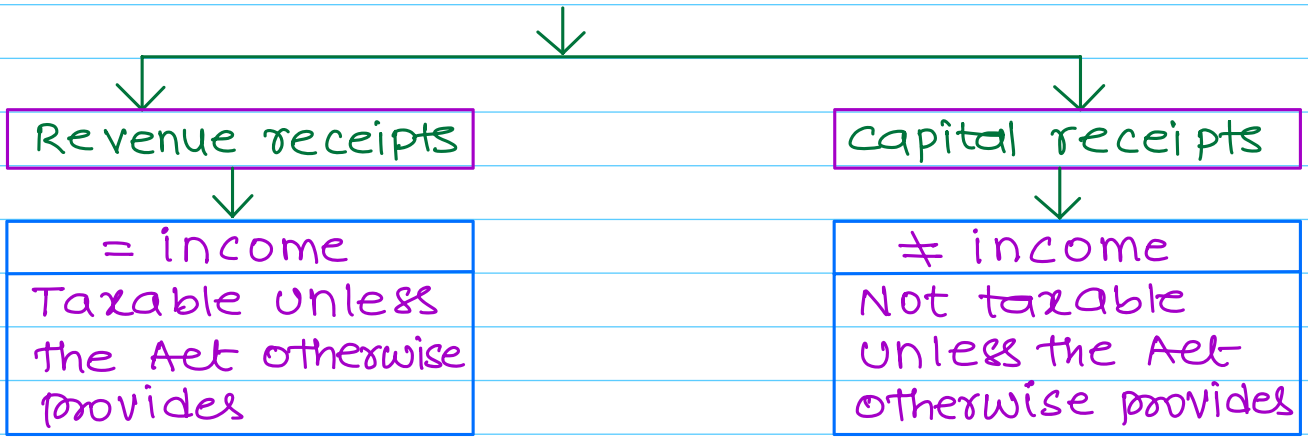
* This section overrides S.4.
* Action by A.O. under this section is at his discretion (optional) unlike S. 172, 174, 174A, 175.

5. Concept of Income

Topics dealt:
* Capital receipt
* Revenue receipt
* Income u/s 2(24)(i) to (xviii)

1. Introduction

- All receipts are not incomes
- Whether a receipt is income/not is solely dependent on its nature and the provisions of this Act.
- The significance of this concept is supported by the charging section which carry the words ——— 'total income of previous year .....'
- classification of receipts based on its nature ——



Note:
In the income definition we see so many capital receipts included and if they wouldn't have entered into the definition, they are not regarded as incomes. However, govt want to impose tax on it and therefore they created fiction in income definition.

2. Revenue receipts:

Any monetary return coming with some sort of regularity from a definite source.

Need not be money form. Enough if it is capable of quantified in money terms.

Examples

Source	Receipt
1. House property	Rent
2. Employement	Salary
3. shares in a Co	Dividend
4. FD with a Bank	Interest
5. Business/ profession	Profit

3. Capital receipts:

Any receipt, not being a revenue receipt

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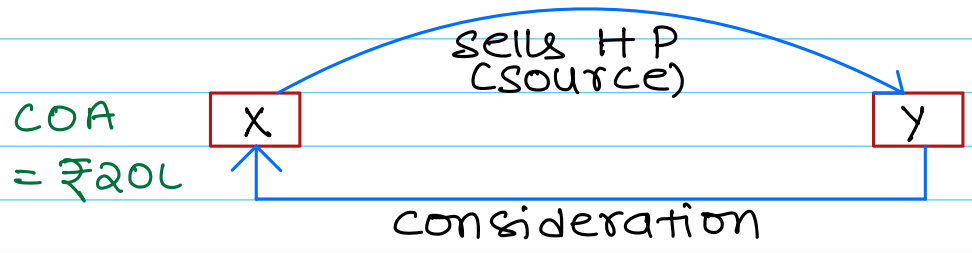
Capital receipt

I. Receipts in lieu of source



₹200L = Capital receipt

Gain = ₹200L − ₹20L = ₹180L

NOte: If X = real estate dealer, Then it the Cn received = revenue receipts

II Wind fall receipts
(Casual receipts)

- Lottery winnings
- Horse race winnings
- winnings from cross word puzzles
- Card game winnings

III. Grants / subsidies for creation of profit making apparatus / improving the profit making ability of profit making apparatus

Eg 1:

X Ltd ← ₹ 10 crore (subsidy) ← Govt

for setting up an industrial undertaking in backward area.

=

Capital receipt

(Sahney steels + press works Ltd) – SC

Eg 2: Ponni sugars + chemicals Ltd (SC)

Enterprises in sugar industry ← Loans ← Banks / FI

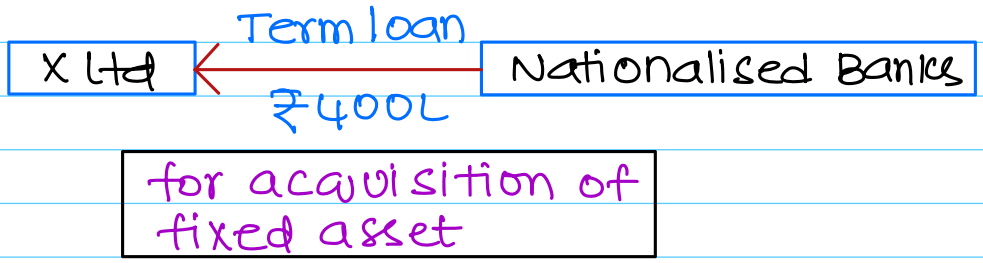
for setting up new sugar mills / substantially expanding the capacity of existing sugar mill.

subsidy for repayment of such loans → Govt

= Capital receipt

IV. Benefits on a/c of cessation/ remission of liabilities:

Eg - 1:



However, due to financial difficulties X Ltd could not meet its obligations for last 3 yrs The Bank comes with one-time settlement scheme to reduce its NPA. X Ltd avails the benefit of scheme and waiver of ₹ 20L is obtained.

= Capital receipt

This view is expressed in
(a) Solid containers Ltd (Bom)
(b) Logitronics (P) Ltd (Del)
(c) Jubilant securities (P) Ltd (Del)
(d) Rollatainers Ltd (Del)
(e) Iskraemeco Resent Ltd (Mad)

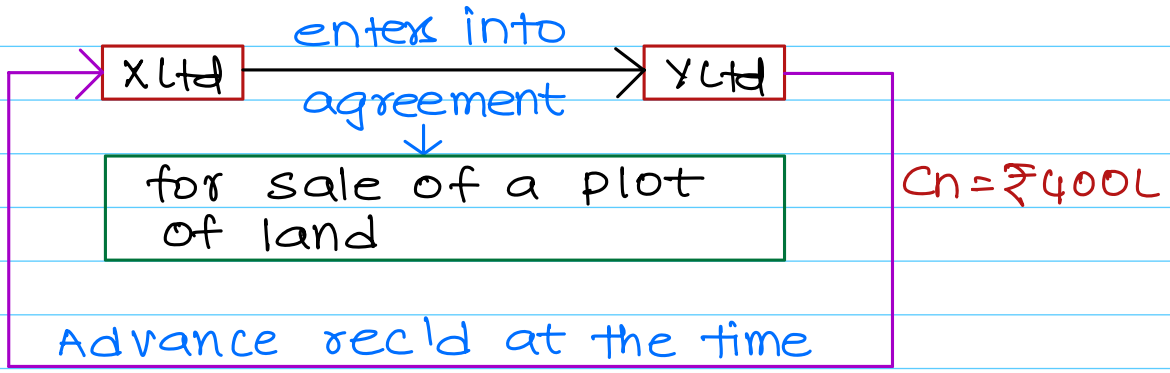
Conclusion

Loan waived

Loan was taken for acquisition of fixed asset.	Loan was taken for day-to-day operations.
— Benefit in capital front	— Benefit in revenue front
— Capital receipt	— Revenue receipt (Taxable under head PGBP u/s 41(1))

V. Forfeiture of advance on account of failed negotiation

Eg 1:



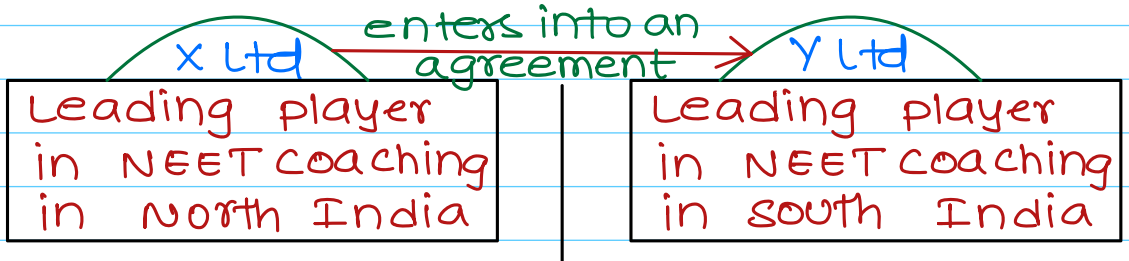
Balance to be paid within 2 months.
Y Ltd couldnot keep up its promise
After 2 months, X Ltd forfeited ₹80L (advance recd)

↓

capital receipt

VI Compensation for sterlisation of source

Eg-1: Non-compete fee



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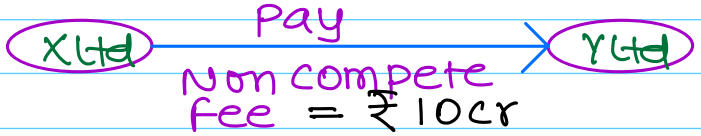
As per the terms of agreement Y Ltd shall not start coaching in North India.



