

INCOME TAX COMPILER

AMENDED BY FINANCE ACT 2025



CA VARDHAMAN DAGA

INCOME TAX COMPLIER

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CHAPTER - 1

BASIC CONCEPTS

STUDY MATERIAL (DISCUSSED IN CLASSES)

ILLUSTRATION 1

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

SOLUTION

Computation of Business Income and Agriculture Income of Mr. B

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

ILLUSTRATION 2

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

SOLUTION

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

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



ILLUSTRATION 3

Mr. X has a total income of ₹ 25,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025 - 26 under the default tax regime under section 115BAC.

SOLUTION

Computation of Tax liability of Mr. X for A.Y. 2026-27

Tax liability:	= ₹ 3,43,200

ILLUSTRATION 4

Mr. X has a total income of ₹ 16,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 assuming his age is

- (a) 45 years
- (b) 63 years
- (c) 82 years

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

SOLUTION

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

Tax liability:	₹ 3,04,200

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

Tax liability:	= ₹ 3,01,600

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

Tax liability:	= ₹ 2,91,200

ILLUSTRATION 5

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

SOLUTION

Computation of tax liability of Mr. A for the A.Y.2026-27

(A)

(A) Income-tax (including surcharge) computed on total income of ₹ 51,00,000		
Tax liability (including cess)		₹ 14,69,000
(F) Marginal Relief (A - D)		₹ 64,250

ILLUSTRATION 6

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 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

SOLUTION



Computation of tax liability of Mr. B for the A.Y. 2026-27

(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000		
Tax liability (including cess)	₹ 30,55,520	
(F) Marginal relief (A-D)	₹ 63,500	

ILLUSTRATION 7

Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

SOLUTION

Computation of tax liability of Mr. C for the A.Y. 2026-27

Tax liability (including cess)		₹ 70,55,750
(F) Marginal relief (A-D)		₹ 5,18,750

ILLUSTRATION 8

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

SOLUTION

Computation of tax liability of Mr. D under default tax regime for the A.Y. 2026-27

Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000	₹ 1,89,93,000

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2026-27

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000		
Tax liability (including cess)		₹ 1,93,57,000
(F) Marginal Relief (A - D)		₹ 17,18,300

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 3,64,000 (₹ 1,93,57,000 - ₹ 1,89,93,000).

ILLUSTRATION 9

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 10,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

SOLUTION

Computation of tax liability of Mr. Raghav for A.Y. 2026-27

Particulars	₹



Tax Liability

Nil

ILLUSTRATION 10

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

SOLUTION

Computation of tax liability of Mr. Pawan for A.Y. 2026-27

Particulars	₹
Tax Liability	15,600

ILLUSTRATION 11

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 if he exercises the option to shift out of the default tax regime.

SOLUTION

Computation of tax liability of Mr. Piyush for A.Y. 2026-27

Particulars	₹
Tax Liability	Nil

ILLUSTRATION 12

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2025-26.

i. Income from salary (computed)	₹15,80,000
ii. Income from house property (computed)	₹ 2,50,000
iii. Agricultural income from a land in Jaipur	₹ 4,80,000
iv. Expenses incurred for earning agricultural income	₹ 1,70,000

Compute his tax liability for A.Y. 2026-27 assuming his age is -

(a) 45 years

(b) 70 years

SOLUTION

(a) Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

1. Net agricultural income exceeds ₹ 5,000 p.a., and

2. Non-agricultural income exceeds the basic exemption limit of ₹ 4,00,000. His tax liability is computed in the following manner:

Particulars	₹
Total Income	18,30,000
Tax Liability	2,28,280

Computation of total income of Mr. X for the A.Y. 2026-27 under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

3. Net agricultural income exceeds ₹ 5,000 p.a., and
4. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000. His tax liability is computed in the following manner:

Particulars	₹
Total Income	18,30,000
Tax Liability	4,47,200

(b) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹ 2,28,280.

Computation of total income of Mr. X for the A.Y. 2026-27 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1: ₹ 18,30,000 + ₹ 3,10,000	= ₹ 21,40,000
Tax on ₹ 21,40,000	= ₹ 4,52,000
(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 11,40,000)	
Step 2: ₹ 3,10,000 + ₹ 3,00,000	= ₹ 6,10,000
Tax on ₹ 6,10,000	= ₹ 32,000
(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)	
Step 3: ₹ 4,52,000 - ₹ 32,000	= ₹ 4,20,000
Step 4 & 5: Total tax payable	= ₹ 4,20,000
	= ₹ 4,20,000 + 4% of ₹ 4,20,000 = ₹ 4,36,800.

TEST YOUR KNOWLEDGE (Discussed in Classes)

ILLUSTRATION 13

Who is an "Assessee"? Explain.

SOLUTION

In class

ILLUSTRATION 14

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

SOLUTION

In class

ILLUSTRATION 15

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

SOLUTION

In class



ILLUSTRATION 16

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

SOLUTION

In class

ILLUSTRATION 17

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

SOLUTION

In class

ILLUSTRATION 18

Mr. Sumit, a resident Indian, earns income of ₹ 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹ 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2026-27. What would be his business income, assuming he has no other business?

SOLUTION

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

ILLUSTRATION 19

Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y.2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

SOLUTION

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

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

ILLUSTRATION 20

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

SOLUTION

In class

ILLUSTRATION 21

Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,25,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

SOLUTION

Computation of tax liability of Mr. Kashyap for the A.Y.2026-27 under default tax regime

Tax liability		₹ 12,53,200
(F) Marginal Relief (A - D)		₹ 24,250

ILLUSTRATION 22



Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2026-27 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.

SOLUTION

Computation of tax liability of Mr. Agarwal for the A.Y.2026-27 under default tax regime

Particulars		₹
Tax Liability		2,25,01,050

Computation of tax liability of Mr. Agarwal for the A.Y.2026-27 under normal provisions of the Act

Particulars		₹
Tax Liability		2,47,64,220

ILLUSTRATION 23

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.2026-27 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.

SOLUTION

Computation of tax liability of Mr. Sharma for the A.Y.2026-27 under default tax regime

Particulars		₹
Tax Liability		58,96,280

Computation of tax liability of Mr. Sharma for the A.Y.2026-27 under normal provisions of the Act

Particulars		₹
Tax Liability		61,71,360

ILLUSTRATION 24

Person when regarded as an 'Assessee': A single letter of enquiry was issued by the income tax department to Mr. Shoumik of Pune. In this letter there was no specific mention of any provision of the Income-tax Act, 1961. Can Mr. Shoumik be treated as 'assessee' under the Income Tax Act, 1961?

SOLUTION

A person is treated as an 'assessee' only when any proceeding is initiated in his respect under the Income Tax Act, 1961. In the given case, the letter was issued to Mr. Shoumik only for an enquiry and not for any assessment. Further, such an issuance of letter cannot be regarded as proceeding without any specific reference to the provisions of the Act. Therefore, Mr. Shoumik is not an 'assessee' under the Act.

ILLUSTRATION 25

- Ascertainment of previous year: Ascertain the previous year in the following situations
(a) Mr. X set up his new business on 27-08-2022.



(b) Mr. Y's new source of income came into existence on 25-02-2023.

SOLUTION

- a) The previous year for Mr. X shall be 27-08-2022 to 31-03-2023.
- b) The previous year for Mr. Y shall be 25-02-2023 to 31-03-2023.

ILLUSTRATION 26 [Repeated]

ILLUSTRATION 27

Marginal relief and tax liability - Individual assessee: Compute the tax liability of Mr. X a resident individual 40 years of age wherein his total income is 1,00,50,000 assuming that there is no income in the nature which is chargeable to special rate of tax and he has not opted for the provisions of Section 115BAC of the Act.

SOLUTION

Tax on total income of ₹ 1,00,50,000 (including surcharge @ 15%)= ₹3251625 Tax on ₹ 1,00,00,000 (including surcharge @ 10%) = ₹ 3093750 Marginal Relief = ₹ 32,51,625 - (₹ 30,93,750 + ₹ 50,000) = ₹ 107875 Tax liability = (₹ 32,51,625 - ₹ 1,07,875) + 4% of ₹ 3143750= ₹ 3269500

ILLUSTRATION 28

Marginal relief and tax liability - Individual assessee: Compute the tax liability of Mr. X a resident individual 40 years of age wherein his total income is ₹2,00,50,000 assuming that there is no income in the nature which is chargeable to special rate of tax and he has not opted for the provisions of Section 115BAC of the Act

SOLUTION

Tax on total income of ₹ 2,00,50,000 (including surcharge @ 25%)= ₹ 7284375 Tax on ₹ 2,00,00,000 (including surcharge @ 15%) = ₹ 6684375 Marginal Relief = ₹ 72,84,375 - (₹ 66,84,375 + ₹ 50,000) = ₹ 550000 Tax liability = (₹ 72,84,375 - ₹ 5,50,000) + 4% of ₹ 6734375= ₹ 7003750

ILLUSTRATION 29

Marginal relief and tax liability - Individual assessee: Compute the tax liability of Mr. X a resident individual 40 years of age wherein his total income is ₹ 5,00,50,000 assuming that there is no income in the nature which is chargeable to special rate of tax and he has not opted for the provisions of Section 115BAC of the Act.

SOLUTION

Tax on total income of ₹ 5,00,50,000 (including surcharge @ 37%)= ₹ 20313675 Tax on 5,00,00,000 (including surcharge @ 25%) = ₹ 18515625 Marginal Relief = ₹ 2,03,13,675 - (₹ 1,85,15,625 + ₹ 50,000) = ₹ 1748050 Tax liability = (₹ 2,03,13,675- ₹ 17,48,050) + 4% of ₹ 18565625= ₹ 19308250

ILLUSTRATION 30

Tax liability: Compute the tax liability in the following cases if the assessee has not opted for the provisions of Section 115BAC-

Assessee	Status	Total income tax (in ₹)
a) Mr. Mohan	Resident Individual of 40 years	4,90,000





b)	Mrs. Swati	Non-resident Individual of 65 years	2,75,000
c)	Mr. Bansal	Resident Individual of 25 years	5,50,000
d)	Mrs. Priyanka	Resident Individual of 21 years	15,10,000
e)	Mrs. Resham	Resident individual of 60 years	12,00,000
f)	Mr. Ganshyam	Resident Individual of 40 years	50,00,000
g)	Ms Madhuri	Resident Individual of 21 years	2,50,000

SOLUTION:

The computation of tax liability is given below -

Assessee	Total income tax (in ₹)	Income Tax	Rebate u/s87A	Income tax after rebate	HEC@ 4%	Total Tax	Total Tax (rounded off)
Mr. Mohan	4,90,000	12,000	12,000	-	-	-	-
Mrs. Swati	2,75,000	1,250	-	1,250	50	1,300	1,300
Mr. Bansal	5,50,000	22,500	-	22,500	900	23,400	23,400
Mrs. Priyanka	15,10,000	2,65,500	-	2,65,500	10,620	2,76,120	2,76,120
Mrs. Resham	12,00,000	1,70,000	-	1,70,000	6,800	1,76,800	1,76,800
Mr. Ganshyam	18,00,000	3,40,000	-	3,40,000	13,600	3,53,600	3,53,600
Ms Madhuri	50,00,000	13,12,500	-	13,12,500	52,500	13,65,000	13,65,000
Mr. Mohan	2,50,000	-	-	-	-	-	-

ILLUSTRATION 31

Computation of Business and agricultural Income: Mr. Tenzingh is engaged in composite business of growing and curing (further processing) Coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-3-2025 are given below:

Particulars	₹
WDV of Car as on 01-04-2024	3,00,000
WDV of machinery as on 31-03-2024 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing Coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are 50,000. The machines were used in coffee curing business operations. Compute the income arising from the above activities for the assessment year 2025-26. Show the WDV of the assets as on 31-03-2025.



SOLUTION

Computation of income from partly agricultural and partly business activities: Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income -

Particulars	₹	₹
Sale value of cured coffee		22,00,000
Less: Expenditure incurred for growing coffee	3,10,000	
Expenditure incurred for curing coffee	3,00,000	
Expenditure on running and maintenance of car [50,000 × 80%] - Balance 20% pertaining to personal use, not allowed as deduction	40,000	
Depreciation on machinery	2,25,000	
Depreciation on car	36,000	9,11,000
Income from coffee business (before disintegration)		12,89,000
Agricultural Income @ 75%		9,66,750
Business Income @ 25%		3,22,250
Computation of WDV of assets as on 31-3-2025:	Car	Machine
WDV as on 01-04-2024	3,00,000	15,00,000
Less: Depreciation @ 15% (In case of car, only 80% will be deducted) (See Note)	-36,000	-2,25,000
Depreciated WDV as on 31-3-2025	2,64,000	12,75,000

Working Notes:

- (1) Explanation 7 has been inserted in section 43(6) to provide that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.
- (2) It has been assumed that the written down value of machinery as on 31-3-2024 i.e., 15 lakhs given in the question represents the closing balance after providing depreciation for the previous year 2023-24. It is also possible to assume that the written down value of ₹ 15 lakhs as on 31-3-2024 represents the written down value on which depreciation has to be charged for the Previous year 2023-24 and answer will be modified accordingly.

ILLUSTRATION 32

Tax liability: Compute the tax liability in the following cases if they have opted to shift out of the provisions of Section 115BAC of the Act.