This is paid to ward off competition and to carry on business free of competition for a substantially longer period of time.

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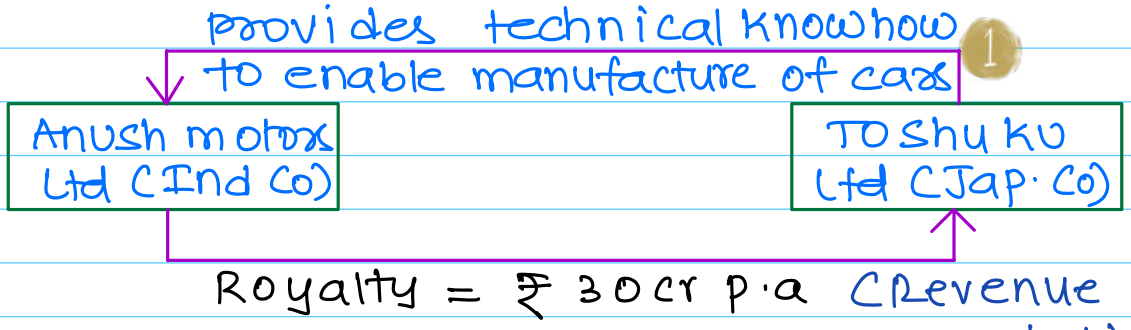
This a receipt for not creating a source of income and therefore treating as income.

Eg-2: Fee for exclusivity of rights



2 Toshuku Ltd (Japan Co) provided TKH also to

- comp-1
- comp-2
- comp-3

3 To avoid sharing of TKH

Anush motors Ltd (Ind Co) Entered into Toshuku Ltd (Jap. Co)

↓

exclusive TKH sharing agreement and paid ₹ 300 cr

=

Capital receipt

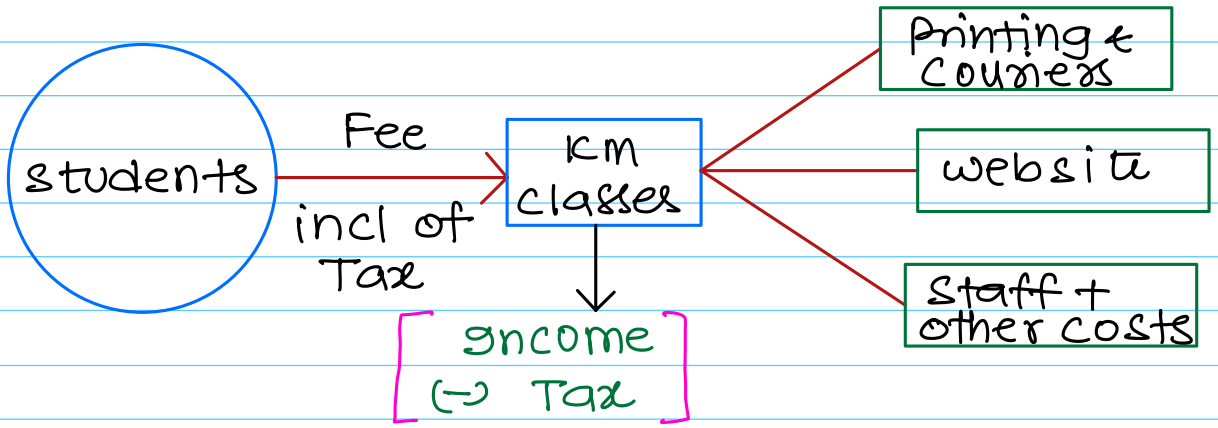
Additional concerns on Income concept

1. **Real income theory:**
   * Income means real income and not a fictitious income.
   * Therefore notional gains, revaluation gains which are not real gains cannot be subjected to tax.

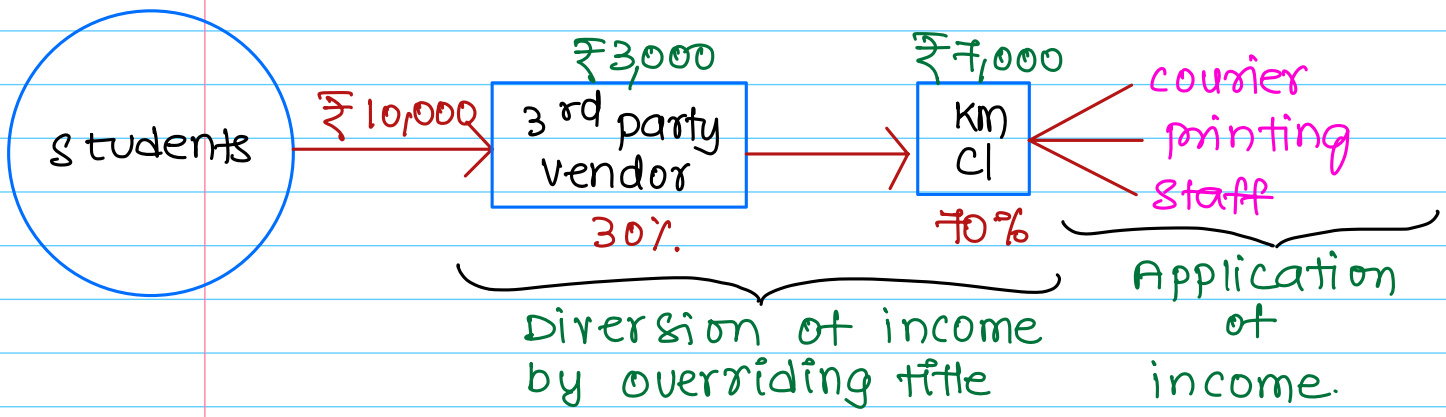
2. **Taxation of illegal income:**
   * There is nothing prohibiting the govt to recover the tax on illegal income.
   * It is held in T.A. Qureshi v/s CIT case that, ———
     a. Just by collecting tax on illegal income, govt will not become a party to illegality.
     b. Prosecution is the consequence of illegal acts.
     c. Expenses u/s 37(1) of IT Act are not allowed as a deduction.

3. **Application of income v/s diversion of income by overriding title.**
   * Application of income is generally an expense and not share of income.

   Eg:



* whereas, in case of diversion of income by a overriding title ———
  a. one person will receive income that belongs to another also.
  b. That another also has right on that income.
  c. First one person will receive the amount and later divert the income to another.
  d. The income that is diverted shall be the income of the person to whom it is diverted.



4. Principle of mutuality – Taxation of mutual concern

Associations

for profit	for other purposes
Example	Entertainment <social club>
* company	professional dev <BCAS>
* Firm	Advancement of a common interest <Trade union>
* AOP/BOI	
* LLP	

Features of mutual concern

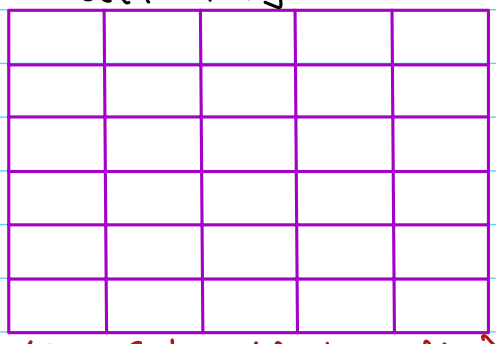
* No profit motive
* common purpose
* contribution to common fund
* Expending out of common fund to achieve common purpose.
* No transaction with outsidexs
* Activities are not ~~tainted~~ with any kind of commerciality.
* complete identity blw contributors + participants in surplus.

Note:

* Surplus from mutual activities of a mutual concern ≠ income.

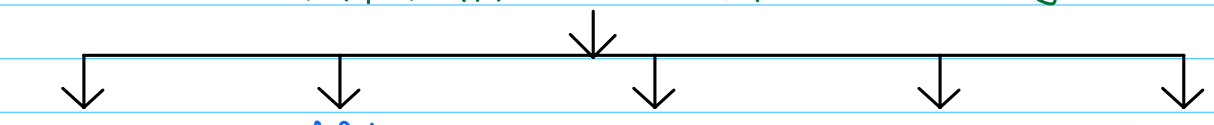
Illustration

Apartment building (100flats)



(Residential units)

maintenance of the building



watch guard | Lift facility | common Lighting | sweepers | Repairs etc

for this purpose, the flat ownexs come together and floated a "Resident welfare assn" (Society | S.& Co)

From the Judiciary

case 1:

Maker towers A & B co-op Housing society Ltd
Vs
ITO (Mumbai)

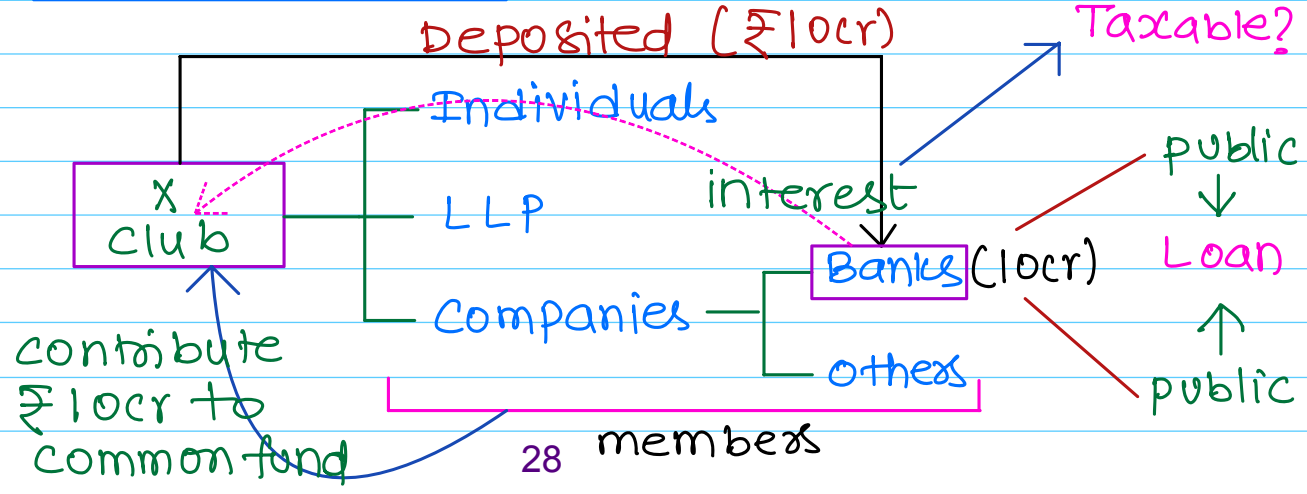
The ITO / court has given some broad propositions as to the principle of mutuality and they are as under ——

* Every flat owner should be member of the association so formed.
* Association formed can be a company (or) society (or) co-op society.
* only members should use the common facility and not outsiders.
* facilities are provided on "No profit no loss basis".
* surplus if any, should be used for common purpose only.

case 2:

Secunderabad Club
Vs
CIT
(2023)

Analysis of case:



Judgement :-

Though the amount is deposited with a bank which is a member of the club, the interest amount is ~~taxable~~ because, the bank is loaning the funds to outsiders and interest paid by bank forming part of the common fund is having a link with amount given by an outsider and therefore, the transaction lacks mutuality and hence, interest is taxable.

Some examples of mutual concerns

* Apartment associations
* Professional associations.
* Trade unions.
* Auto unions.

Definition of Income — S. 2(24)(i) to (xviii)

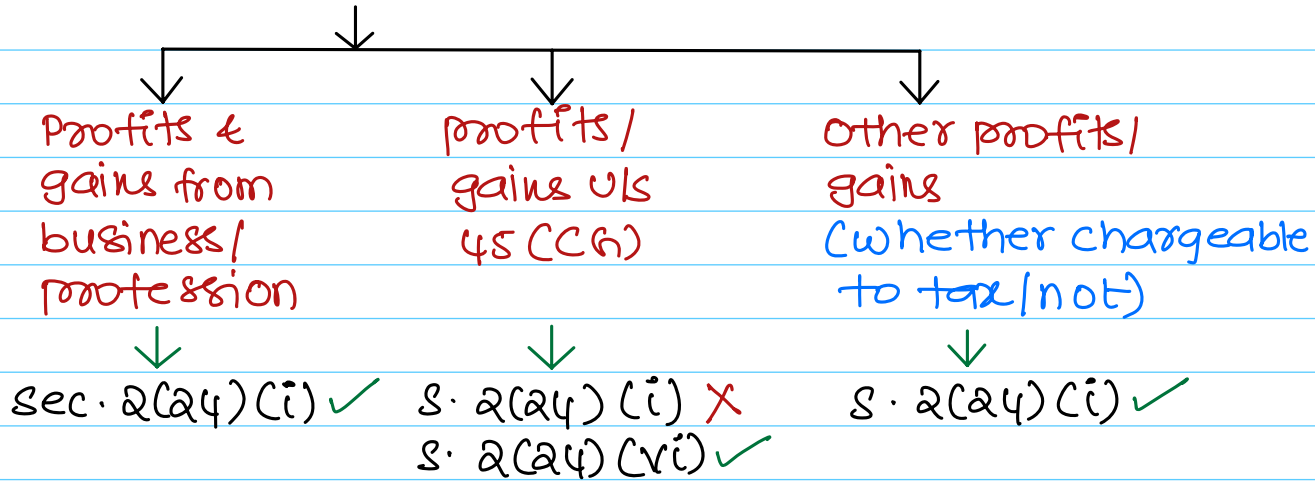
Introduction:

* Income defined u/s 2(24) is an inclusive definition.
* Therefore, the list provided in S. 2(24) is only a illustrative list and not exhaustive.
* There can be many more incomes which might not be brought within the purview of income definition but still are incomes and taxable because of inclusive nature of definition.

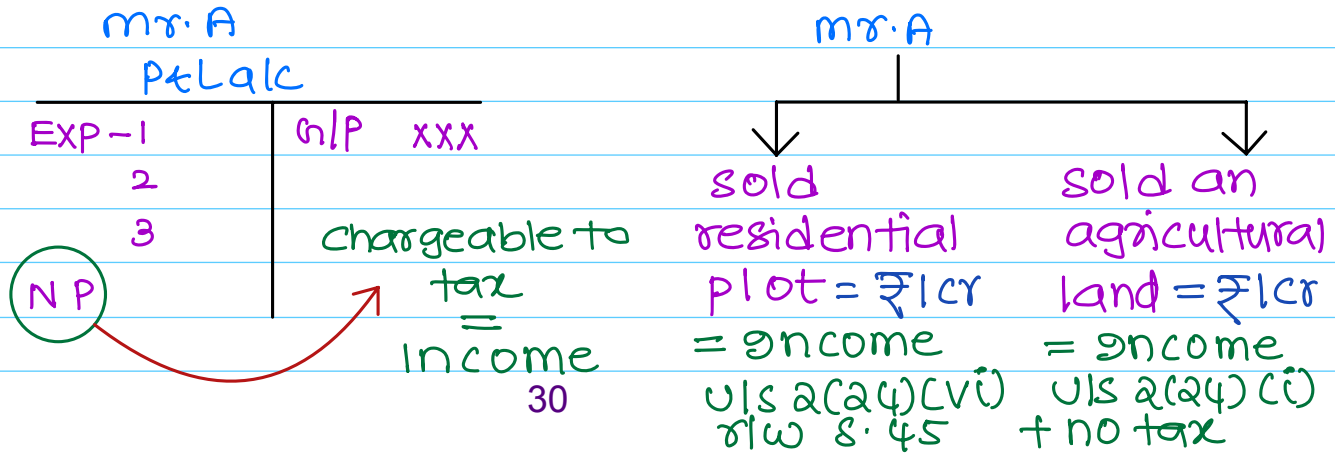
Analysis

1. Sec. 2(24)(i)

* Profits & gains is an income.
* Profits & gains



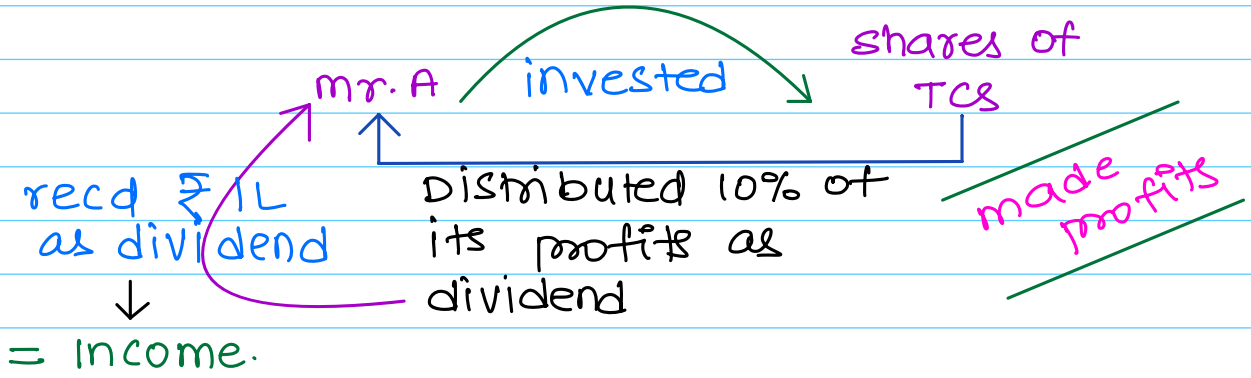
Illustration



2. S. 2(24)(ii):

* Income includes dividend.
* Dividend includes deemed dividend.
  U/s 2(22)(e)