Assessee	Status	Total income (in ₹)
Mr. X	Resident Individual of 40 years	1,01,00,000

CHAPTER - 1

BASIC CONCEPTS



CA VARDHAMAN DAGA

Mr. Y	Resident Individual of 50 years	1,10,00,000
Mr. Z	Resident Individual of 55 years	1,00,00,000
Mr. A	Resident Individual of 55 years	51,00,000
Mr. B	Resident Individual of 55 years	2,00,00,000
Mr. C	Resident Individual of 25 years	2,01,00,000
Mr. D	Resident Individual of 30 years	5,00,00,000
Mr. E	Resident Individual of 40 years	5,01,00,000

SOLUTION

The computation of tax liability is given below -

Assessee	Total income tax	tax	Surcharge @ 37%/25%/15%/10%	Tax incl surcharge	Marginal	Balance	HEC @ 4%	Total tax (rounded off)
Mr. X	1,01,00,000	28,42,500	4,26,375	32,68,875	75,125	31,93,750	1,27,750	33,21,500
Mr. Y	1,10,00,000	31,12,500	4,66,875	35,79,375	-	35,79,375	1,43,175	37,22,550
Mr. Z	1,00,00,000	28,12,500	2,81,250	30,93,750	-	30,93,750	1,23,750	32,17,500
Mr. A	51,00,000	13,42,500	1,34,250	14,76,750	64,250	14,12,500	56,500	14,69,000
Mr. B	2,00,00,000	58,12,500	8,71,875	66,84,375	-	66,84,375	2,67,375	69,51,750
Mr. C	2,01,00,000	58,42,500	14,60,625	73,03,125	5,18,750	67,84,375	2,71,375	70,55,750
Mr. D	5,00,00,000	1,48,12,500	37,03,125	1,85,15,625	-	1,85,15,625	7,40,625	1,92,56,250
Mr. E	5,01,00,000	1,48,42,500	54,91,725	2,03,34,225	17,18,600	1,86,15,625	7,44,625	1,93,60,250

ILLUSTRATION 33

Tax liability: Compute the tax liability in the following cases if turnover in financial year 2022-23 exceeds 400 crores and the companies have not opted for concessional rates of tax :

Assessee	Total income (in ₹)
X Ltd. (Indian Company)	1,01,00,000
A Inc. (A Foreign company)	1,01,00,000
P Ltd. (Indian company)	10,01,00,000
D Inc. (A foreign company)	10,01,00,000
Y Ltd. (Indian Company)	1,00,00,000
A Ltd (Foreign Company)	1,00,00,000
B Ltd. (Indian Company)	10,00,00,000
C Ltd. (Foreign Company)	10,00,00,000

SOLUTION



The computation of tax liability is given below -

Assessee	Total income tax	tax	Surcharge	Tax incl surcharge	Marginal relief	Balance tax	HEC @ 4%	Total tax (rounded off)
X Ltd.	1,01,00,000	30,30,000	2,12,100	32,42,100	1,42,100	31,00,000	1,24,000	32,24,000
A Inc.	1,01,00,000	35,35,000	70,700	36,05,700	5,700	36,00,000	1,44,000	37,44,000
P Ltd.	10,01,00,000	3,00,30,000	36,03,600	3,36,33,600	14,33,600	3,22,00,000	12,88,000	3,34,88,000
D Inc.	10,01,00,000	3,50,35,500	17,51,750	3,67,86,750	9,86,750	3,58,00,000	14,32,000	3,72,32,000
Y Ltd.	1,00,00,000	30,00,000	-	30,00,000	-	30,00,000	1,20,000	31,20,000
A Ltd.	1,00,00,000	35,00,000	-	35,00,000	-	35,00,000	14,00,00	36,40,000
B Ltd.	10,00,00,000	3,00,00,000	21,00,000	3,21,00,000	-	3,21,00,000	12,84,000	3,33,84,000
C Ltd.	10,00,00,000	3,50,00,000	7,00,000	3,57,00,000	-	3,57,00,000	14,28,000	3,71,28,000

ILLUSTRATION 34

Tax liability: Compute the tax liability in the following cases if turnover in financial year 2022-23 does not exceed 400 crores and the companies have not opted for concessional rates of tax :

Assessee	Total income (in ₹)
(1) X Ltd. (Indian Company)	1,01,00,000
(2) P Ltd. (Indian company)	10,01,00,000
(3) Y Ltd. (Indian Company)	1,00,00,000
(4) B Ltd. (Indian Company)	10,00,00,000

SOLUTION

The computation of tax liability is given below

Assessee	Total income tax	tax	Surcharge	Tax incl surcharge	Marginal relief	Balance tax	HEC @ 4%	Total tax (rounded off)
X Ltd.	1,01,00,000	25,25,000	1,76,750	27,01,750	1,01,750	26,00,000	1,04,000	27,04,000
P Ltd.	10,01,00,000	2,50,25,000	30,03,000	2,80,28,000	11,78,000	2,68,50,000	10,74,000	2,79,24,000
Y Ltd.	1,00,00,000	25,00,000		25,00,000		25,00,000	1,00,000	26,00,000
B Ltd.	10,00,00,000	2,50,00,000	17,50,000	2,67,50,000		2,67,50,000	10,70,000	2,78,20,000

ILLUSTRATION 35 [Repeated]

ILLUSTRATION 36 [Repeated]

ILLUSTRATION 37

Exceptions to Charging Section: Mr. X a resident, aged 56 years, till recently was a successful businessman filing his return of incomes regularly and promptly ever since he obtained PAN card. During the COVID Pandemic period his business suffered severely and he incurred huge losses. He was not able to continue his business and finally on 1st January, 2025 he decided to wind-up



his business which he also promptly intimated to the jurisdictional Assessing Officer about the closure of his business.

The Assessing Officer sent him a notice to tax income of A.Y. 2025-26 during the A.Y. 2025-26 itself. Does the Assessing Officer have the power to do so? Are there any exceptions to the general rule "Income of the previous year is assessed in the assessment year following the previous year"? (4 Marks, Nov. 2022)

SOLUTION

Yes, he has the power to do so. Since the business of Mr. X is discontinued on 1st January, 2025, the income of the period from 1-4-2024 to 1-1-2025 may, at the discretion of the Assessing Officer, be charged to tax in A.Y. 2025-26 itself.

Following are the other exceptions to the general rule "Income of the previous year is assessed in the assessment year following the previous year" i.e., the income of the previous year is assessed in the previous year itself.

- (i) Shipping business of non-resident
- (ii) Persons leaving India with no present intention of returning
- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose and likely to be dissolved
- (iv) Persons likely to transfer property to avoid tax.

ILLUSTRATION 38 [Repeated]

ILLUSTRATION 39 [Repeated]

ILLUSTRATION 40 [Repeated]

ILLUSTRATION 41 [Repeated]

ILLUSTRATION 42 [Repeated]

ILLUSTRATION 43 [Repeated]

ILLUSTRATION 44 [Repeated]



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STUDY MATERIAL (DISCUSSED IN CLASSES Detail)

ILLUSTRATION 1

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2025. From the following details for the P.Y. 2025-26, determine the residential status of Mr. Anand for A.Y. 2026-27, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2025-26) is 400 days:

Particulars	₹
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2025
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December, 2025

SOLUTION

he is a non-resident for A.Y. 2026-27.

ILLUSTRATION 2

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

- Find out his residential status for the assessment year 2026-27.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2025-26?

SOLUTION

- (a) **Determination of Residential Status of Mr. Brett Lee for the A.Y. 2026-27:**

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2025-26 relevant to the assessment year 2026-27.

- (b) he would be treated as non-resident in India

- (c) he would be treated as resident but not ordinarily resident in India for P.Y.2025-26

If his total income (excluding income from foreign sources) does not exceed ₹ 15 lakh, he would be treated as non-resident in India for the P.Y.2025-26, since his stay in India is less than 182 days in the P.Y.2025-26.

ILLUSTRATION 3

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2021-22. During the financial years 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2026-27.

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SOLUTION

Therefore, he is a non-resident for the P.Y. 2025-26.

ILLUSTRATION 4

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2025-26 after 15 years. He comes to India on 1.4.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr. E and the HUF for A.Y. 2026-27.

SOLUTION

- (a) Therefore, the residential status of Mr. E for the P.Y. 2025-26 is resident but not ordinarily resident.
(b) Therefore, the HUF is a non-resident for the P.Y. 2025-26.

ILLUSTRATION 5

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2026, compute the total income for the A.Y. 2026-27, if he is:

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

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

SOLUTION

Computation of total income of Mr. Anirudh for the A.Y. 2026-27

Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non Resident
Total Income	83,500	21,000	21,000

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

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

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

ILLUSTRATION 6

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2025 due to his transfer to High



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Commission of Canada. He did not visit India any time during the P.Y. 2025-26. He has received the following income for the F.Y. 2025-26:

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

Compute his Gross Total Income for A.Y. 2026-27.

SOLUTION

Mr. David is a non-resident.

Gross Total Income of Mr. David for A.Y. 2026-27

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

ILLUSTRATION 7

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

SOLUTION

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

ILLUSTRATION 8

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident but not ordinarily resident, and non-resident for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)-

Particulars	Amount
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	40,000
Income earned from business in Germany which is controlled in Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000



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Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company, received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai, managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled in Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

SOLUTION

Computation of total income for the A.Y. 2026-27

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non resident
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000

TEST YOUR KNOWLEDGE (Discussed in classes in Detail)

ILLUSTRATION 9

Mr. Ram, an Indian citizen, left India on 22.09.2025 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2026-27.

SOLUTION

he is a non-resident for the A.Y. 2026-27.

ILLUSTRATION 10

Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2024 for permanent settlement. What will be his residential status for A.Y. 2026-27?

SOLUTION

his status would be "Resident but not ordinarily resident"



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ILLUSTRATION 11

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2025-26. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2026-27 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

SOLUTION

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

S. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

ILLUSTRATION 12

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

SOLUTION

This statement is correct.

ILLUSTRATION 13

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

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

SOLUTION

Taxability of receipts

	Taxable/ Not Taxable	Amount liable to tax (₹)
(i)	Taxable	6,50,000
(ii)	Taxable	5,00,000
(iii)	Partly Taxable	5,500
(iv)	Not Taxable	-
(v)	Taxable	5,00,000

PAST EXAM QUESTIONS

Illustration 14

Scope of total Income: Following incomes are derived by Mr. Krishna Kumar during the year ended 31-3-2026:

Particulars	Amount
Pension received from the US Government	3,20,000
Agricultural income from lands in Malaysia	2,70,000
Rent received from let out property in Colombo, Sri Lanka	4,20,000

Discuss the taxability of the above items where the assessee is (i) Resident, (ii) Non-resident
(6 Marks, Nov 2018-NS)

SOLUTION

Computation of Gross total income (amount in *)

Particulars	Resident	Non Resident
Pension received from the US Government [Net of standard deduction of ₹ 75,000]	2,45,000	-
Income from agriculture land situated in Malaysia	2,70,000	-
Rent received from let out property in Colombo, Sri Lanka [WN]	2,94,000	-
Gross Total Income	8,09,000	Nil

It has been assumed that the above incomes has been received outside India. If the same is received in India, then the said amounts will also be taxable even if Krishna Kumar is non resident.



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

Particulars	Amount
Rent received (assumed as gross annual value)	4,20,000
Less: Deduction under section 24 (30% of ₹4,20,000)	1,26,000
Income from house property	2,94,000

ILLUSTRATION 15

Scope of total Income: Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients?

- Salary (Computed) paid to Mr. David, a citizen of India 15,00,000 by the Central Government for the services rendered in Canada.
- Legal charges of ₹ 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.
- Royalty paid to Rajeev, a non-resident by Mr. Kukesh, a resident for a business carried on in Sri Lanka.
- Interest received of ₹ 1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore.

(4 Marks, May 2015)

SOLUTION:

	Taxable/ Not Taxable	Amount ₹ liable to tax	Reason
i)	Taxable	15,00,000	As per Section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. David for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India.
ii)	Taxable	7,50,000	Legal charges paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court, since it accrues or arises in India.
iii)	Not taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in Section 9(1)(vi)(b).
iv)	Taxable	1,00,000	As per Section 9(1)(v) (c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.

ILLUSTRATION 16

Computation of total income: Determine the taxability of income of US based company Heli Ltd., in India on entering following transactions during the financial year 2025-26:

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- ₹ 5 lacs received from an Indian domestic company for providing technical know how in India.
 - ₹ 6 lacs from an Indian firm for conducting the feasibility study for the new project in Finland.
 - ₹ 4 lacs from a non-resident for use of patent for a business in India.
 - ₹ 8 lacs from a non-resident Indian for use of know how for a business in Singapore.
 - ₹ 10 lacs for supply of manuals and designs for the business to be established in Singapore.
- Explain the rate of tax applicable on taxable income for US based company, Heli Ltd., in India.
(7 Marks, PCC Nov. 2009) (Similar: 4 Marks, May 2017)

SOLUTION

A non resident is chargeable to tax in India in respect of following incomes:

- Income received or deemed to be received in India.
- Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, taxability of income is determined in following manner:

	Particulars	₹
i.	Amount received from an Indian domestic company for providing technical know how in India is from Business Connection in India, therefore taxable in India.	5,00,000
ii.	Conducting the feasibility study for the new project in Finland for the Indian firm is not taxable in India as done for the business outside India.	Nil
iii.	The income from business set up in India is taxable in India. Therefore, money received from a non-resident for use of patent for a business in India is taxable in India	4,00,000
iv.	Money received from a non-resident India for use of know-how for a business in Singapore is for the business outside India, therefore non taxable in India.	Nil
v.	Payment made for supply of manuals and designs for the business to be established in Singapore is not taxable in India	Nil
	Total Income taxable in India	9,00,000

Tax rate applicable to Heli Ltd: In respect of foreign companies, certain specified income such as Royalty and fees for technical service is taxable @ 10% + Surcharge + Health and education cess. The rates are also depends on Double Taxation Avoidance Agreement, if any, entered into between India and the respective country of the foreign company, whichever is more beneficial to the assessee. The basic normal rate applicable for the US based company who is a foreign company is 35%. In case the taxable income is more than 1 crore but upto 10 crores in the previous year, the surcharge @ 2% is applicable. If Total income exceeds 10 crores surcharge of 5% is applicable. The Health and education cess is payable @ 4%. The effective rate of tax in case of foreign companies in India is 37.128% / 38.22% respectively.