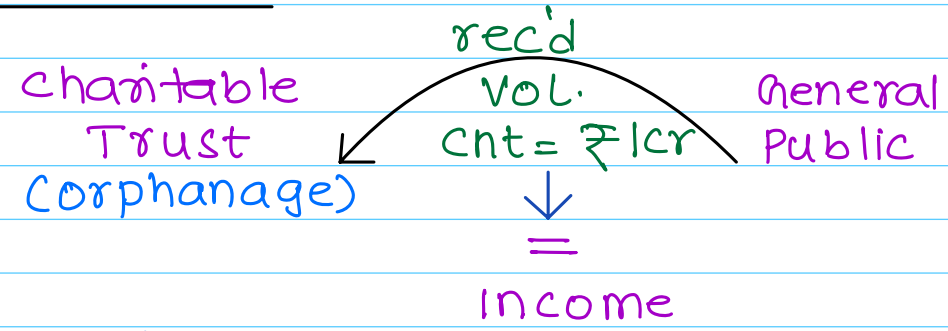
Illustration:



3. S. 2(24)(iia)

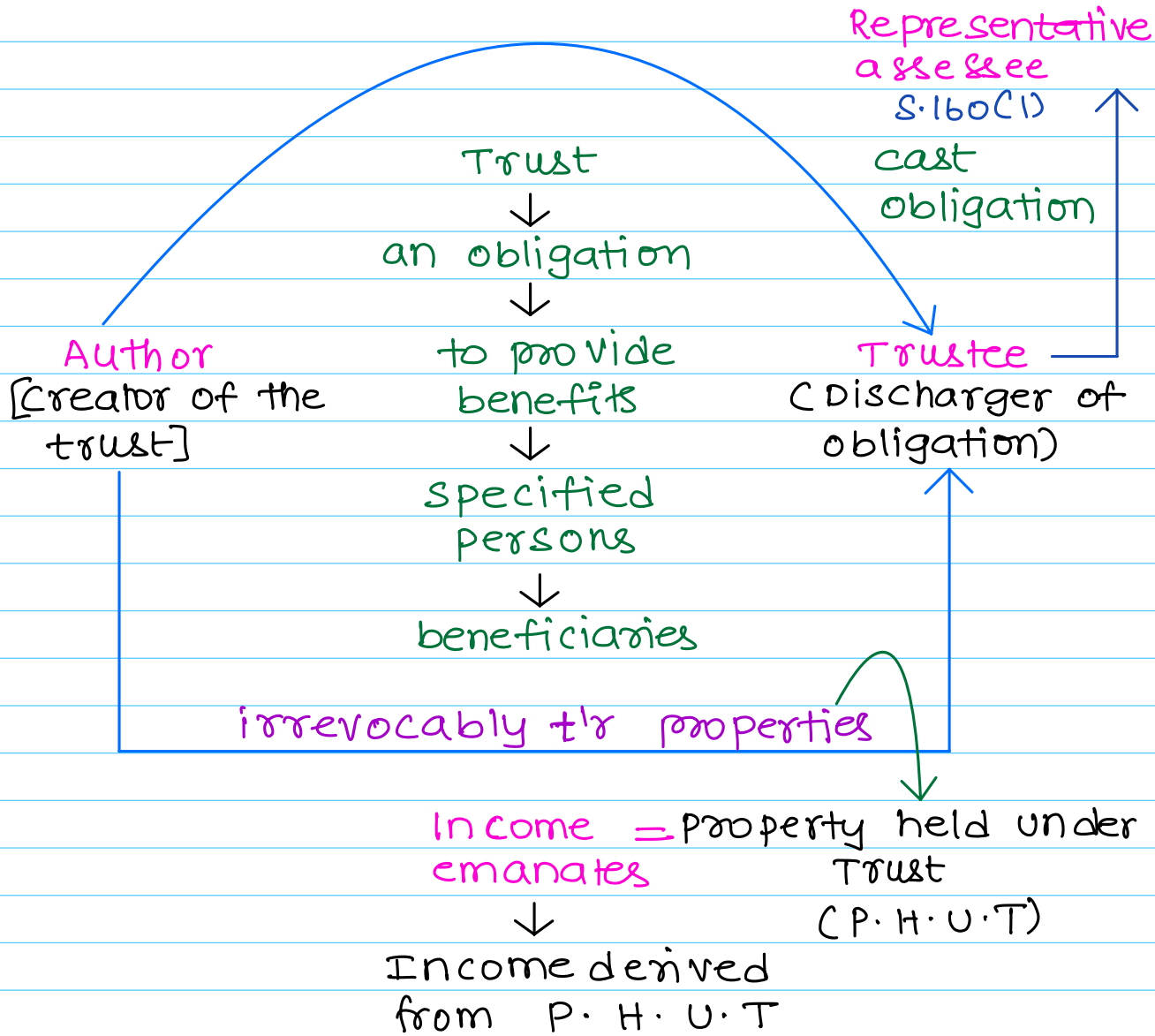
* voluntary contributions received by ——
  - Trust created wholly (or) partly for charitable purposes (or) religious purposes.
  - scientific research association.
  - any fund (or) institution established for charitable purposes.
  - any university / educational institution/ hospital
  - Electoral trust.

Illustration



Once it is an income, chargeability/not depends other provisions of this Act.)

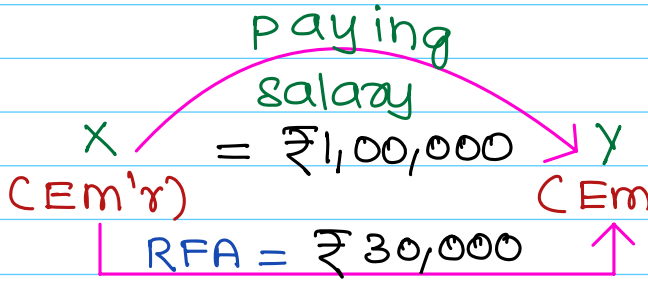
Concept of Trust



4. S.2(24)(iii):

Any perquisite provided to the employee by employer + is taxable U/s 17

Illustration:



Total income of Y	₹
Salary	1,00,000
(+) Value of perquisite U/s 2(24)(iii)	30,000
Total	1,30,000

5. S. 2(24)(iii a) + (iii b) :-

(iii a)

Any special allowance specially granted by employer to employee to meet expenses which are exclusively for the purposes of employment.

(iii b)

Any allowance in the nature of —
* city compensatory allowance
* Deamess allowance.

6. S. 2(24)(iv) :-

Situations

Value of any benefit (or) perquisite that is provided by Co; to the —
* Director / his relative
* P S I / his relative

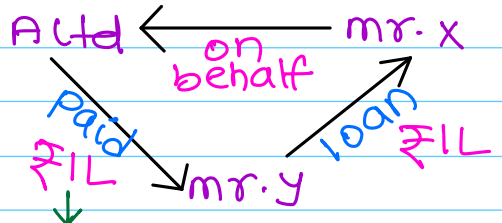
Any sum paid by the company in respect of obligation of the director / such person which would have been paid by director / such person.

=

Income

Illustrations

* Remission of loan taken by director is a benefit. (CKS malik V/s CIT)
* mr. X holds 20% shares in A Ltd.
  (mr. X = substantial interest)



Income u/s 2(24)(iv)

7. S. 2(24) (v), (va), (vb), (vc) (vd), (ve)

* Any sum chargeable u/s 28(ii)
(S. 28(ii) = compensation/payments due)

1. X Ltd ⟶ mr. y
(as an agent to sell the goods)
(in next 3 yrs)
@ monthly salary = ₹ 40,000

2. Due to financial difficulty
X Ltd removed mr. y after 1 year after paying compensation of say, ₹ 1,20,000 = Income

* Sum chargeable u/s 28(iii)
(S. 28(iii) deals with income derived by trade/professional association for specified servies performed for its members.)

* Sum chargeable u/s 41 (or) 59
(Deemed incomes)
eg: Recovery of Bad debts.

* Sum chargeable u/s 28(iiia)
(Profit on sale of license) : eg: import license

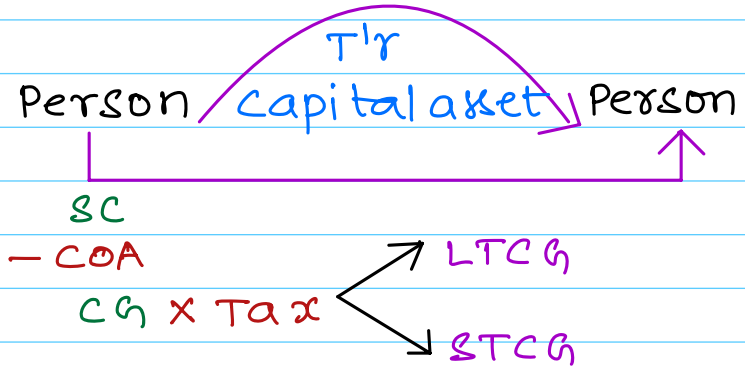
* Sum chargeable u/s 28(iiib)
(Cash assistance recd on a/c of exports)
eg: Duty drawback)

* Sum chargeable u/s 28(iiic)
(Excise duty drawback)

* sum chargeable u/s 28(iv)
(value of any non monetary benefit arising from business/profession).
(Car facility to partners for their private use).

* sum chargeable u/s 28(v)
(Non compete fee)

8. S. 2(24)(vi)
Any sum chargeable to tax u/s 45.
Illustration



9. S. 2(24)(vii)
Any profits/gains made by insurance entities covered u/s 44.

10. S. 2(24)(viia)
Profits made in banking business by co-op banks.

11. S. 2(24)(viii) – omitted.

12. S. 2(24)(ix)
Any sum received on account of ——
* Lottery winnings * Races * Gaming
* Betting * Gambling etc.

13. S. 2(24)(x):

Any sum received as a contribution to —

* Employees PF
* Any employees welfare fund

as EMPLOYEES CONTRIBUTION.

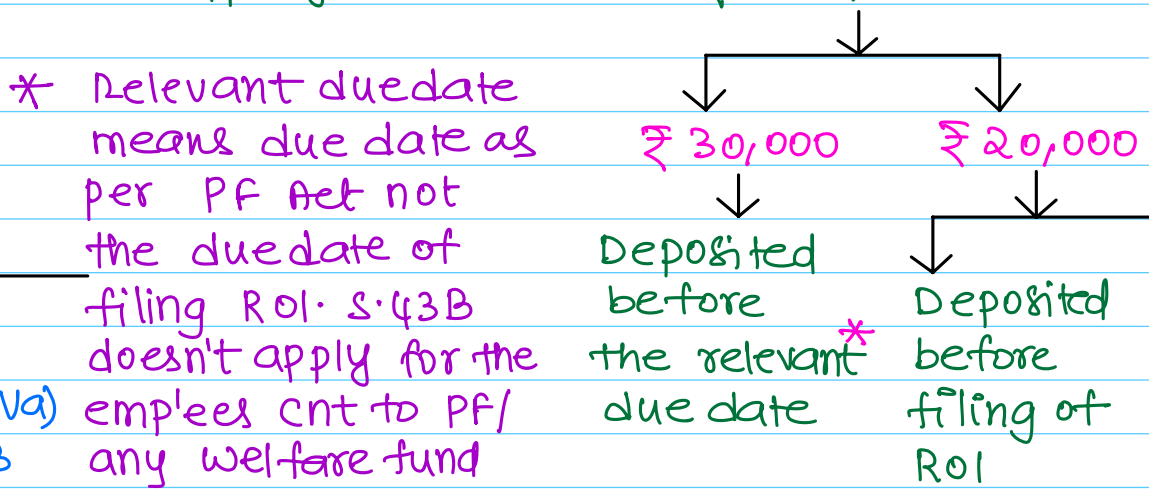
Illustration:

		₹
Net profit	=	1,86,000

Net profit is calculated after deducting the following —

Employees Salary = ₹ 5,00,000

Employees PF cnt = ₹ 50,000



* Relevant duedate means due date as per PF Act not the due date of filing ROI. S.43B doesn't apply for the emplees cnt to PF/ any welfare fund

more on this will be discussed in S.36(1)(va) r/w S.43B in PGBP.

Solution:

Particulars	Amt (₹)
Net profit (PtLalc)	1,86,000
(+) Employees PF cnt	50,000
	2,36,000
(-) Employees cont that is deposited before relevant due date	(30,000)
Net profit	2,06,000

14. S. 2(24)(xi)

Any sum received by company under Keyman insurance policy + any bonus.

15. S. 2(24)(xii) to S. 2(24)(xviid)

* S. 2(24)(xii) + (xiia) = conversion of CA into S-I-T
* S. 2(24)(xiii) to S. 2(24)(xviid) = All gifts = incomes.

16. S. 2(24)(xviii)

Subsidies & grants w.r.t. business recd from CH/SH/LA = Income subject to provisions of expln 10 to S. 43(1).

miscellaneous concepts

I. concept of Exemption & deduction

Particulars	Exemption	Deduction
1. Nature	Income is not chargeable to tax	Amounts are deducted from which is already an income
2. Impact	Exemption amt ≠ Income	Deduction can either equal/ less/ more than income.
3. Timing	Not brought into income computation	Deducted from GTI – 80C to 80U.
4. Example	* Agricultural income * Income of ch. trust	* Ded for LIC * Scientific research etc.

II. concept of Gross total income [sec.14]

As per section 14, total income of a person is computed under the following heads:

Head 1: Salaries
Head 2: Income from house property.
Head 3: Profits and gains of business/ profession.
Head 4: Capital gains
Head 5: Income from other sources.

III. Rounding off [sec 288 B]

A sum payable by an assessee and amount of refund under the provisions of its Act shall rounded off to the nearest 10 rupees.

IV Tax Liability computation sheet

	Particulars		Amount (₹)
1.	**Income from salaries**		
	• Salary income	XXX	
	• Allowances income	XXX	
	• Perquisites income	XXX	
	Gross Salary	XXX	
	(–) Std. dedn	(XXX)	
	(–) Entertainment allowances	(XXX)	
	(–) Professional tax	(XXX)	
	Taxable income U/H salaries		XXX
2.	**Income from house property**		
	Adjusted net annual value	XXX	
	(–) Deductions U/s 24	(XXX)	
	Taxable income U/H house property		XXX
3.	**Profits & Gains of business/ profession**		
	Net profit as per P&L a/c		
	(+) Amounts debited to P&L a/c but are not allowed	XXX	
	(–) Expenditure not brought into accounts / P&L a/c	(XXX)	
	(+) Incomes not brought into credit of P&L a/c but are taxable	XXX	
	(–) Incomes which are credited to P&L a/c but are either in wrong head (or) are exempt	(XXX)	
	Income taxable U/H PGBP		XXX
4.	**Capital gains**		
	Amount of capital gain	XXX	
	(–) Exemptions U/s 54	(XXX)	
	Amount taxable U/H capital gains		XXX

Particulars		Amount (₹)
5. Income from other sources		
Gross income	XXX	
↳ Deductions u/s 57	(XXX)	
Taxable income under head other sources		XXX
(1) + (2) + (3) + (4) + (5)		XXX
↳ setoff and c/f of losses		(XXX)
Gross total income		XXX
↳ Deductions u/s 80C to 80U		(XXX)
Total income liable to tax		XXX

Tax Liability as per applicable tax rates.

TAX RATES APPLICABLE FOR AY 2025-26

SC = Senior citizen

VSC = Very Senior citizen

I. Normal tax rates

Concept-1 : Taxation of individuals

A. For Individual, HUF, AOP, BOI, AJP (R/NR)

Individual not being SC, VSC.