ILLUSTRATION 17 [Repeated]

ILLUSTRATION 18

Computation of total income: Mrs. Geetha and Mrs. Leena are sisters and they earned the following income during the Financial Year 2025-26. Mrs. Geetha is settled in Malaysia since 1989 and visits India for a month every year. Mrs. Leena is settled in Indore since her marriage in 1997. Compute the total income of Mrs. Geetha and Mrs. Leena for the assessment year 2026-27:

	Particulars	Mrs. Geetha	Mrs. Leena





1.	Income from Profession in Malaysia, (set up in India) received There	15,000	-
2.	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
3.	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	1,20,000	-
4.	Dividend from PQR Ltd. an Indian Company	5,000	9,000
5.	Dividend from a Malaysian company received in Malaysia	15,000	8,000
6.	Cash gift received from a friend on Mrs. Leena's 50th birthday	-	51,000
7.	Agricultural income from land in Maharashtra	7,500	4,000
8.	Past foreign untaxed income brought to India	5,000	
9.	Fees for technical services rendered in India received in Malaysia	25,000	
10.	Income from a business in Pune (Mrs. Geetha receives 50% of the income in India)	12,000	15,000
11.	Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia)	18,500	14,000
12.	Short-term capital gain on sale of shares of an Indian company	15,000	25,500
13.	Interest on savings account with SBI	12,000	8,000
14.	Life insurance premium paid to LIC	-	30,000

(Similar PCC May 2012, 12 Marks) (Similar IPCC May 2013, 8 Marks) (8 Marks, Nov. 2014)

SOLUTION

Computation of total income of Mrs. Geetha and Mrs. Leena (amount in ₹)

	Particulars	Geetha	Leena
1.	Income from Profession in Malaysia, (set up in India) received there [WN-3]	-	-
2.	Profit from a business in Delhi, but managed directly from Malaysia	40,000	-
3.	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels. (Remittance in India is not taxable)	-	-
4.	Dividend from PQR Ltd. an Indian Company [Taxable in hands of shareholder]	5,000	9,000
5.	Dividend from a Malaysian company received in Malaysia	-	8,000
6.	Cash gift received from a friend on Mrs. Leena's 50th birthday	-	51,000
7.	Agricultural income from land in Maharashtra [WN-4]	-	-
8.	Past foreign untaxed income brought to India [It is not taxable]	-	-
9.	Fees for technical services rendered in India, but received in Malaysia [WN-2]	25,000	-

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10.	Income from a business in Pune (Mrs. Geetha receives 50% of the income in India)	12,000	15,000
11.	Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia)	18,500	14,000
12.	Short-term capital gain on sale of shares of an Indian company	15,000	25,500
13.	Interest on savings account with SBI	12,500	8,000
	Gross Total Income	1,27,500	1,30,500
	Less: Deduction u/s 80C in respect of Life insurance premium paid	-	30,000
	Less: Deduction u/s 80TTA in respect of Interest on deposits in saving A/c	10,000	8,000
	Total Income	1,17,500	92,500

Working Notes:

- 1) Mrs. Geetha is a non-resident since she has been living in Malaysia since 1988. Mrs. Leena, who is settled in Indore, is a resident.
- 2) In case of a resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following income are chargeable to tax:
 - (a) Income received or deemed to be received in India; and
 - (b) Income accruing or arising or deemed to accrue or arise in India.
 Therefore, fees for technical services rendered in India would be taxable in the hands of Mrs. Geetha, even though she is a non-resident. The income referred to in SI. No. 10, 11, 12 and 13 are taxable in the hands of both Mrs. Geetha and Mrs. Leena since they accrue or arise in India.
- 3) Income from Profession in Malaysia, (set up in India) received there by Mrs. Geetha is not taxable since it accrues and received outside India.
- 4) Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- 5) Interest on savings bank deposit is eligible for deduction u/s 80TTA subject to maximum limit of 10,000.

ILLUSTRATION 19

Computation of GTI: Mr. Rajnesh, a citizen of India, serving in the Ministry of Finance in India and transferred to High Commission of Australia on 15th March 2025. He did not come to India during the financial year 2025-26. His income during the financial year 2025-26 is given here under :

Particulars	₹
Salary from Government of India	7,20,000
Foreign Allowances from Government of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2023-24	45,000

Compute the Gross Total Income of Mr. Rajnesh for the Assessment Year 2026-27, if he has not opted for default tax regime **(4 Marks, Nov. 2016)**

SOLUTION

Mr. Rajnesh did not visited India during Financial Year 2025-26, hence he is non-resident in India. Since Mr. Rajnesh is an Indian citizen being government employee his salary income is deemed to

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accrue or arise in India and is taxable in India. Thus even if he is non-resident in India, the salary income will be taxable in India.

Computation of Gross Total Income (amounts in ₹)

Particulars	₹	₹
Income under the head Salaries	7,20,000	
Foreign Allowances from Government of India [Such allowance is exempt u/s 10(7)]	Nil	
Gross Salary	7,20,000	
Less: Standard deduction u/s 16(ia)	75,000	6,45,000
Income from House property		
Rent from house property situated in London, received in India [It will not be taxable, since he is non resident]		Nil
Interest accrued on National Saving Certificate during the year 2025-26		45,000
Gross Total Income		6,90,000

ILLUSTRATION 20

Determination of residential status and scope of total income: DAISY Ltd., a foreign company, incorporated in USA and engaged in the manufacturing and distribution of diamonds, set up a branch office in India in June 2025. The branch office was required to purchase uncut and unassorted diamonds from dealers of Mumbai and export them to USA. During the Previous Year 2025-26, profit from such export amounted to ₹ 75 lakhs.

Out of 20 shareholders of DAISY Ltd., 12 shareholders are non-resident in India. All the major decisions were taken through Board Meetings held at USA.

- Determine the residential status of DAISY Ltd. for the Assessment Year 2026-27
- Discuss the tax treatment of profit from export business. (5 Marks, Nov. 2017)

SOLUTION

- Residential Status of Daisy Ltd.:** According to Section 6(3) of the Income tax Act, 1961, a foreign company is said to be resident in India in any previous year, if its place of effective management, in that year, is in India.
"Place of effective management" means a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole, are in substance made. Since in case of Daisy Ltd., all the major decisions were taken through Board Meetings held at USA, hence it will be non resident in India.
- According to **Explanation 1(b) to Section 9(1)(i)**, in the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export. Thus, export profits of 75 lakhs shall not be taxable in India in hands of DAISY Ltd.

ILLUSTRATION 21

Computation of GTI: Compute the Gross Total Income in the hands of an individual, if he is

- a resident and ordinary resident; and
- a non-resident for the A.Y. 2026-27

Particulars	Amount ₹
i) Interest from German Derivatives Bonds (1/3rd received in India)	21,000
ii) Income from agriculture land situated in Malaysia, remitted to India	51,000



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iii) Income earned from business in Dubai, controlled from India (20,000 received in India)	75,000
iv) Profit from business in Mumbai, controlled from Australia	1,75,000
v) Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000
vi) Dividend from Brown Ltd., an Indian Co.	30,000
vii) Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India)	60,000
viii) Amount received from an NRI for the use of know-how for his business in Singapore	8,00,000
ix) Dividend received from foreign company in India	25,000
x) Past years untaxed foreign income brought to India	50,000

SOLUTION

Computation of Gross total income (amount in ₹)

	Particulars	Resident	Non Resident
i.	Interest from German Derivatives Bonds (1/3rd received in India) [WN-1]	21,000	7,000
ii.	Income from agriculture land situated in Malaysia, remitted to India [WN-1 & 3]	51,000	-
iii.	Income earned from business in Dubai, controlled from India (20,000 received in India) [WN-1]	75,000	20,000
iv.	Profit from business in Mumbai, controlled from Australia [WN-1]	1,75,000	1,75,000
v.	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India [WN-1]	35,000	35,000
vi.	Dividend from Brown Ltd., an Indian Co. [Taxable in hands of shareholder]	30,000	30,000
vii.	Profit from business in Canada controlled from Mumbai (60% of profits deposited in a bank in Canada and 40% remitted to India) [WN-3]	60,000	-
viii.	Amount received from an NRI for the use of know-how for his business in Singapore [WN-4]	8,00,000	-
ix.	Dividend received from foreign company in India [WN-2]	25,000	25,000
x.	Past years untaxed foreign income brought to India	-	-
	Gross Total Income	12,72,000	2,92,000

Working Notes:

- (1) In case of a resident, his global income is taxable as per Section 5(1). However, as per Section 5
- (2) in case of a non- resident, only the following income are chargeable to tax:
 - i) Income received or deemed to be received in India; and
 - ii) Income accruing or arising or deemed to accrue or arise in India

The income referred to in SI. No. (iv), and (v) are taxable in India whether assessee is resident or non resident since they accrue or arise in India. Interest on German

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derivatives Bonds would be fully taxable in case of resident, whereas only 1/3rd which is received in India is taxable in the hands of Non resident.

- (3) Dividend received from foreign company in India will be taxable in both cases since it is received in India.
- (4) In case of non resident, Receipt in India is chargeable to tax and not remittance. Hence, Profit from business in Canada controlled from Mumbai and Agricultural Income from land situated in Malaysia will not be taxable in case of non resident. No exemption will be available in respect of agricultural income from Malaysia, since agricultural income from land situated in India is exempt from tax under Section 10(1).
- (5) In case use of know how is outside India, Income from it does not accrue or arise in India. Hence, it will not be taxable in case of non resident.

ILLUSTRATION 22

Computation of GTI: The following are the incomes of Shri Subhash Chandra, a citizen of India for the previous year 2025-26:

- i) Income from business in India 2,00,000. The business is controlled from London and 60,000 were remitted to London.
- ii) Profits from business earned in Japan 70,000 of which 20,000 were received in India. This business is controlled from India.
- iii) Untaxed income of 1,30,000 for the year 2024-25 of a business in England which was brought in India on 3rd March, 2026.
- iv) Royalty of 4,00,000 received from Shri Ramesh, a resident for technical service provided to run a business outside India.
- v) Agricultural income of 90,000 in Bhutan.
- vi) Income of 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross total income of Shri Subhash Chandra for the A.Y. 2026-27, if he is

(a) A Resident and Ordinary Resident, and

(b) A Resident and Not Ordinarily Resident

(7 Marks, May 2019-NS)

SOLUTION

Computation of Gross total income of Shri Subhash Chandra

(amount in ₹)

Particulars	Resident	NOR
i) Income from business in India	2,00,000	2,00,000
ii) Profits from business earned in Japan controlled from India	70,000	70,000
iii) Untaxed income from business in England	-	-
iv) Royalty received from resident for technical services provided to run a business outside India (Income is deemed to accrue or arise outside India)	4,00,000	4,00,000
v) Agricultural income in Bhutan	90,000	-
vi) Income from house property in Dubai which was deposited in	51,100	-
Gross total income	8,11,100	2,70,000

ILLUSTRATION 23

Scope of total income: Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31-03-2026. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2026-27 as per Income-tax Act, 1961. (Give brief reasoning)

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- i) Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).
 - ii) Received 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).
 - iii) He is also engaged in the business of running news agency and earned income of 10 lakhs from collection of news and views in India for transmission outside India.
 - iv) He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged 10 lakhs for these services from SKK & Co.
- (5 Marks, Nov. 2020)**

SOLUTION

- i) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- ii) Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India. Hence, the royalty is taxable in India.
- iii) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs is not taxable in India in the hands of Mr. Thomas.
- iv) 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr. Thomas.

ILLUSTRATION 24

Scope of total income: Examine the tax implications of the following transactions for the A.Y. 2025-26: (Give brief reason)

- i) Government of India has appointed Mr. Rahul as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of 2,40,000 during the previous year 2025-26 for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year 2025-26.
 - ii) Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned 2,50,000 during the previous year 2025-26.
 - iii) Mr. Naveen, a non-resident in India, has earned 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.
 - iv) Mr. James, a NRI, borrowed 10,00,000 on 01-04-2025 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @12% per annum.
- (7 Marks, Dec. 2021)**

SOLUTION



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- i) As per section 9(1)(iii), salaries (including, inter alia, allowances) payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India.
Thus, salary received from Government by Mr. Rahul, being a non-resident of ₹ 7,50,000 for rendering services in Japan would be taxable in his hands, after allowing standard deduction of 50,000.
However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, 2,40,000, being the allowance would be exempt.
- ii) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.
Thus, income of 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.
- iii) Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India.
In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.
- iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India.
In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of 1,20,000 (10,00,000 x 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.

ILLUSTRATION 25

Determination of Residential Status and its effect on Tax incidence: Mr. Sarthak, an individual and Indian citizen living abroad (Dubai), a tax haven, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2025-26:

	Particulars	Amount (in ₹)
(i)	Income accrued and arisen in Dubai not taxable in Dubai (being tax haven)	20,00,000
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- (I) Determine the residential status of Mr. Sarthak and taxable income for the previous year 2025-26 (assuming no other income arise during the previous year).
- (II) What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- (III) What would be your answer, if Mr. Sarthak born in Dubai and his parents were born in India? (6 marks, Nov 2022)

SOLUTION

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- (I) Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2025-26 on the basis of number of days of his stay in India as per section 6(1).

However, since he is an Indian citizen -

- having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- not liable to tax in Dubai, he would be deemed resident in India for the P.Y. 2025-26 by virtue of section 6(1A).

A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Computation of Total Income for A.Y. 2026-27 :

	Particulars	Amount (in ₹)
(i)	Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(ii)	Income accrued and arisen in India (taxable)	5,00,000
(ii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iii)	Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
	Total income	23,00,000

- (II) If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident. Accordingly, he would be non-resident in India for the P.Y. 2025-26 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

- (III) If Mr. Sarthak is born in Dubai and his parents were born in India, he would not be an Indian citizen, but he may qualify as person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him. Accordingly, he would be non-resident in India during the P.Y. 2025-26 and his total income would be ₹ 13 lakhs.

Note : In sub-part III., it is inferred that he is not a citizen of India since he is not born in India. It is assumed that he has not applied for citizenship by fulfilling the other specified eligibility conditions.

ILLUSTRATION 26

Determination of Residential Status and its effect on Tax incidence : Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2016. He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2025-26, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2025-26:

Income from commercial building in Delhi - ₹ 12,00,000 (computed as per the provisions of the Act).

Income from the retail store - ₹ 4,50,000 (computed as per the provisions of the Act)

Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for the Assessment year 2025-26.