Total Income	Rate
≤ 2,50,000	—
> 2,50,000 ≤ 5,00,000	5%
> 5,00,000 ≤ 10,00,000	20%
> 10,00,000	30%

B. For Senior citizen (Resident individual + age ≥ 60y < 80y in PY)

Total Income	Rate
≤ 3,00,000	—
> 3,00,000 ≤ 5,00,000	5%
> 5,00,000 ≤ 10,00,000	20%
> 10,00,000	30%

C. For very senior citizens (Resident individual + age ≥ 80y in PY)

Total Income	Rate
≤ 5,00,000	—
> 5,00,000 ≤ 10,00,000	20%
> 10,00,000	30%

II. Surcharge rates

SI = Special incomes
OI = Other incomes

Sl.No	Situation	Rate	
		SI	OI
1.	TI ≤ ₹ 50 Lakhs	—	—
2.	TI > ₹ 50L ≤ ₹ 1Cr	10%	10%
3.	TI > ₹ 1Cr ≤ ₹ 2Cr	15%	15%
4.	TI > ₹ 2Cr ≤ ₹ 5Cr	15%	25%
5.	TI > ₹ 5Cr	15%	37%
6.	TI > ₹ 2Cr	15%	15%

Note:

1. In pt 1, 2, 3 & 6, the TI including the special incomes shall be considered.
2. In pt 4, 5 the TI excluding the special incomes shall be considered.
3. List of special incomes

Sl.no	Content
1.	LTCG U/s 112A (Securities)
2.	STCG U/s 111A (Securities)
3.	Dividend income
4.	LTCG U/s 112 (Other)

→ Stock market txns.

Easy summary

TI upto ₹ 2Cr

slab	SC
≤ 50L	—
> 50L ≤ 1Cr	10%
> 1Cr ≤ 2Cr	15%

Both special + other incomes

T.I > ₹ 2Cr

- Special incomes → SC @ 15%
- Other incomes
  - upto ₹ 2Cr → SC @ 15%
  - > ₹ 2Cr ≤ 5Cr → SC @ 25%
  - > ₹ 5Cr → SC @ 37%

III. Alternate tax regime [Sec 115BAC(1)]
For the AY 2025-26

Total Income	Rate
≤ 3,00,000	—
> 3,00,000 ≤ 7,00,000	5%
> 7,00,000 ≤ 10,00,000	10%
> 10,00,000 ≤ 12,00,000	15%
> 12,00,000 ≤ 15,00,000	20%
> 15,00,000	30%

Note: * These rates as aforesaid are applicable for individual, HUF, AOP, BOI & AJP.
* The alternate tax regime U/s 115BAC is now the default tax regime.
* Surcharge rates are same except that maximum surcharge under the alternate tax regime ≯ 25% as against 37% under normal rates.

Concept-2: Taxation of Companies

1. Normal rates

- a. Domestic company
  - Turnover/ Gross receipts of PY 2022-23 ↓ ≯ 400cr → 25%
  - other cases → 30%
- b. Foreign company → 35%

2. Surcharge

Particulars	Domestic	Foreign
T.I > 1cr ≤ 10cr	7%	2%
T.I > 10cr	12%	5%

concept 3: Taxation of Firm, LLP, LA

- Tax rate → 30%
- Surcharge rate → @12% only if the T.I > ₹1cr

concept-4: Taxation of co-op. society

- Tax rate

Total income (₹)	rate
≤ 10,000	10%
>10,000 ≤ 20,000	20%
>20,000	30%

- Surcharge rate → same as a domestic co.

Illustrations on tax liability computation under normal & alternative tax regime

Illustration – 1:

Assessee = mr. X
Total income = ₹16,00,000 for PY 2024-25
Compute tax liability as per alternate tax regime.

Solution:

since the tax liability is calculated under alternative tax regime, status of individual doesn't have any bearing on computation.

Tax Liability

slab	computation	Amt (₹)
upto ₹ 3L	–	–
> ₹ 3L ≤ ₹ 7L	₹ 4L x 5%	20,000
> ₹ 7L ≤ ₹ 10L	₹ 3L x 10%	30,000
> ₹ 10L ≤ ₹ 12L	₹ 2L x 15%	30,000
> ₹ 12L ≤ ₹ 15L	₹ 3L x 20%	60,000
> ₹ 15L	₹ 1L x 30%	30,000
	Basic tax liability	1,70,000
	+ HEC @ 4%	6,800
	Total tax Liability	1,76,800

Illustration – 2

Assessee = mr. X
Total income = ₹16,00,000 for PY 2024-25
Compute tax liability if he opt out of default tax regime.
make calculations if his age is ——

Sl No	Age
1	45y
2	63y
3	82y

Solution:

If mr. X is aged 45 years

slab	computation	Amount (₹)
≯₹2.50L	—	—
>₹2.50L≤₹5L	₹2,50,000 x 5%	12,500
>₹ 5L≤ ₹10L	₹5,00,000 x 20%	1,00,000
>₹10L	₹6,00,000 x 30%	1,80,000
	Basic tax liability	2,92,500
	(+) HEC@ 4%	11,700
	Total tax liability	3,04,200

If mr. X is aged 63 years

slab	computation	Amount (₹)
≯₹ 3.0L	—	—
>₹ 3.00L≤ ₹5L	₹2,00,000 x 5%	10,000
>₹ 5L≤ ₹10L	₹5,00,000 x 20%	1,00,000
>₹10L	₹6,00,000 x 30%	1,80,000
	Basic tax liability	2,90,000
	(+) HEC@ 4%	11,600
	Total tax liability	3,01,600

If mr. X is aged 82 years

slab	computation	Amount (₹)
≯₹ 5.00L	—	—
>₹5.00L≤ ₹10L	₹5,00,000 x 20%	1,00,000
>₹10L	₹6,00,000 x 30%	1,80,000
	Basic tax liability	2,80,000
	(+) HEC@ 4%	11,200
	Total tax liability	2,91,200

Important points to note w.r.t. alternate tax regime and regular tax regime.

* Slab rates of alternate tax regime are more beneficial since the "basic exemption limit" (BEL) i.e. the maximum amount not chargeable to tax is higher when compared to regular tax regime.

Basic exemption limits

1. Normal / Regular tax regime
   - 1. Senior citizen → ₹ 3,00,000
   - 2. Very senior citizen → ₹ 5,00,000
   - 3. Other cases → ₹ 2,50,000
2. Alternate tax regime
   - In all cases irrespective of age of the person, → ₹ 3,00,000

* Slab differential advantage is more under alternate tax regime than under regular.

Illustration:

Let us say, the total income of an ind is as under ——

Total income = ₹ 7,00,000

Regular			Alternate
Age = 65	Age = 85	Age = 30	(irrespective of age)
₹ 50,000	₹ 40,000	₹ 52,500	₹ 20,000

Note: This advantage is visible because, alternate tax regime applies relatively a smoother ascend than the regular regime.

* Deductions + exemptions

* Under regular tax regime, all deductions + exemptions which an assessee is eligible to claim can be claimed naturally.
* Under the alternate tax regime, certain deductions + exemptions are not allowed.

Not allowed

1. Leave travel concession
2. HRA.
3. Special allowances.
4. MP, MLA allowance.
5. Entertainment allowance
6. Interest on housing loan in special cases
7. Expenditure on scientific research
8. Special dedn U/s 35AD.
9. Dedns U/s 80C – 80U except 80CCD, 80CCH, 80JJAA.

Allowed

1. Gratuity receipt
2. Commuted pension
3. leave encashment
4. Retrenchment Compensation
5. VRS receipt
6. certain non monetary perquisites.
7. Interest on RPF.
8. Payment to NPS.
9. Payment recd from superannuation fund.

* Switching from regular to alternate and vice versa

1. For the AY 2025-26, alternate tax regime is the default tax regime and any assessee who wanted to go with regular tax regime shall opt out of the default regime and specifically apply for regular.
2. If the assessee has no business income, the option to change is available any no. of times for different AY's. Assessee need to opt as per his convinience before

filing ROI.

3. If the assessee has B/P income and has not exercised any option, he will be governed by the alternate tax regime. The assessee can avail the benefit of regular tax regime by exercising the option U/S 115BAC(6)
4. Such option can be exercised by uploading form no 10-IEA on/before the due date for submitting ROI.
5. However, the assessee will be given an option only once to change the tax regime and thereafter the selected regime shall apply forever.

Illustration: Alee having B/P income.

AY	case-1	case-2	case-3
2025-26	A	A	R
2026-27	A	A	R
2027-28	A	R	A
2028-29	R	A	R
2029-30	R	R X	A X
2030-31	A		
2031-32	A		

Illustrations on regular v/s alternate tax regime

1. facts:

Assessee = mr. X (34 years) Salary = ₹34,00,000
HRA = ₹6,00,000
HRA (exempted) = ₹ 60,000
Dividend = ₹ 90,000
FD interest = ₹ 2,72,000
Dedn u/s 80C = ₹ 1,50,000
mediclaim policy = ₹ 25,000
Donation to
pm cares fund = ₹ 10,000

Required:

a. Calculate tax liability under regular & alternate tax regime.
b. Suggest best option to mr. X.