Will your answer change if he is a citizen of Country X? (3 marks, May 2023)

SOLUTION

Determination of residential status of Mr. Jai Chand for A.Y. 2025-26



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Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2025-26, he would not be a resident for A.Y. 2026-27 as per section 6(1). However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of ₹ 16,50,000 [₹ 12,00,000, being income from commercial building in India + ₹ 4,50,000, being Income from retail store in India], which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- not liable to tax in Country

he would be deemed resident in India for the P.Y. 2025-26.

A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2025-26, since the provisions of deemed resident are applicable only to an Indian citizen.

ILLUSTRATION 27

Determination of Residential Status and Computation of Total Income: Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2025-26, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2025-26, he has the following incomes:

- A. Income from business in Australia controlled form Australia - ₹ 20,00,000
- B. Income from business in Sri Lanka controlled form Chennai - ₹ 16,00,000
- C. Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.
- D. Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000

Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2026-27. (4 marks, May 2023)

SOLUTION

Determination of Residential Status of Mr. Prashant: Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2025-26, he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2025-26, he would be resident in India for the A.Y. 2026-27.

"An individual is said to be "Resident but not ordinarily resident [RNOR]" in India in any previous year, if he satisfies any one of the following conditions:

- He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
- His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.

Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y. 2025-26. Hence, he is a **Resident and Ordinarily Resident** in the P.Y. 2025-26.

Computation of Total Income of Mr. Prashant for A.Y. 2026-27:

	Particulars	Amount (₹)
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000



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(iv)	Income from agricultural land in Australia [would not be exempt, since it is not from an agricultural land in India]	2,00,000
	Total income	38,50,000

ILLUSTRATION 28

Determination of residential status: Mr. Ram an Indian citizen left India on 22-9-2025 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the assessment year 2026-27 and explain the conditions to be fulfilled for the same under the Income-tax Act, 1951. **(5 Marks, PCC Nov. 2010)**

SOLUTION

Mr. Ram is an Indian Citizen who left India during the previous year for employment outside India. For him basic condition no. 2 is not applicable. Hence, for being resident in India, he should be in India for 182 days or more during the previous year. In this case, Mr. Ram was in India only for 175 days during the previous year (01-04-2025 to 22-9-2025 = 30+31+30+31+31+22= 175 days). Since he does not satisfy the minimum criteria of residence of 182 days during the previous year, hence, he is a non-resident for assessment year 2026-27.

ILLUSTRATION 29

Determination of residential status: Teji, a citizen of India, is an export manager of Arjun Overseas Ltd., an Indian company since 1 May, 2021. He has been regularly visiting USA for export promotion. He spent the following days in USA during the last 5 years:

Previous year ended	Number of days spent in USA
31-03-2022	320 Days
31-03-2023	150 days
31-03-2024 (leap year)	270 days
31-03-2025	310 days
31-03-2026	295 days

Determine his residential status for assessment year 2026-27 assuming that prior to 1st May, 2021 he had never travelled abroad

SOLUTION

During the previous year 2025-26, Teji was in India for 70 days (365 days - 295 days in USA) and during the immediately preceding previous year, he was in India for 411 days as shown below, -

Year	2021-22	2022-23	2023-24 (leap year)	2024-25	Total
No. of days spent in USA	320	150	270	310	1050
No. of days stayed in India	45	216	95	55	411

Thus, he satisfies one basic condition and thus, he is a resident in India for the previous year 2025-26. He does not satisfy any of the additional conditions, hence Mr. Teji is a resident & ordinarily resident.

ILLUSTRATION 30

Determination of residential status: A, a British national, comes to India for first time during 2021-22. During financial years 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26, he was in

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India for 65 days, 60 days, 80 days, 160 days and 70 days respectively. Determine his residential status for assessment year 2025-26.

SOLUTION

During the previous year 2024-25, a was in India for 70 days and during 4 years immediately preceding the previous year, he was in India for 365 days as shown below,-

Year	2021-22	2022-23	2023-24	2024-25	Total
No. of days stayed in India	65	60	80	160	365

Thus, he satisfies the second basic condition and is, therefore, resident in India for the previous year 2025-26. Further, he satisfies additional conditions as follows,

- He was non resident in India in all of the last 10 preceding years;
- He resided in India only for 365 days during the 7 preceding previous years.

Accordingly, he is 'Not Ordinarily Resident in India' for the previous year 2025-26.

ILLUSTRATION 31

Determination of residential status: Mrs. Karuna Kapoor, is a Hollywood actress. Her passport reveals the following information about her stay in India.

2025-26	From April 3 rd	To	July 11 th
2024-25	From June 22 nd	To	July 11 th
2023-24	From February 10 th	To	March 26 th
2022-23	From September 7 th	To	March 26 th
2021-22	From May 17 th	To	September 30 th
2020-21	From April 3 rd	To	July 11 th
2019-20	From April 3 rd	To	July 11 th
2018-19	From April 3 rd	To	July 11 th
2017-18	From April 3 rd	To	July 11 th

Find out her residential status for the assessment year 2026-27

(5 Marks, May 2018)

SOLUTION

An individual is said to be a Resident in India in any previous year if he satisfies one or both of the basic conditions as given under section 6(1).

i) Basic conditions:

- He must be in India for a period of 182 days or more during the previous year; or
- He must be in India for a period of 60 days or more during the previous year and 365 days or more during the four years preceding the previous year.

ii) If he does not satisfy either of these conditions, he would be a non resident.

During the previous year 2025-26, Mrs. Karuna Kapoor was in India for 100 days (April: 28+ May: 31 + June: 30 + July: 11) and during the immediately preceding 4 previous years, she was in India for 404 days as shown below,-

Year	2021-22	2022-23	2023-24 (leap year)	2024-25	Total
No. of days stayed in India	137	202	45	20	405

Thus, she satisfies one basic condition and thus, she is a resident in India for the previous year 2025-26.



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As per Section 6(6), a person will be "Not ordinarily Resident" in India in any previous year, if such person:

- (i) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (ii) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.
- (iii) a citizen of India, or a person of Indian origin, having total income, other than the income from foreign sources, exceeding 15 lakh during the previous year, and he comes to India for the purpose of visit to India during the relevant previous year and he has been in India for a period or periods amounting in all to 120 days or more but less than 182 days; or
- (iv) a citizen of India who is deemed to be resident in India under section 6(1A).

Year	2018-19	2019-20 (Leap Year)	2020-21	2021-22	2022-23	2023-24 (Leap Year)	2024-25	Total
No. of days stayed in India	100	100	100	137	202	46	20	705

She also satisfies the second additional condition, hence she is **resident but not ordinarily resident**.

ILLUSTRATION 32

Determination of residential status: Ms. Bindu, a non-resident, residing in New York since 1991, came back to India on 19-02-2024 for permanent settlement in India. Explain her residential status of Ms. Bindu for the Assessment Year 2026-27 in accordance with the various provision of Indian Income-tax Act. **(4 Marks, May 2015)**

SOLUTION

Ms. Bindu is a resident in assessment year 2026-27 since she has stayed in India for a period of 365 days (more than 182 days) during the Previous Year 2025-26, respectively.

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

- (i) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (ii) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less
- (iii) a citizen of India, or a person of Indian origin, having total income, other than the income from foreign sources, exceeding 15 lakh during the previous year, and he comes to India for the purpose of visit to India during the relevant previous year and he has been in India for a period or periods amounting in all to 120 days or more but less than 182 days; or
- (iv) a citizen of India who is deemed to be resident in India under section 6(1A)

If he does not satisfy any of these conditions, he would be a resident and ordinarily resident. In the instant case, applying the above provision, the status of Ms. Bindu for the previous year 2025-26 (A.Y. 2026-27) would be Resident but not ordinarily resident since she was non-resident in 9 out of 10 previous years immediately preceding the previous year and also had stayed for less than 729 days in 7 previous years immediately preceding the previous year.

Therefore her status for A.Y. 2026-27 - **"Resident but not ordinarily resident"**.

ILLUSTRATION 33



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Determination of residential status of crew member of ship: Mr. Rohan is an Indian citizen and a member of the crew of a London bound Indian ship engaged in carriage of passengers in international traffic departing from Mumbai port on 10th August, 2025. From the following details for the P.Y. 2025-26, determine the residential status of Mr. Rohan for A.Y. 2026-27, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2025-26) is 380 days and last seven previous years (preceding P.Y. 2025-26) is 780 days: **(Similar: 4 Marks, May 2017)**

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Rohan	10th August, 2025
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Rohan	13th February, 2026

SOLUTION

As per Section 6, where an Indian citizen leaves India as a member of crew of an Indian ship or for the purpose of employment outside India, he will be resident only if he stayed for 182 days during the previous year. In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Mumbai port) and having its destination at a port outside India (i.e., the London port) is an eligible voyage and therefore the period beginning on the date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage shall not be counted for stay in India.

Therefore, the period beginning from 10th August, 2025 and ending on 13th February, 2026, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Rohan, has to be excluded for computing the period of his stay in India.

Accordingly, 188 days [22(August) + 30 (September) + 31 (October) + 30 (November) + 31 (December) + 31 (January) + 13 (February)] have to be excluded from the period of his stay in India.

Consequently, Mr. Rohan's period of stay in India during the P.Y. 2025-26 would be 177 days [i.e., 365 days - 188 days]. Since his period of stay in India during the P.Y. 2024-25 is less than 182 days, he is a non-resident for A.Y. 2026-27.

Note: Since the residential status of Mr. Rohan is "non-resident" for A.Y. 2026-27 consequent to his number of days of stay in P.Y. 2025-26 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

ILLUSTRATION 34

Determination of residential status: Mrs. X, is an Indian citizen. Currently she is in employment with an overseas company located in Dubai. Her passport reveals the following information about her stay in India.

2025-26	From April 3 rd	To	May 1 st
2024-25	From June 22 nd	To	July 11 th
2023-24	From February 10 th	To	March 26 th
2022-23	From September 7 th	To	March 26 th





2021-22	From May 17 th	To	September 30 th
2020-21	From April 3 rd	To	July 11 th
2019-20	From April 3 rd	To	July 11 th
2018-19	From April 3 rd	To	July 11 th
2017-18	From April 3 rd	To	July 11 th

Find out her residential status for the assessment year 2026-27 if Mrs. X is not taxable in Dubai or Territory by reason of her domicile or residence. Income of Mrs X in India for previous year 2025-26 any other country or (other than income from foreign sources) is ₹ 20,00,000.

SOLUTION

An individual is said to be a Resident in India in any previous year if he satisfies one or both of the basic conditions as given under section 6(1).

i) Basic conditions:

- ♦ He must be in India for a period of 182 days or more during the previous year; or
- ♦ He must be in India for a period of 60 days or more during the previous year and 365 days or more during the four years preceding the previous year.

ii) If he does not satisfy either of these conditions, he would be a non resident unless his case falls u/s 6(1A)

According to section 6(1A) of the Act, an individual shall be deemed to be resident in India if he fulfills the following conditions:

- a. He must be citizen of India.
- b. His total income, other than the income from foreign sources, must exceed 15 lakh during the previous year; and
- c. He is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature

If these conditions are satisfied he is deemed to be Not Ordinarily resident in India as per Section 6(6)(d).

During the previous year 2025-26, Mrs. X was in India for 39 days (April: 28 + May: 11) Thus, she does not satisfy any of the basic condition as per Section 6(1) of the Act. However, she satisfies the conditions of Section 6(1A) read with Section 6(6)(d) hence she is resident but not ordinarily resident in India.

ILLUSTRATION 35

Determination of Residential status: Mr. X, Karta of HUF, claims that the HUF is nonresident as the business of HUF is transacted from UK and all the policy decisions are taken there.

(2 Marks, PCC June, 2009)

SOLUTION

True since the business of the HUF is transacted from UK and policy decisions are taken there, therefore, the 'Control and Management' of its affairs is wholly situated outside India.

ILLUSTRATION 36

Determination of Residential status: XYZ Inc is incorporated in Cayman Island. Its key management and commercial decisions are taken in Board meetings held in Mumbai during financial year 2025-26. Determine its residential status for assessment year 2026-27.

SOLUTION

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As per section 6(3), A company is said to be resident in India in any previous year, if its place of effective management, in that year, is in India. In this case though the company is incorporated outside India, it will be regarded as resident in India as its place of effective management during the relevant financial year is in India since its key management and commercial decisions are taken in its board meetings held in Mumbai.

ILLUSTRATION 37

Determination of Residential status: Lotus Inc., a US company headquartered at New York, not having a permanent establishment in India, has set up a liaison office in Delhi in April, 2025 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at New York. Determine the residential status

SOLUTION

In the case of Lotus Inc., its place of effective management for P.Y. 2025-26 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in New York.

Lotus Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management.

Hence, Lotus Inc., being a foreign company is a non-resident for A.Y. 2026-27, since its place of effective management is outside India in the P.Y. 2025-26.

ILLUSTRATION 38

Determination of Residential status: Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2025-26, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2021-22, 2022-23, 2023-24 and 2024-25, respectively. Her annual income for the previous year 2025-26 is as follows:

Particulars	Amount (₹)
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated in UAE	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2026-27. (Support your Answer with computation) **(4 Marks, May 2022)**

SOLUTION

Mrs. Shruti is an Indian citizen in employment in UAE. She comes on a visit to India during the P.Y. 2025-26 for 157 days.

Her stay in India in the four immediately preceding previous years is as follows:



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P.Y.	No. of days
P.Y. 2021-22	200
P.Y. 2020-21	100
P.Y. 2019-20	76
P.Y. 2018-19	45
Total	421

Computation of Total Income of Mrs. Shruti (excluding income from foreign sources)

Particulars	(amount in ₹):
Income from salary earned and received in UAE (income from a foreign source, hence, to be excluded)	-
Income earned and received from a house property situated in UAE (income from a foreign source, hence, to be excluded)	-
Income deemed to accrue or arise in India	5,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arising in India	3,00,000
	18,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India) - Assuming other conditions are fulfilled	1,50,000
Total income (excluding income from foreign sources)	16,50,000

Mrs. Shruti, an Indian citizen visiting India in the P.Y. 2025-26, would be a resident in India for A.Y. 2026-27, if she satisfies either of the following conditions

- She is in India for 182 days or more during the P.Y. 2025-26; or
- She is in India for a period of 120 days or more during the P.Y. 2025-26 and her stay in India in the four immediately preceding previous years is 365 days or more. [This condition will apply to her since she comes on a visit to India during the previous year 2025-26 and her total income (excluding income from foreign sources) is 16.50 lakhs, which exceeds the threshold of ₹ 15 lakhs]

This first condition is not satisfied since she is in India only for 157 days during the P.Y. 2025-26.

The second condition is satisfied, since she has stayed in India for 157 days during the P.Y. 2025-26 and 421 days in the four immediately preceding previous years. Since she has become resident in India for A.Y. 2026-27 by satisfying this condition, by default, she would be treated as resident but not ordinarily resident.

Conclusion: Mrs. Shruti's residential status for A.Y. 2026-27 is **resident but not ordinarily Resident**

ILLUSTRATION 39

Taxability of interest income: Mr. A, a citizen of India, left for USA for the purposes of employment on 01-5-2025. He has not visited India thereafter. Mr. A borrows money from his friend Mr. B, who left India one week before Mr. A's departure, to the extent of 10 lakhs and buys shares in X Ltd., an Indian company. Discuss the taxability of the interest charged @ 10% in B's hands where the same has been received in New York. (4 Marks, PCC May 2006)

SOLUTION



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In this case,

- a) Mr. A and Mr. B are non-resident in India during the previous year 2025-26;
- b) the purpose of borrowed by Mr. A is not 'carrying on of any business of profession in India' but for the purpose of investment in India i.e. earning any source of income in India.

Hence, the provisions of section 9(1)(v) relating to deeming fiction of accrual is not applicable in this case. Accordingly the interest does not accrue or arise in India and is, therefore, not taxable in India.

ILLUSTRATION 40 [Repeated]

ILLUSTRATION 41

Residential Status and its effect on tax incidence: Mr. Soham, an Indian Citizen left India on 20-04-2020 for the first time to setup a software firm in Singapore. On 10-04-2025, he entered into an agreement with LK Limited, an Indian Company for the transfer of technical documents and designs to setup an automobile factory in Faridabad. He reached India along with his team to render the requisite services on 15-05-2025 and was able to complete his assignment on 20-08-2025. He left for Singapore on 21-08-2025. He charged 50 lakhs for his services from LK Limited. Determine the residential status of Mr. Soham for the Assessment Year 2026-27 and explain as to the taxability of the fees charged from LK limited as per the Income-tax Act, 1961.

(6 Marks, Nov. 2015)

SOLUTION

As per Section 6 an Indian citizen or a person of Indian origin, who being outside India, comes on a visit to India shall be resident in India if he is in India for a period of 182 days or more during the previous year or he comes on a visit to India in the previous year for a period of more than 120 days and was in India for a period of 365 days or more during 4 years preceding the previous year and having total income, other than the income from foreign sources, exceeding 15 lakh rupees during the previous year.

In this case Mr. Soham came to India on 15-05-2025 and left for Singapore on 21-08-2025, hence he was in India for a period of 99 days during previous year 2025-26. Hence, he is non-resident in India.

According to Section 9(1)(vi), Income by way of royalty shall be deemed to accrue or arise in India in hands of recipient (Mr. Soham) if it is payable by a person who is resident (LK Limited), except where the royalty are payable in respect of services utilised in a business or profession carried on by such person outside India or for the purposes of making or earning any income from any source outside India. Hence, the income of 50,00,000 shall be deemed to accrue in India. The income of a non-resident shall be deemed to accrue or arise in India under section 9(1)(vi) and shall be included in the total income of the non-resident, whether or not, -

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

Hence, sum of 50,00,000 will be taxable in hands of Mr. Soham.

ILLUSTRATION 42

Computation of Total Income in case of Resident and NOR : Mr. Tilak aged 35 years, furnishes the following information regarding his income for the A.Y. 2026-27. Compute the total income if he is :

- (1) Resident and Ordinarily Resident.
 - (2) Resident but Not Ordinarily Resident
- (Ignore the provisions of Section 115BAC).

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- Remuneration of ₹ 50,000 for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.
- Profits from a business in England controlled from Bombay ₹ 3,00,000 (out of which ₹ 25,000 is received in India).
- Amount brought to India out of past untaxed profits earned in Singapore ₹ 1,00,000.
- Capital gain on sale of land in India but received in Malaysia ₹ 2,00,000.
- Income from agriculture land at Nepal of ₹ 18,000, received there and then brought to India.
- He paid ₹ 50,000 towards principal repayment of loan taken for construction of his self-occupied house in India.
- Interest on saving bank deposit in State Bank of India of ₹ 12,000.

(6 Marks, May 2024)

SOLUTION

Computation of total income of Mr. Tilak for the A.Y. 2026-27:

	Particulars	ROR (₹)	RNOR (₹)
(a)	Remuneration for services rendered in Malaysia Global income is taxable in case of a ROR. In case of RNOR, remuneration would not be taxable in India since neither services are rendered in India nor remuneration received in India.	50,000	Nil
(b)	Profit from business in England controlled from Bombay Global income is taxable in case of a ROR. In case of RNOR, whole profits of ₹ 3,00,000 from business in England is taxable since business is controlled from India.	3,00,000	3,00,000
(c)	Past untaxed profits earned in Singapore and brought to India in current year	Nil	Nil
(d)	Capital gain on sale of land in India but received in Malaysia Deemed to accrue or arises in India, since the property is situated in India.	2,00,000	2,00,000
(e)	Income from agricultural land in Nepal, received there Global income is taxable in case of a ROR. In case of RNOR, it would not be taxable in India, since neither it is deemed to accrue or arise in India nor received in India.	18,000	Nil
(f)	Interest on saving bank deposit in SBI Taxable since it is deemed to accrue or arises in India.	12,000	12,000
	Gross Total Income	5,80,000	5,12,000
	Less: Deduction under Chapter VI-A		



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	Deduction u/s 80C - For repayment of housing loan	50,000	50,000
	Deduction u/s 80TTA - Interest on savings bank account subject to a maximum of ₹ 10,000	10,000	10,000
	Total Income	5,20,000	4,52,000

ILLUSTRATION 43

Determination of Residential status: Mr. X, an Indian citizen, is employed in XYZ Ltd. He was sent on deputation in US on 15-07-2025.

Determine his residential status for assessment year 2026-27.

SOLUTION:

In the given case,- Mr. X was sent on deputation to US during the previous year 2025-26 i.e. he is leaving India for employment outside India. It is irrelevant that he is employed in India before leaving India for employment outside India. For him basic condition number 2 is not applicable. His total stay in India during the previous year = $30+31+30+15 = 106$ days.

Since Mr. X does not satisfy the first basic condition applicable to him, therefore he is a non-resident for the Assessment Year 2026-27.

ILLUSTRATION 44

ILLUSTRATION 45

Determination of residential status: In the year 2025-26, a sailor has remained on a ship for a private company owning ocean-going ships as follows:

Outside the territorial waters of India for 182 days;

Inside the territorial waters of India for 183 days;

Is he considered to be a resident for the assessment year 2026-27?

SOLUTION

An individual is an Indian resident if he is in India for period of 182 days or more during the previous year. India includes territorial waters of India. Since the sailor remained inside the territorial waters of India for 183 days, he is regarded as resident in India for the assessment year 2026-27.

ILLUSTRATION 46 [Repeated]

ILLUSTRATION 47

Determination of Residential Status and Computation of GTI: Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of 65,500 in India. On June 1, 2024 he purchased one residential house property in Mumbai for 18,00,000 in his individual capacity. The market value of the property is 32,00,000 and value for the purpose of charging stamp duty is 23,00,000. On August 31st, 2024 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2024. The overseas branch paid him a salary of \$ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.

He had also gone out of India for 99 days and 201 days in previous years 2023-24 and 2022-23, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2025 to January 15, 2025 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.



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Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2024. The market value is 45,100.

Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the assessment year 2025-26 assuming he opted out of the default tax regime. The value of one USD (\$) may be taken as ₹70. (4 Marks, Sep. 2024)

SOLUTION

Residential Status of Mr. Madan:

Mr. Madan, an Indian citizen who left India on 1st September 2024 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days (30 + 31 + 30 + 31 + 31 + 1 + 15) only during the P.Y. 2024-25 which is less than 182 days.

Residential Status of HUF

Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India.

Hence, the HUF would be resident in India for the P.Y. 2024-25.

A HUF is said to be "Resident and ordinarily resident" in India during the previous year 2024-25, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

- ★ He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- ★ His stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2023-24 and P.Y. 2022-23, respectively, the HUF would be ROR in India.

Computation of Gross Total Income of Mr. Madan for the A.Y. 2025-26:

Particulars	Amount in
Income under the head "Salaries"	
Salary earned in India: [65,500×5+65,500 × 15/31]	3,59,194
Salary paid in USA: [Not taxable as Mr. Madan is a nonresident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction	50,000
	3,09,194
Income from other sources	
Difference between the consideration of ₹ 18 lakhs and stamp duty value of ₹ 23 lakhs of the residential property acquired [Taxable, since the difference of ₹ 5 lakhs exceed ₹ 1,80,000, being the higher of 10% of the consideration and ₹ 50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value does not exceed 50,000]	Nil
Gross Total Income	8,09,194

ILLUSTRATION 48

Scope of Total Income: Mr. Sanjay has following incomes during the previous year 2025-26:

- (1) Interest on England Development Bonds (1/3 received in India) 60,000.
- (2) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.

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- (3) Royalty received from Akhil, a resident, for technical services given to run a business outside India 20,000.
- (4) Income from business in Sri Lanka 25,000 out of which 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr. Sanjay for the assessment year 2026-27 if he is a

(I) Not ordinarily resident

(II) Non-resident

(4 Marks, Nov. 2023)

SOLUTION

Computation of taxable income of Mr. Sanjay for the A.Y. 2026-27 (amount in) :

	Particulars	Not ordinarily resident (BNOB)	Non-resident
(1)	Interest on England Development Bonds (1/3 received in India), amount of 20,000 being received in India would be taxable in case of both RNOR and non-resident.	20,000	20,000
(2)	Interest received from non-resident against a loan given to him to run a business in India would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both RNOR and non-resident	5,000	5,000
(3)	Royalty received from Akhil, a resident for technical services given to run a business outside India would not be deemed to accrue or arise in India, since such services are utilised for business carried outside India. Thus, royalty would not be taxable in case of both RNOR and non-resident.		
(4)	Income from business in Sri Lanka of ₹25,000 out of which 15,000 were received in India. Whole of the income from business in Sri Lanka is taxable in case of RNOR, since business is controlled from India. However, in case of non-resident only the amount received in India would be taxable.	25,000	15,000
	Taxable Income	50,000	40,000

ILLUSTRATION 49

Scope of Total Income: State with reasons whether income chargeable to tax in India for the A.Y. 2026-27 in the hands of recipients in following independent situations:

- Mr. Mahesh received dividend of 7 lakhs declared and paid by a foreign company outside India. Such dividend has been declared in respect of shares which derive their value substantially from assets situated in India. He is resident and not ordinarily resident in India.
- Mr. Shivansh is a non-resident in India and residing in China has deposited 16 lakhs with M/s ABC Ltd., an Indian company, on 01-09-2025. He has received interest @ 12% per annum in China during the previous year 2025-26.
- Mr. Ramesh received royalty of 8,25,000 in consideration of providing patent rights to Mr. Sunil, Mr. Sunil has developed a new product in India by utilizing the patent rights. 30% of the royalty was received in India and 70% was received outside India. Mr. Ramesh and Sunil both have status of non-resident in India.

(6 Marks, May 2025)



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SOLUTION

- i) Dividend received by Mr. Mahesh from a foreign company outside India would not be deemed to accrue or arise in India even if shares of such company derive their value substantially from assets situated in India. Hence, such dividend of 7 lakhs would not be taxable in the hands of Mr. Mahesh.
- ii) (ii) Interest on deposits with M/s ABC Ltd., an Indian Company, would be deemed to accrue or arise in India in the hands of Mr. Shivansh, being a non-resident since source of income is in India.
Thus, interest income of ₹1,12,000 (16 lakhs x 12% x 7/12) would be taxable in his hands.
- iii) Royalty received by Mr. Ramesh, a non-resident from Mr. Sunil, another non-resident would be deemed to accrue or arise in India, since such royalty is paid for patent rights used for a new product developed in India.
Thus, 8,25,000 would be taxable in the hands of Mr. Ramesh irrespective of the facts that only 30% such amount is received in India.

ILLUSTRATION 50 [Repeated]

ADDITIONAL QUESTIONS

Illustration 51

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2026, compute the total income for the A.Y. 2026-27 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), if he is

- (a) Resident and ordinarily resident
- (b) Non-resident

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

Answer



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Computation of total income of Mr. Ashutosh for the A.Y. 2026-27

Particulars	Resident and ordinarily resident (₹)	Non-resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India	1,50,000	1,50,000
Rent from property in Delhi, received outside India [₹ 1,20,000 - 30% of ₹ 1,20,000 under section 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-
Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	3,79,000	2,87,000
Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes -

- In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a nonresident, only the following incomes are chargeable to tax:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a nonresident for business outside India is not taxable in case of nonresident.
- In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a nonresident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

Illustration 52

Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2024. He left India for the first time on 31.07.2024 and joined

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XYZ Inc. on 08.08.2024. During the P.Y. 2025-26, Mr. Dhanush visited India from 25.05.2025 to 22.09.2025. He has earned the following income for the previous year 2025-26

Particulars	₹
Salary from XYZ Inc., USA received in USA	7,00,000
Dividend from Indian companies	5,50,000
Agricultural income from land situated in Punjab	55,000
Rent received/receivable from house property in Lucknow	4,00,000
Profits from a profession in USA, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Dhanush and compute his total income for the A.Y. 2026-27

Answer

As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India. In this case, total income, other than the income from foreign sources, of Mr. Dhanush for P.Y. 2025-26 would be

Particulars	Amount (₹)
Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source)	-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)	5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]	-
Rent received/receivable from house property in Lucknow (Included in total income, since it is deemed to accrue or arise in India)	4,00,000
Less: 30% of ₹4 lakhs	1,20,000
Profits from a profession in USA, which was set up in India, received there	6,00,000
Total income, other than the income from foreign sources	14,30,000

Since, Mr. Dhanush is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2025-26 and his total income, other than income from foreign sources does not exceed ₹ 15 lakhs, he would be non-resident for the A.Y. 2026-27.