Solution:

	Particulars	Regular	Alternate
I.	Income from salary		
	Basic salary	34,00,000	34,00,000
	+ HRA (net of exempt)	5,40,000	6,00,000
	Gross Salary	39,40,000	40,00,000
	- Std deduction	(50,000)	(75,000)
	Net taxable salary	38,90,000	39,25,000
II	Income from other sources		
	Dividend income	90,000	90,000
	Interest income	2,72,000	2,72,000
	Total	3,62,000	3,62,000
III	Gross total income (I+II)	42,52,000	42,87,000
IV	Dedns from GTI		
	u/s 80C	1,50,000	—
	u/s 80D	25,000	—
	u/s 80G	10,000	—
	Total	1,85,000	—

	Particulars	Regular	Alternate
V	Total income chargeable to tax III − IV	40,67,000	42,87,000
VI	Tax Liability		
	Basic tax liability	10,32,600	9,76,100
	Regular: 0-2.5L : − 2.5L-5L : 5%. 5L-10L : 20%. >10L : 30%. [(2.5L×5%.)+(5L×20%.) (30.67L×30%.)		
	Default: 0-3L : − 3L-7L : 5%. 7L-10L : 10%. 10L-12L : 15%. 12L-15L : 20%. >15L : 30%. [(4L×5%.)+(3L×10%.) +(2L×15%.)+(3L×20%.) +(27.87L×30%.)		
	+ HEC @ 4%	41,304	39,044
	Total tax liability.	10,73,904	10,15,144
	Rounding off U/S 288A	10,73,900	10,15,140

2. Facts:

Particulars	mr. X	mr. Y
Age	32y	29y
Business income before claiming add'l depn	5,70,00,000	6,20,00,000
Add'l depn	6,00,000	70,00,000

Is it possible to reduce tax liability under default tax regime?

Solution:

Calculation of total tax liability for mr. X and mr. Y under both tax regimes.

Particulars	mr. X		mr. Y	
	Regular regime	Alternate regime	Regular regime	Alternate regime
Business inc	5,70,00,000	5,70,00,000	6,20,00,000	6,20,00,000
↳ Add'l depn	(6,00,000)	—	(70,00,000)	—
Total income	5,64,00,000	5,70,00,000	5,50,00,000	6,20,00,000
Basic tax Liability	1,67,32,500	1,67,90,000	1,63,12,500	1,82,90,000
(+) Surcharge (37%/25%)	61,91,025	41,97,500	60,35,625	45,72,500
Total	2,29,23,525	2,09,87,500	2,23,48,125	2,28,62,500
(+) Cess@4%	9,16,941	8,39,500	8,93,925	9,14,500
Net tax Liability	2,38,40,466	2,18,27,000	2,32,42,050	2,37,77,000
	r/o			
	2,38,40,470			
Selection	✗	✓	✓	✗

Illustration on surcharge under both normal + alternate tax regime.

I1. ₹ in lakhs.

Income type	case 1	Case 2	Case 3	case 4	Case 5
Dividend	15	10	51	40	100
STCG u/s 111A	15	35	44	35	—
LTCG u/s 112	25	50	42	42	—
LTCG u/s 112A	20	35	55	50	—
others	25	55	600	110	—

Solution:

Case-1:

		₹ lakhs
Total income (incl special incomes)	=	100
Rate of surcharge on special incomes	=	10%
Rate of surcharge on other incomes	=	10%

∴ Surcharge @ 10% on income tax computed on total income of ₹ 100 L i.e. 1 crore.

Case 2:

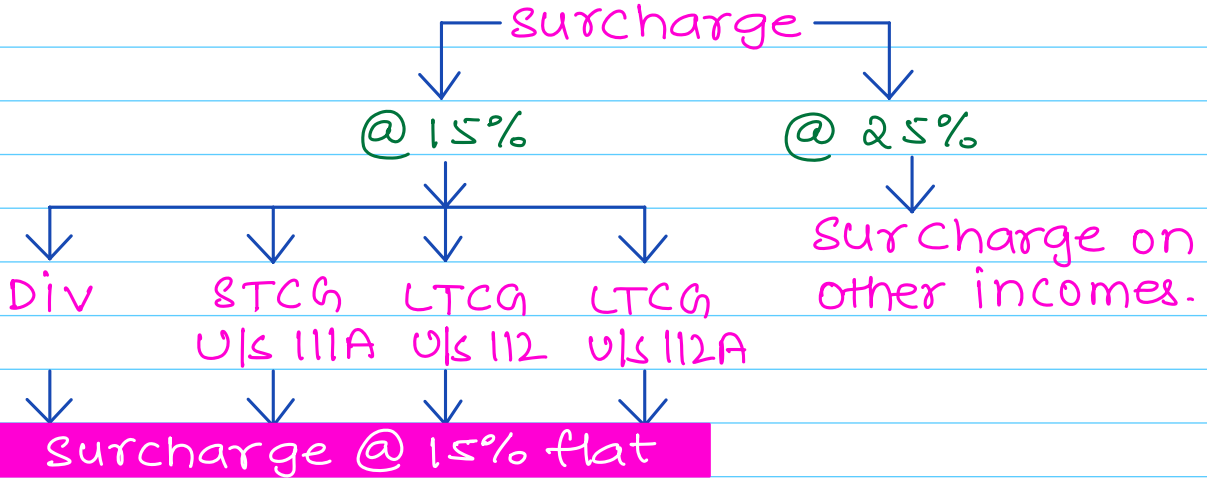
		₹ lakhs
Total income including special incomes		185
Rate of surcharge on special incomes	=	15%
Rate of surcharge on other incomes	=	15%

∴ Surcharge @ 15% on income tax computed on total income of ₹ 185 L i.e. 1.85 crore.

Case 3:

		₹ lakhs
Total income (incl special incomes)	=	792

Since TI > ₹ 5cr it comes under highest slab where we need check TI excluding special incomes and special incomes are subject to surcharge of 15% + other incom-es @ 25%



case – 4:

		₹ lakhs
Total income (incl special incomes)	=	277
Rate of surcharge on special incomes	=	15%
Rate of surcharge on other incomes	=	15%

∴ Surcharge @ 15% on income ~~tax~~ computed on total income of ₹ 277L i-e. 2.77L.

Case 5:

Since there is only dividend income, it is ~~tax~~able @ special rate surcharge of 10%. Since ~~total~~ income ≤ 100L i-e. 1cr.

₹ in lakhs.

I_2:

Income type	case 1	Case 2	Case 3	case 4	Case 5
Dividend	10	10	51	60	55
STCG u/s 111A	20	40	44	50	60
LTCG u/s 112	15	55	42	42	42
LTCG u/s 112A	20	35	55	25	35
Others	25	50	300	600	110

Particulars	case 1	2	3	4	5
SC on S.I	10%	15%	15%	15%	15%
SC on O.I	10%	15%	25%	37%	15%

Concept of marginal relief

* marginal relief is a reduction from the tax payable by the assessee.
* Relief from tax payable shall be given, where the additional tax payable together with surcharge exceeds the income earned by an Assessee in excess of ₹ 50L / ₹ 1cr / ₹ 2cr / ₹ 5cr.

Example:

Alee = X Age = 30y AY = 25-26
(opted out from alternative tax regime)

TI

	Case-1 (₹ 50 L)	Case-2 (₹ 51 L)
Tax liability		
Upto ₹ 2.50L	—	—
> ₹ 2.50L ≤ 5L 5%	12,500	12,500
> ₹ 5L ≤ 10L 20%	1,00,000	1,00,000
> ₹ 10L 30%	12,00,000	12,30,000
Total	13,12,500	13,42,500
+ Surcharge (10%)	—	1,34,250
Tax liability	13,12,500	14,76,750

(*) Additional tax = ₹ 1,64,250

(*) Additional income = ₹ 1,00,000.

It is illogical to burden the Aee with an additional tax of ₹ 1,64,250 when the additional income is only ₹ 1,00,000. This is the reason for the govt to grant marginal relief due to which the additional tax is restricted to the additional income.

marginal relief = ₹ 1,64,250 − ₹ 1,00,000
= ₹ 64,250.

Steps/ procedure in marginal relief calcn

Non − corporate assessees

Step 1:	Tax on TI + surcharge	XXX
Step 2:	Tax on ₹ 50L / ₹ 100L	(XXX)
Step 3:	TI − ₹ 50L	(XXX)
Step 4:	marginal relief (S1 − S2 − S3)	XXX

Reduced from tax + surcharge
Thereafter HEC shall be adjusted.

Additional illustration on marginal relief

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Facts:
Assessee = mr. B (51y)
Total income = ₹ 1,01,00,000
Calculate total tax liability and marginal relief

Solution:

Step 1: Calc of tax liability on total income

Since there are no special incomes like dividends, STCG / LTCG, entire total income is treated as other incomes and since it is 1.01cr

it falls under 3rd slab of SC i.e. 15%.