A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow -

Particulars		Amount (₹)
Salary from XYZ Inc., USA received in USA (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Dividend from Indian companies (Taxable, since it is deemed to accrue or arise in India)		5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Taxable, since it is deemed to accrue or arise in India)	4,00,000	
Less: 30% of ₹4 lakhs	1,20,000	2,80,000
Profits from a profession in USA, which was set up in India, received there		-
Gross Total Income/ Total income		8,30,000



CHAPTER - 3

INCOME FROM SALARY

STUDY MATERIAL

ILLUSTRATION 1

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

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

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

Solution

Taxable HRA - ₹ 43,200

ILLUSTRATION 2

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

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

SOLUTION

As per default tax regime - ₹ 30,240

As per normal provision - ₹ 25,800

ILLUSTRATION 3

Mr. Sagar who retired on 1.10.2025 is receiving ₹ 5,000 p.m. as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

(a) He is a government employee.

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

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

SOLUTION

(a) exempt, 24,000 (b) 133,333 , 24,000 (c) 50,000 , 24,000



CHAPTER - 3

INCOME FROM SALARY



CA VARDHAMAN DAGA

ILLUSTRATION 4

Mr. Ravi retired on 15.6.2025 after completion of 26 years 8 months of service and received gratuity of ₹15,00,000. At the time of retirement, his salary was:

Basic Salary	:	₹ 50,000 p.m.
Dearness Allowance	:	₹ 10,000 p.m. (60% of which is for retirement benefits)
Commission	:	1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)
Bonus	:	₹ 25,000 p.a.

Compute his taxable gratuity assuming:

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

SOLUTION

(a) 5,65,385 (b) 6,42,000 (c) Nil

ILLUSTRATION 5

Mr. Gupta retired on 1.12.2025 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	:	₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2025)
Dearness Allowance	:	₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	:	₹ 500 p.m.
Bonus	:	₹ 1,000 p.m.
Leave availed during service : 480 days		

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

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

SOLUTION

(a) Nil (b) 4,73,600

ILLUSTRATION 6

Mr. A retires from service on December 31, 2025, after 25 years of service. Following are the particulars of his income/investments for the previous year 2025-26:

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

Out of the amount received from the unrecognised provident fund, the employer's contribution was 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was 2,70,000 and the interest thereon 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2026-27?

SOLUTION

employer contribution and interest - Salary, employee interest - IOS



CHAPTER - 3

INCOME FROM SALARY



CA VARDHAMAN DAGA

ILLUSTRATION 7

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

SOLUTION

Exempt

ILLUSTRATION 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2025-26. You are required to compute his gross salary from the details given below:

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

SOLUTION

Gross salary - 2,92,740

ILLUSTRATION 9

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

SOLUTION

taxable - 2,00,000

ILLUSTRATION 10

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2023. His basic salary is 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2024, 31.3.2025 and 31.3.2026 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viii) for the A.Y. 2025-26 and A.Y. 2026-27. Prior to 1.9.2023, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession."

SOLUTION

For A.Y 2025-26 - 1532, For A.Y 2026-27 - 4069

ILLUSTRATION 11



CHAPTER - 3

INCOME FROM SALARY



CA VARDHAMAN DAGA

Mr. D went on a holiday on 25.12.2025 to Delhi with his wife and three children (one son - age 5 years; twin daughters - age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹60,000 (₹45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Exempt

ILLUSTRATION 12

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

SOLUTION

Exempt - 55,000

ILLUSTRATION 13

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2025-26:

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

SOLUTION

Taxable value of perquisite - 39,000

ILLUSTRATION 14

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

Basic salary	8,500 p.m.
Dearness Allowance	2,000 p.m. (30% is for retirement benefits)
Bonus	1,500 p.m.

Even though the company allotted the house to him on 1.4.2025, he occupied the same only from 1.11.2025. Calculate the taxable value of the perquisite for A.Y.2026-27.

SOLUTION

value of rent-free accommodation - 5,300

ILLUSTRATION 15



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

SOLUTION

value of accommodation - 300

ILLUSTRATION 16

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,025 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

SOLUTION

value of accommodation - 125

ILLUSTRATION 17

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹10,000; Cost ₹25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹400 p.m. each. The television was provided on 1.1.2026. However, Mr. C is required to pay a rent of 1,000 p.m. to the company, for the use of this furnished accommodation.

SOLUTION

value of accommodation - 4,925

ILLUSTRATION 18

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

SOLUTION

value of accommodation - 3,125

ILLUSTRATION 19

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

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

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

SOLUTION

(i) taxable in case of all employees (ii) not taxable, not specified employee

ILLUSTRATION 20

Mr. X retired from the services of M/s Y Ltd. on 31.01.2026, after completing service of 30 years and one month. He had joined the company on 1.1.1996 at the age of 30 years and received the following on his retirement:

- i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.





- ii) Leave encashment of ₹3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2023 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method
- iv) An amount of ₹3,00,000 as commutation of pension for 2/3 of his pension commutation.
- v) Company presented him a gift voucher worth ₹6,000 on his retirement.
- vi) His colleagues also gifted him a Television (LCD) worth ₹50,000 from their own contribution.

Following are the other particulars:

- i) He has drawn a basic salary of ₹20,000 and 50% dearness allowance per month for the period from 01.04.2025 to 31.01.2026.
- ii) Received pension of ₹5,000 per month for the period 01.02.2026 to 31.03.2026 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Taxable salary - 6,82,769

ILLUSTRATION 21

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2025-26:

- (i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer)
In case the company has employed the domestic servant, what is the value of perquisite?
- (ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- (iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000
- (iv) A gift voucher worth 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to 25,000 paid by the employer.
- (vi) Housing loan @ 6% per annum. Amount outstanding on 31.3.2025 is 6,00,000. Shri Bala pays 12,000 per month towards principal, on 1st of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2026-27.

The lending rate of State Bank of India as on 1.4.2025 for housing loan may be taken as 10%.

SOLUTION

(i) taxable perquisite - 18,000 (ii) taxable perquisite - 14,400 (iii) value - 11,000 (iv) taxable - 10,000 (v) tax free (vi) value of perquisite - 20,880

ILLUSTRATION 22

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2025. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise



of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- (i) What is the perquisite value of sweat equity shares allotted to Sri Chand?
- (ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

SOLUTION

value of perquisite - 1,00,000, COA - 3,00,000

ILLUSTRATION 23

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2025-26 -

- (1) Accommodation taken on lease by X Ltd. for ₹ 15,000p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.
- (2) Furniture, for which the hire charges paid by X Ltd. is ₹3,000p.m. No amount is recovered from the employee in respect of the same.
- (3) A car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur
- (4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2026-27, assuming his salary for perquisite valuation to be ₹ 10 lakh.

SOLUTION

value of perquisite - 1,18,400

ILLUSTRATION 24

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2026.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000
Commission	₹ 1,00,000
Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹2,000 (₹1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2026-27, if Mr. Goyal is a State Government employee

SOLUTION

(a) as per 115BAC - 6,41,000 (b) as per normal provision - 6,59,000

ILLUSTRATION 25

In the case of Mr. Hari, who turned 68 years on 28.3.2026, you are informed that the salary (computed) for the previous year 2025-26 is ₹10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary (₹)	Arrears now received (₹)
2016-2017	7,10,000	1,03,000
2017-2018	8,25,000	1,17,000

CHAPTER - 3

INCOME FROM SALARY



CA VARDHAMAN DAGA

2018-2019	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2026-27. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2017-18	Upto 3,00,000	Nil	Upto 2,50,000	Nil
	₹ 3,00,001-₹ 5,00,000	10%	₹ 2,50,001-₹ 5,00,000	10%
	₹ 5,00,001-₹ 10,00,000	20%	₹ 5,00,001-₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 8,00,000	30%
2018-19	Upto ₹ 3,00,000	Nil	Upto 2,50,000	Nil
	₹ 3,00,001-₹ 5,00,000	5%	₹ 2,50,001-₹ 5,00,000	5%
	₹ 5,00,001-₹ 10,00,000	20%	₹ 5,00,001-₹ 8,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 8,00,000	30%
2019-20	Upto ₹ 3,00,000	Nil	Upto 2,50,000	Nil
	₹ 3,00,001-₹ 5,00,000	5%	₹ 2,50,001-₹ 5,00,000	5%
	₹ 5,00,001-₹ 10,00,000	20%	₹ 5,00,001-₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note-Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for A.Y 2017-18 and A.Y 2018-19.

SOLUTION

rebate u/s 89 - 28,520

TEST YOUR KNOWLEDGE

ILLUSTRATION 26

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of 6,000p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2026. He also got an increment of ₹ 1,000p.m. in his basic salary with effect from 01.02.2026. Rent paid by him during the P.Y.2025-26 is as under:

April and May, 2025 - Nil, as he stayed with his parents

June to October, 2025 - ₹ 6,000p.m. for an accommodation in Ghaziabad

November, 2025 to March, 2026 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2026-27, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300, gross salary - 2,65,300



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ILLUSTRATION 27

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2025-26:

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

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

SOLUTION

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2026-27

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.





5. As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by & the employer would be excluded from perquisite subject to certain conditions -
6. (i) Expenditure on medical treatment of the employee, or any member of stay expenses [₹ 1,05,000, in this case];
- (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].
- The conditions subject to which the above expenditure would be exempt are as follows - the family of such employee, outside India including
- (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
- (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.
- Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

ILLUSTRATION 28

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

- (i) A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2025.
- (ii) A personal loan of ₹5,00,000 on 1.7.2025 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2025 was 12.75% p.a.) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2022. The motor cycle was finally sold to him on 1.8.2025 for ₹ 30,000.
- (iii) Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2026-27 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

income from salary - 3,56,900

ILLUSTRATION 29

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2026:

- (i) Basic salary upto 31.10.2025 ₹50,000 p.m.
Basic salary from 01.11.2025 ₹ 60,000 p.m.
Note - Salary is due and paid on the last day of every month.
- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary





- (v) Professional tax paid ₹ 2,500 of which ₹2,000 was paid by the employer.
 - (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2025.
 - (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee.
 - (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.
- Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

taxable salary - 9,67,500

ILLUSTRATION 30

From the following details, find out the salary chargeable to tax for the A.Y.2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)-

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2025 in the scale of ₹20,000 - ₹1,000 - ₹30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits

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

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

SOLUTION

Salary income chargeable to tax - 3,28,749

ILLUSTRATION 31

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2026:

- (i) He retired on 31-12-2025 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.



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- (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (iv) He had accumulated leave of 15 days per annum during the period of his service, this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- (v) He is receiving ₹ 5,000 as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth 50,000 from their own contribution.

SOLUTION

(a) under 115 BAC - 4,11,333

ILLUSTRATION 32

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2025-26:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2026-27 if she pays tax under default tax regime.

SOLUTION

income from salary - 11,51,600

PAST EXAM QUESTIONS

ILLUSTRATION 33



- ARHAM INSTITUTE



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Computation of taxable income: Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31-1-2026 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31-3-2026: **(6 Marks, PCC May 2008)**

- Salary @ 16,000 p.m. comprising of basic salary of 10,000, Dearness allowance of ₹ 3,000, City compensatory allowance of 2,000 and Night duty allowance of 1,000.
- Pension @ 30% of basic salary from 1-2-2026.
- Leave salary of 75,000 for 225 days of leave accumulated during 5 year @ 45 days leave per year.
- Gratuity of ₹ 50,000.

Compute the total income of Mr. Narendra if he has not opted for the provisions of section 115BAC.

Solution

(1) Computation of total income of Mr. Narendra (amount in ₹) -

Particulars	₹
Basic Salary (10,000 × 10)	1,00,000
Dearness Allowance (3,000 × 10)	30,000
City Compensatory Allowances (2,000 × 10) - Fully taxable	20,000
Night Duty Allowance (1,000 × 10) - Fully taxable	10,000
Pension (30% of 10,000 × 2) [February, 2026 to March, 2026]	6,000
Taxable leave encashment[WN-1]	25,000
Gratuity[WN-2]	25,000
Gross Salary	2,16,000
Less: Standard Deduction u/s 16(ia)	50,000
Salary Income/Total Income	1,66,000
Working Notes:	75,000
(1) Computation of taxable leave encashment (amount in ₹)	
Leave salary received	
Exemption: Least of the following is exempt	
• Actual earned leave salary received	75,000
• 10 months' Average salary	
10,00,000	
• Earned leave to the credit × Average Salary (5 × 10,000)	50,000
• Amount notified by the Central Government	
25,00,000	
Taxable Leave Encashment = Sum Received - Exemption	25,000

Computation of leave of at the credit of an employee :

Particulars	Company	Income-tax
Leave entitlement for completed year	45 days	30 days
Completed years of service	5	5
Total leave entitlement (days)	225	150
Leave availed while in service (days)	0	0
Balance leave at his credit (days)	225	150

(2) Computation of taxable gratuity (amount in ₹)-

Particulars	₹	₹
Gratuity received		50,000
Exemption u/s 10(10): The least of the following is		



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exempt		
a) Gratuity received	50,000	
b) $1/2 \times \text{Average Salary (10,000)} \times \text{Completed Years (5)}$	25,000	
c) Specified limit	20,00,000	25,000
Taxable Gratuity = Gratuity Received - Exemption		25,000

ILLUSTRATION 34

Computation of taxable salary: Babu joined a Company on 01-06-2025 and was paid the following emoluments and allowed perquisites as under-

Emoluments: Basic pay = ₹ 25,000 per month; DA = ₹ 10,000 per month; Bonus ₹ 50,000 per month.

Perquisites:

- Furnished accommodation owned by the employer and provided free of cost. Value of furniture therein 3,00,000.
- Motorcar owned by the Company (with engine cubic capacity less than 1.6 litres) along with chauffeur for official and personal use.
- Sweeper salary paid by Company 1,500 per month.
- Watchman salary paid by Company 1,500 per month.
- Educational facility for 2 children provided free of cost. School is owned and maintained by company.
- Interest free loan of 5,00,000 given on 1-10-2025 for purchase of a house. No repayment was made during the year. (SBI Rate 12.25%)
- Interest free loan for purchase of computer 50,000 given on 1-1-2026 No repayment was made during the year. (SBI Rate 15.25%)
- Corporate membership of a club. The initial fee of 1,00,000 was paid by the Company. Babu paid the bills for his use of club facilities.

You are required to compute the income of Babu under the Head "Salaries" if he has not opted for the provisions of Section 115BAC. Suitable assumptions may be made, wherever necessary. (May 2002)

SOLUTION

Computation of Income of Babu under the Head "Salaries" (amounts in ₹) -

Particulars	₹
Basic Salary (25,000 × 10)	2,50,000
Dearness allowance (10,000 × 10) [WN-1]	1,00,000
Bonus (50,000 × 10 months)	5,00,000
Value of Accommodation [WN-2 & 3]	1,10,000
Sweeper Salary paid by employer (1,500 × 10)	15,000
Watchman Salary paid by employer (1,500 × 10)	15,000
Car facility [WN-4]	27,000
Club facility [WN-5]	Nil
Education facility to children [WN-4]	Nil
Interest free housing Loan (5,00,000 × 12.25% × 6 ÷ 12)	30,625
Interest free Computer Loan (50,000 × 15.25% p.a. × 3 ÷ 12)	1,906
Gross Salary	10,49,531
Less: Standard Deduction u/s 16(ia)	50,000
Income under the head salaries	9,99,531



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Working Notes:

- It is assumed that DA forms the part of salary for retirement benefits.
- It is assumed that the place of accommodation has population exceeding 25 lakhs.

(3) Taxable value of Rent Free furnished Accommodation:

Particulars	₹
Valuation of rent free accommodation	10% of salary
Value of rent free accommodation (8,50,000 × 10%)	85,000
Add: Furniture (10% p.a. of original cost of furniture) (3,00,000 × 10% × 10/12)	25,000
Taxable value of furnished accommodation	1,10,000
Salary for rent free accommodation:	
Basic Pay	2,50,000
DA	1,00,000
Bonus	5,00,000
	8,50,000

(4) The car is used partly for personal and partly for official use. Assuming that the maintenance and running expenses are met by the owner-company, value of car facility = ₹ 1,800 + ₹ 900) × 10 = ₹ 27,000.

(5) The initial fee for corporate membership is exempt from tax.

(6) It is assumed that the cost of education per child does not exceed 1,000 p.m.

ILLUSTRATION 35

Computation of gross salary: Sehwag is employed with Sure Shots Ltd. on a salary of 25,000 per month. The company provides him with the following benefits:

- A company owned accommodation at Delhi.
- A housing loan of 5,00,000 on 1 July 2025 on which it charges interest @ 6% per annum. The entire loan is still outstanding. The rate of SBI is 8% p.a.
- The company gave him a watch worth 4,900 as gift on his 50th birthday on 21st October, 2025.
- He made purchases of 12,000 on his credit card. This amount, along with the annual fee of 2,000, was paid by the company.
- He is allowed to use the video camera belonging to the company. The company had purchased this camera for 60,000 on 1st May 2022. This camera was sold to him on 1st August 2025 for 30,000.
- The company had purchased a car on 16th July 2022 for 2,50,000. This car was sold to Sehwag on 14th July 2025 for 80,000.
- The company pays telephone bills of 24,000 for the telephone installed at the residence of Sehwag.

Compute the gross income from salary of Sehwag if he has not opted for the provisions of Section 115BAC.

SOLUTION

Computation of Taxable Salary of Sehwag (amounts in ₹)-

Particulars	₹
Basic salary @ 25,000p.m. (₹ 25,000 × 12)	3,00,000
Rent free accommodation (10% of salary)	30,000



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Concessional housing loan	[WN-1]	7,500
Free gift of watch	[WN-2]	Exempt
Credit card facility (12,000+2,000)		14,000
Telephone facility	[WN-3]	Exempt
Use of Video camera	[WN-4]	2,000
Sale of video camera	[WN-5]	12,000
Sale of car	[WN-6]	80,000
Gross Salary		4,45,500
Less: Standard Deduction u / s 16(ia)		50,000
Income under the head salaries		3,95,500

Working Notes:

- (1) Value of concessional housing loan = ₹ 5,00,000 × 2% × 9/12 = ₹ 7,500.
- (2) The value of gift received is exempt from tax as the amount is below ₹ 5,000.
- (3) Telephone facility provided is an exempt perquisite, hence not liable to tax.
- (4) Taxable value for use of video camera = 60,000 × 10% × 4/12 = ₹ 2,000.
- (5) Taxable value for use of video camera = WDV - Sale price = (₹ 60,000 - Depreciation @ 10% for 3 years 18,000) - 30,000 = ₹ 42,000 - 30,000 = ₹ 12,000.
- (6) Total depreciation for two completed years on motor car = ₹ 90,000 computed as follows
Depreciation for the 1st year @ 20% of cost = ₹ 50,000

WDV at the end of 1st year = ₹ 2,00,000

Depreciation for 2nd year @ 20% = ₹ 40,000

Hence, taxable value for sale of car = ₹ 2,50,000 - ₹ 90,000 - ₹ 80,000 = ₹ 80,000.

ILLUSTRATION 36

Computation of taxable salary: Naresh, who is neither a director nor he has substantial interest in any company, is offered an employment by Freewheel Ltd., Mumbai with following alternatives:

	Alternative I	Alternative II
Basic pay	1,66,000	1,66,000
Bonus	9,000	9,000
Education allowance for 2 children/ Education facility for 2 children in a school maintained by employer	30,200	30,200
Sweeper allowance/Sweeper facility	10,000	10,000
Entertainment Allowance/Club facility	6,000	6,000
Transport allowance/Free car (1200cc) facility for personal use (Car owned by the employer)	21,600	21,600
Medical allowance/Medical facility for Naresh and his family	18,000	18,000
Allowance for gas, electricity and water supply/ Free gas, electricity and water supply (bills will be in the name of the employer)	4,500	4,500
Holiday home allowance/Holiday home facility	8,000	8,000
Lunch allowance/ Free lunch (70 × 200 days + 80 × 50 days)	18,000	18,000
Diwali gift allowance/ Gift on Diwali	7,500	7,500
A rent-free unfurnished home - lease rent	30,000	30,000



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Which of the two alternatives Naresh should opt for on the assumption that both employer and employee will contribute 10% of salary towards unrecognised provident fund?

Interest-free loan of 20,000 will be given to him for purchasing household items.

Note: He has not opted for the provisions of Section 115BAC

SOLUTION

Computation of Taxable Salary of Naresh under two Alternatives (amounts in ₹)

	Alternative I	Alternative II
Basic pay	1,66,000	1,66,000
Bonus	9,000	9,000
Education allowance/Education facility[WN-1]	27,800	30,200
Sweeper allowance/Sweeper facility	10,000	10,000
Entertainment Allowance/Club facility	6,000	6,000
Transport allowance/Free car (1200 cc) facility for personal use[WN-2]	21,600	21,600
Medical allowance/Medical facility for Naresh and his family members in a hospital maintained by employer	18,000	Exempt
Allowance for gas, electricity and water supply/Free gas, electricity and water supply (bills will be in the name of the employer)	4,500	4,500
Holiday home allowance/Holiday home facility	8,000	8,000
Lunch allowance/Free lunch[WN-3]	18,000	5,500
Diwali gift allowance/Gift on Diwali[WN-4]	7,500	7,500
Rent-free unfurnished home[WN-5]	29,640	17,500
Gross Salary	3,26,040	2,85,800
Less: Standard Deduction u/s 16(ia)	50,000	50,000
Total taxable salary	2,76,040	2,35,800

Hence, Naresh should opt for Alternative II, as taxable income is less in that case, thus his tax liability will be less.

Working Notes:

- Alternative I:** Taxable value of Education allowance = 30,200 - [100 × 12 × 2] = 27,800.
Alternative II: Taxable value of Education facility for 2 children is fully taxable as the value exceeds 1,000 p.m. per child.
- Alternative I:** Taxable value of Transport Allowance = 21,600
Alternative II: Assuming that 21,600 includes all expenses incurred including normal wear & tear, taxable value of Car Facility = 21,600.
- Alternative II:** Free lunch is exempt upto 50 per meal, hence, taxable amount = (80-50) × 50 days + (70 - 50) × 200 days = ₹5,500.
- Alternative II:** The gift received on Diwali is fully taxable as the value exceeds ₹ 5,000.
- Value of rent free house shall be lower of the following

	Alternative I	Alternative II
a) 10% of Monetary Salary (10% of 2,96,400 and 10% of 1,75,000)	29,640	17,500
b) Lease rent paid	30,000	30,000



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ILLUSTRATION 37

Computation of taxable salary: Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt.Ltd., furnishes you the under-mentioned information for the year ended 31-03-2026:

- Basic salary upto 30-11-2025 = ₹ 70,000 p.m.
Basic salary from 01-12-2025 = ₹ 80,000 p.m.
Note: Salary is due and paid on the last day of every month.
 - Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
 - Bonus equal to one month salary. This was paid in November, 2025 on basic salary plus dearness allowance applicable for that month.
 - Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary, employee also contributing an equivalent amount.
 - Profession tax paid 6,000 of which 3,000 was paid by the employer.
 - Facility of laptop was provided to Janakaraj for both official and personal use. Cost of laptop 65,000 and was purchased by the company on 11-10-2025.
 - Leave travel concession given to Janakaraj, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer 20,000 for adults and lump sum of 25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.
- Compute the taxable salary of Mr. Janakaraj if he has not opted for the provisions of Section 115BAC.
(6 Marks, Nov. 2018-NS)

SOLUTION

Computation of income from salary of Mr. Janakaraj (amount in ₹):

Particulars	₹
Basic salary (₹ 70,000 × 8+ ₹80,000 × 4)	8,80,000
Dearness allowance (Fully taxable) [50% of basic salary]	4,40,000
Bonus on basis of salary for month of November [70,000+ 35,000]	1,05,000
Facility of laptop [WN-1]	Exempt
Leave travel concession -Exempt under Section 10(5) [WN-3]	Exempt
Tax paid on employment (Employee's obligation met by employer) [WN-2]	3,000
Employer's contribution to R.P.F. in excess of 12% of basic salary (i.e., 6% of 8,80,000)	52,800
Gross salary	14,80,800
Less: Standard Deduction u/s 16(ia) [WN-4]	50,000
Professional tax u/s Section 16(iii) [WN-2]	6,000
Taxable Salary	14,24,800

Working Notes:

- As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- As per Section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of 3,000 paid by the employer is taxable as a perquisite in the hands of Mr. Janakaraj. As per Section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee 3,000 is



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first included in the salary and deduction of the entire professional tax of 6,000 is provided from salary.

- (3) Mr. Janakraj can avail exemption u/s 10(5) on the entire amount of 45,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.
- (4) As per Section 16(ia), standard deduction will be allowed from gross salary amounting 50,000 or the amount of salary, whichever is less.

ILLUSTRATION 38

Computation of taxable salary: Mr. B is a sales manager in PQR Ltd. During F.Y. 2025-26 he has received the following towards his salary and allowances/perquisites;

- (i) Basic pay ₹ 85,000 per month upto December 2025 and thereafter an increase of ₹ 2,000 per month.
- (ii) Dearness allowance 40% of basic pay forming part of retirement benefits.
- (iii) Bonus 1 month basic pay based on the salary drawn during January month every year.
- (iv) He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- (v) Travelling allowance of ₹ 5,000 per month towards on duty tours.
- (vi) Research and training allowance ₹ 3,000 per month.
- (vii) Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
- (viii) 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, 2025.
- (ix) 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:

- I. Compute the income chargeable to tax under the head "Income from Salary", assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- II. What will be the income under the head "Salaries", if he under default tax regime?
(8 Marks, Nov. 2022)

SOLUTION

I. Computation of income chargeable to tax under the head "Salaries" for A.Y. 2026-27, if Mr. B has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) :

Particulars	₹	₹
Basic Pay [₹ 85,000 × 9 + ₹ 87,000 × 3]		10,26,000
Dearness Allowance [₹ 10,26,000 × 40%]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours]		-
Research and training allowance [₹ 3,000 × 12]		36,000
Medical allowance [₹ 1500 × 12]		18,000
Children Education allowance [₹ 600 × 12 × 3]	21,600	
Less: Exempt [₹ 100 × 12 × 2]	2,400	19,200



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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 [₹ 2,00,000 × 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 (₹ 10,26,000 + ₹ 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. 2026-27, if Mr. B is under default tax regime of section 115BAC :

Particulars	₹	₹
Income chargeable under the head "Salaries"		17,59,988
Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2,400
		17,62,388
Less: Difference in standard deduction		25,000
Less: Value of rent-free accommodation (As per regular provisions)		1,69,660
		15,67,728
Add: Value of Rent-free accommodation [10% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)]	1,59,900	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,900
Income chargeable under the head "Salaries"		17,37,628

ILLUSTRATION 39

Computation of taxable salary: Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2026 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
- Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month along with 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2025 to 31st March, 2026.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2024 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.