Default tax regime

Slab	Computation	Amount (₹)
0 – 3,00,000	–	–
3,00,000 – 7,00,000	4,00,000 × 5%	20,000
7,00,000 – 10,00,000	3,00,000 × 10%	30,000
10,00,000 – 12,00,000	2,00,000 × 15%	30,000
12,00,000 – 15,00,000	3,00,000 × 20%	60,000
>15,00,000	86,00,000 × 30%	25,80,000
	Total	27,20,000
	(+) SC @ 15%	4,08,000
	Tax Liability	31,28,000

Step 2: Tax Liability on T.I of ₹ 1cr

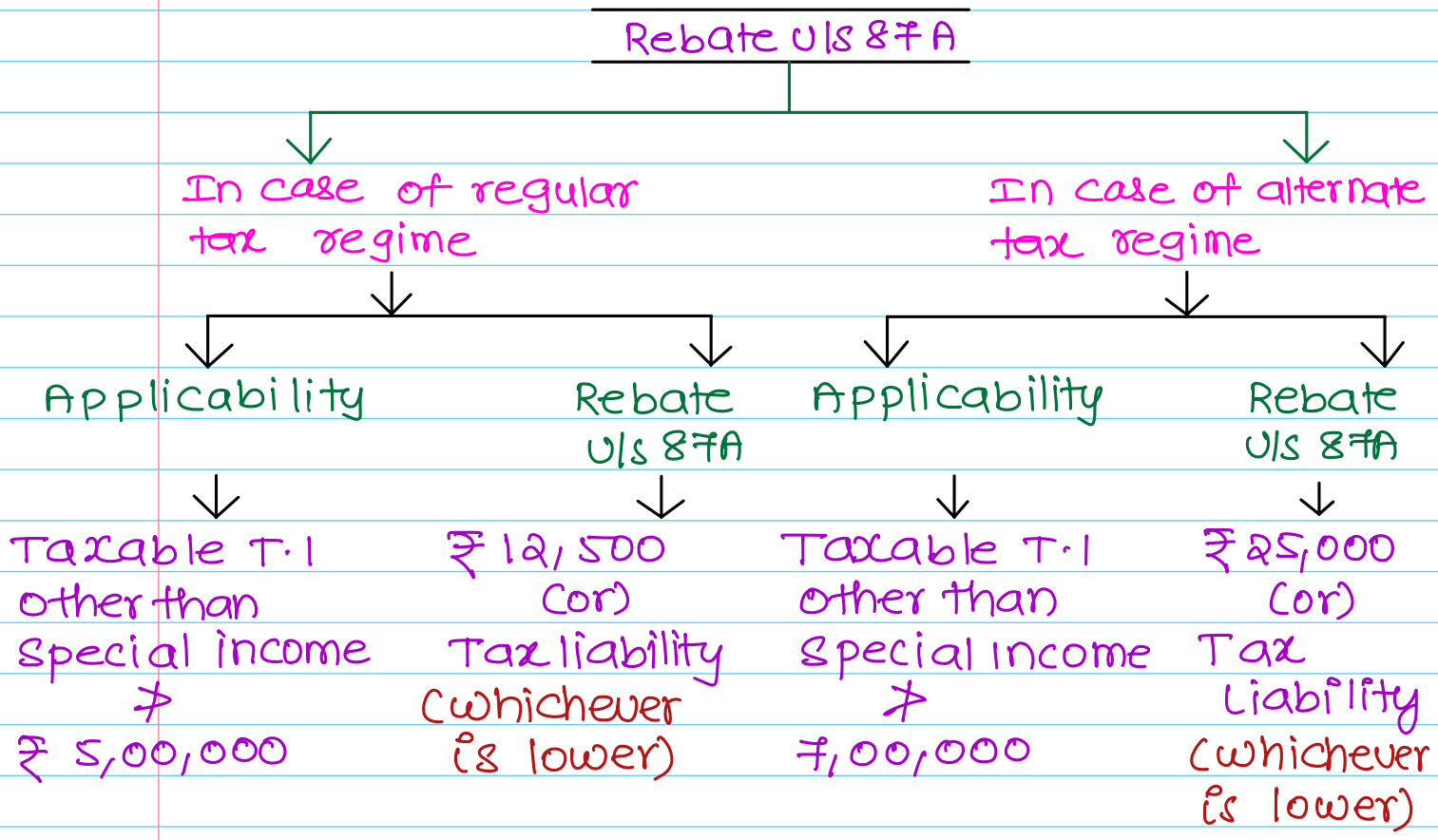
[(₹ 1,40,000 + (85,00,000 × 30%)] = 26,90,000
+ SC @ 10% = 2,69,000
Tax Liability = 29,59,000

Step 3: Add'l income above 1cr

Total income = ₹ 1,01,00,000
↳ Std limit = (₹ 1,00,00,000)
Add'l income = ₹ 1,00,000

Step 4: Calc of marginal relief

S1 – S2 – S3
= 31,28,000 – 29,59,000 – 1,00,000
= ₹ 69,000


Rebate U/s 87A
In case of regular tax regime
In case of alternate tax regime
Applicability
Rebate U/s 87A
Applicability
Rebate U/s 87A
Taxable T.I other than Special income ≯ ₹ 5,00,000
₹ 12,500 (or) Tax liability (whichever is lower)
Taxable T.I other than Special income ≯ ₹,00,000
₹ 25,000 (or) Tax Liability (whichever is lower)

Agricultural Income

* Definition
* Conceptual analysis
* Scheme of partial integration

I. Impact of Agricultural Income on tax Liability <SOP1>

1. The union govt doesn't have powers to tax agricultural income (Indian) vide entry - 82 (List - 1) and Entry - 46 (List - 2) of sch VII of constitution.

2. This is clarified in the Act through S. 10(1) which exempts (Indian) A.I.

3. Though agricultural income (AI) is exempt, its presence will enhance the rate at which non-agricultural income (NAI) is taxed.

4. Scheme of partial integration is used for determination of tax on NAI where Ptee has AI also.

II. Definition of Agricultural income [sec 2(1A)]

means

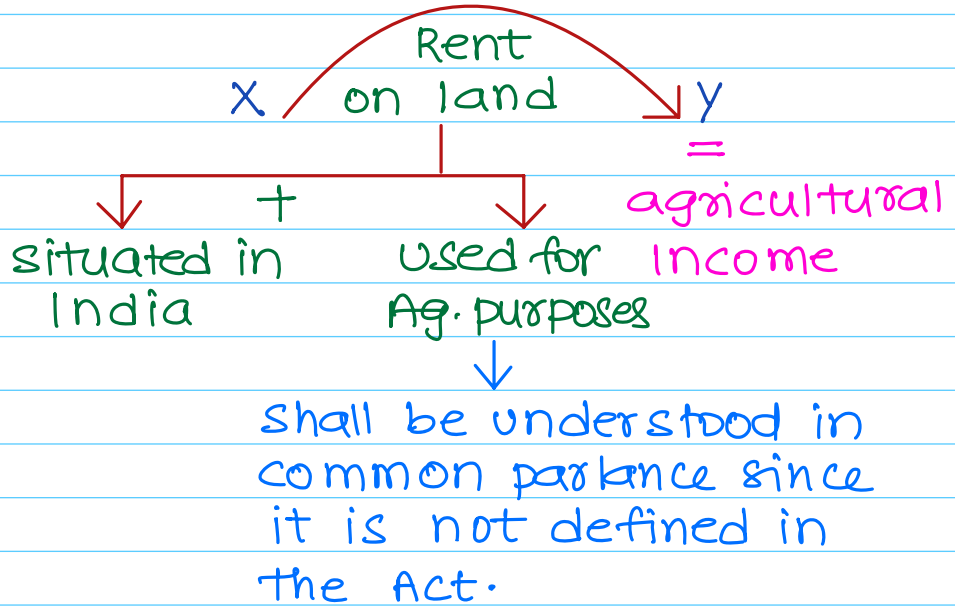
- Any rent/revenue derived from the land
  - C1: Land is situated in India
  - C2: Land is used for agricultural purposes
  - 1. Agriculture
  - 2. Any performance by the cultivator/ receiver of rent in kind to render the produce to be fit for market.
- Any income derived from such land by
  - 3. Sale by the cultivator (or) receiver of rent-in-kind of produce.
- Any income derived from any building owned and occupied by receiver of rent (or) revenue of

Analysis on Sec 2(1A)(a):

(Rent (or) revenue derived from land)

* Rent is payment, (money / kind), by one person to another in respect of grant of right to use land.

* Rent to constitute agricultural income



shall be understood in common parlance since it is not defined in the Act.

*