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You are required to compute the taxable salary of Mr. Rohan for A.Y.2026-27 assuming that he does not claim any relief under section 89 and he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (7 Marks, May 2023)

SOLUTION

Computation of taxable salary of Mr. Rohan for A.Y. 2026-27

Particulars	₹	₹
Basic Salary ₹ 25,000 × 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [₹ 7,50,000 - ₹ 6,05,769]		1,44,231
Less: Exempt under section 10(10) - Least of the following:		
(i) Notified limit	25,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) 15/26 × last drawn salary × number of completed years of services or part in excess of 6 months [15/26 × 37,500 × 28]	6,05,769	
Leave encashment [₹3,25,000-₹1,75,000]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:		
(i) Notified limit	25,00,000	
(ii) Actual leave salary received	3,25,000	
(iii) 10 months × ₹25,000	2,50,000	
(vii) Cash equivalent of leave to his credit [₹ 25,000 × 210/30]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]		-
Perquisite value of car ₹ 80,000 [Diver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000×12) + ₹ 80,000(10% of ₹ 8,00,000), being normal wear and tear on car]		2,00,000
Gross Salary		9,44,231
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		8,94,231

ILLUSTRATION 40

Computation of taxable salary: From the following details, find out the salary chargeable to tax of Mr. Anand for the assessment year 2026-27: Mr. Anand is a regular employee of Malpani Ltd. in Mumbai. He was appointed on 01-03-2025 in the scale of 25,000 - 2,500 - 35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month's basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

He is provided free housing facility which has been taken on rent by the Company at 15,000 per month. He is also provided with following facilities.

- The company reimbursed the medical treatment bill of 40,000 of his daughter, who is dependent on him.
- The monthly salary of 2,000 of a house keeper is reimbursed by the Company.
- He is getting telephone allowance @ 1,000 per month.
- A gift voucher of 4,700 was given on the occasion of his marriage anniversary.



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- v) The Company pays medical insurance premium to effect an insurance on the health of Mr. Anand 12,000.
- vi) Motor car running and maintenance charges fully paid by employer of 36,600. (The motor car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee.)
- vii) Value of free lunch provided during office hours is ₹ 2,200.

Note: He has not opted for the provisions of Section 115BAC.

(8 marks, Nov 2013)

SOLUTION

Computation of Salary chargeable to tax of Mr. Anand (amount in ₹)-

Particulars	₹
Basic pay [(25000 × 11) + (27,500 × 1)]	3,02,500
Dearness allowance (15% of basic pay)	45,375
Bonus (27,500 × 1.5) [WN-1]	41,250
Telephone allowance (1000 × 12)	12,000
Car facility (₹36,600 - 1,800 × 12) [WN-2]	15,000
Employer's contribution to RPF in excess of 12% [WN-3]	20,873
Rent-free accommodation [WN-4]	40,113
Medical reimbursement [Fully Taxable]	40,000
Reimbursement of salary of housekeeper - Taxable u/s 17(2)(iv)	24,000
Medical insurance premium paid by employer on health of Mr. Anand [WN-5]	Exempt
Gift voucher [WN-6]	Exempt
Free lunch provided during office hours shall be exempt from tax (assuming value per meal doesn't exceed 50)	Exempt
Gross Salary	5,41,111
Less: Standard Deduction u/s 16(ia)	50,000
Salary income chargeable to tax	4,91,111

Working Notes:

- (1) Bonus has been taken as 1.5 month's basic pay as at the end of year i.e. ₹ 27,500.
- (2) In case motor car is owned by the employee and repair and maintenance expenses are met by employer, then perquisite value shall be actual expenses incurred by employer as reduced by 1,800 p.m., since cubic capacity of engine does not exceed 1.6 litres.
- (3) Taxable part of employer's contribution to RPF = 6% of (Basic pay + DA) = 6% of (3,02,500 + 45,375) = 20,873. Since employer contributes to RPF on basic pay plus DA, hence, even the DA forms the part of salary for computing retirement benefits.
- (4) Value of taxable RFA = Lower of the two
 - a) 10% of salary (4,01,125) i.e. = ₹ 40,112
 - b) Lease rent ₹ 15,000 × 12 = 1,80,000.

Salary for rent free accommodation (amount in ₹)

Particulars	₹
Basic pay	3,02,500
Dearness allowance	45,375
Bonus	41,250
Telephone allowance	12,000
Total	4,01,125



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- (5) Premium of 12,000 paid by company for medical insurance premium on health of Anand is not liable to tax.
- (6) Gifts below ₹ 5,000 are not taxable.

ILLUSTRATION 41

Computation of taxable salary: Mr. Anand an employee of XYZ Co. Ltd. at Mumbai and covered by Payment of Gratuity Act, retires at the age of 64 years on 31-12-2025 after completing 33 years and 7 months of service. At the time of retirement, his employer pays 20,51,640 as Gratuity and 6,00,000 as accumulated balance of Recognised Provident fund. He is also entitled for monthly pension of 8,000. He gets 75% of pension Commuted for 4,50,000 on 1st February, 2026. Determine the salary chargeable to tax for Mr. Anand for the AY 2026-27 with the help of following information:

Basic Salary ($80,000 \times 9$) = ₹ 7,20,000

Bonus = ₹ 36,000

House Rent Allowance ($15,000 \times 9$) = ₹ 1,35,000

Rent paid by Mr. Anand ($10,000 \times 12$) = ₹ 1,20,000

Employer contribution towards Recognized Provident Fund = ₹ 1,10,000

Professional Tax paid by Mr. Anand = ₹ 2,000

Note: Salary and Pension falls due on the last day of each month. He has not opted for the provisions of Section 115BAC. (8 Marks, Nov. 2014)

SOLUTION

Computation of Income from salary (amount in ₹)

Particulars	₹
Basic Salary ($80,000 \times 9$)	7,20,000
Bonus	36,000
Taxable House Rent Allowance [WN-1]	1,17,000
Employer contribution towards Recognized Provident Fund [₹ 1,10,000 - 12% of ₹ 7,20,000] [WN-5]	23,600
Taxable Gratuity [WN-2]	4,82,409
Uncommuted pension [$8,000 \times 1$ month (January, 2024) + ($2,000 \times 2$ (February 2026 to March 2026))] [WN-3]	12,000
Taxable portion of commuted value of pension [WN-4]	2,50,000
Gross Salary	16,41,009
Less: Standard Deduction u/s 16(ia)	50,000
Less: Professional Tax paid by Mr. Anand	2,000
Income from salary	15,89,009

Working Notes:

(1) HRA is exempt to the extent least of the following (amount in ₹)

Particulars	₹
a) Actual HRA received	1,35,000
b) Rent paid - 10% of salary ($90,000 - 10\%$ of ₹ 7,20,000)	18,000
c) 50% of the salary (50% of 7,20,000)	3,60,000
Exempted HRA	18,000
Taxable HRA	1,17,000

(2) Computation of taxable gratuity (amount in ₹)



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Particulars	₹
Completed years of service (Part thereof in excess of 6 months shall be rounded off to higher side)	34
Exemption u/s 10(10): Least of the following is exempt	
a) Gratuity received	20,51,640
b) $15/26 \times \text{Salary last drawn} > \text{Completed years of service}$	15,69,231
c) Specified limit	20,00,000
Taxable Gratuity = Gratuity Received - Exemption	4,82,409

(3) Uncommuted Pension: Since Mr. Anand commuted 75% pension in February, 2026. His uncommuted pension from February, 2026 onward shall be $(₹ 8000 \times 25\%) = 2,000$ p.m.

(4) Commuted pension:

- % of pension commuted = 75%
- Commuted value of pension (Pension received + % commuted) = $4,50,000/75\% = ₹6,00,000$.
- Exemption = $1/3$ rd of commuted value of pension $(₹ 6,00,000) = ₹ 2,00,000$.
- Taxable portion of commuted pension = $₹ 4,50,000 - ₹ 2,00,000 = ₹ 2,50,000$

(5) Employer's contribution is exempt upto 12% of salary.

ILLUSTRATION 42

Computation of taxable salary: Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2025-26:

Particulars	₹
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession Tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	30,000
Employer-Company owns a Tata Nano car, which was provided to the assessee, both for official and personal use. No driver was provided. (Engine cubic capacity less than 1.6 litres)	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes details of usage are not available]	2,000

You are required to compute the income chargeable under the head "Salaries" for the AY 2026-27 if he has not opted for the provisions of Section 115BAC. **(8 Marks, May 2017)**

SOLUTION

Computation of Taxable Salary of Nambi (amounts in ₹) -

Particulars	₹
Basic salary	6,00,000
Dearness allowance	3,20,000



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Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer [Fully Taxable]	21,000
Profession Tax (50% paid by employer shall be treated as perquisite)	3,500
Health insurance premium paid by employer [Exempt from tax]	-
Gift voucher given by employer on his birthday (taxable, as it is not below ₹ 5,000)	12,000
Life insurance premium of Nambi paid by employer [Employees obligation met by employer, hence fully taxable]	34,000
Laptop facility [Use of Laptops and computers belonging to or hired by the employer is exempt]	
Car facility for official and personal use [1,800 p.m. is taxable, since engine cubic capacity less than 1.6litres] [1800 x 12]	21,600
Annual credit card fees paid by employer	2,000
Gross Salary	10,71,600
Less: Standard Deduction u/s 16(ia)	50,000
Less: Professional Tax paid	7,000
Income chargeable to tax under 'Salaries'	10,14,600

ILLUSTRATION 43

Computation of taxable salary: Ms. Jaya is the marketing manager in XYZ limited. She gives you the following particulars:

Basic Salary = ₹ 65,000 p.m.

Dearness Allowance = ₹ 22,000 p.m. (30% is for retirement benefits)

Bonus = ₹ 17,000 p.m.

Her employer has provided her with an accommodation on 1st April, 2025 at a concessional rent. The house was taken on lease by XYZ Ltd. for 12,000 p.m. Ms. Jaya occupied the house from 1st November, 2025. 4,800 p.m. is recovered from the salary of Ms. Jaya.

The employer gave her a gift voucher of 8,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards recognised provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Ms. Jaya 18,000.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Jaya from 1 November, 2025 which is used for both official and personal purposes. Repair and running expenses of ₹ 50,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Jaya for the A.Y. 2026-27 if she has not opted for the provisions of Section 115BAC. (10 Marks, Nov. 2017)

SOLUTION

Computation of Salary chargeable to tax of Ms. Jaya (amount in ₹) -

Particulars	₹
Basic salary [(65000 x 12)]	7,80,000
Dearness allowance [22,000 p.m. (30% is for retirement benefits)] [₹ 22000 x 12]	2,64,000



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Bonus (₹ 17000 x 12)		2,04,000
Car facility (₹ 2,400 x 5)	[WN-1]	12,000
Employer's contribution to RPF in excess of 12%	[WN-2]	84,816
Rent-free accommodation	[WN-3]	20,300
Medical insurance premium paid by employer on health of Ms Jaya	[WN-4]	Exempt
Gift voucher	[WN-5]	8,000
Gross Salary		13,73,116
Less: Standard Deduction u/s 16(ia)		50,000
Salary income chargeable to tax		13,23,116

Working Notes:

- (1) In case motor car is owned by the employer and repair and maintenance expenses are met by employer, then perquisite value shall be 2,400 p.m., since cubic capacity of engine exceeds 1.6 litres. Since it is provided from 1 November, 2025, it will be taxable for 5 months.
- (2) Employer's contribution to recognized provident fund in excess of 12% of salary is taxable as per Section 17(1)(vi). $18\% \times [(\text{₹ } 65,000 + 22,000) \times 12] - 12\% \times [(\text{₹ } 65,000 + \text{₹ } 6,600 \text{ (being 30\% of ₹ 22,000)} = \text{₹ } 1,87,920 - \text{₹ } 1,03,104)]$ [Salary = Basic Salary + Dearness Allowance to the extent if Form part of pay for retirement benefits]
- (3) In case of accommodation taken on lease by the employer, there would be deemed concession in the matter of rent i.e. the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee. Hence, Value of concessional Accommodation = Lower of the two
 a) 10% of salary (4,43,000) i.e. 44,300 b) Lease rent ₹ 12000 x 5 = ₹ 60,000 as reduced by rent recovered from Ms. Jaya i.e. & [44,300 - (4,800 x 5)] = 20,300
 Salary for rent free accommodation (amount in ₹)

Particulars	₹
Basic pay (65,000 x 5)	3,25,000
Dearness allowance (22000 x 30% x 5)	33,000
Bonus (₹ 17000 x 5)	85,000
Total	4,43,000

Note: Since Ms. Jaya has occupied the house only from 1-11-2025, salary would be considered only in respect of the months during which she has occupied the accommodation. Hence, salary for 5 months (i.e. from 1-11-2025 to 31-3-2026) would be considered.

- (4) Premium of 18,000 paid by company for medical insurance premium on health of Jaya is not liable to tax.
- (5) Gift voucher of 8,000 will be fully taxable, since it is not below ₹ 5,000.

ILLUSTRATION 44

Computation of taxable salary: Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹50,000 p.m.

Salary received in India (For 6 months) 50,000 p.m.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility. During the previous year company incurred an expenditure of ₹ 48,000 on this facility.



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He has been provided a car of 2000 cc capacity in USA. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year where as his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year the company paid premium of 5,000 and 10,000 respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2026-27 if he has not opted for the provisions of Section 115BAC
(10 Marks, May 2018-NS)

SOLUTION

Since Honey was in India for more than 182 days during the previous year, he is a resident in India for assessment year 2026-27. Hence, his worldwide income will be taxable in India.

Particulars	₹
Basic Salary $[(50,000 \times 6) + (50,000 \times 6)]$	6,00,000
Hostel and education allowance $[3000 \times 12]$ [WN-1]	36,000
Education facility for elder child [WN-2]	12,000
Car facility for official and personal use in U.S.A. $(2,400 \times 6)$ [WN-3]	14,400
Car facility for personal use [WN-4]	70,000
Guest House [WN-5]	Nil
Lunch facility [WN-5]	48,000
Rent-free accommodation (lease rent paid or 10% of salary whichever is less) [WN-6]	63,600
Premium of 5,000 paid by the company for personal accident policy [WN-7]	Exempt
Life Insurance premium paid	10,000
Gross Salary	8,54,000
Less: Standard deduction u/s 16(ia)	50,000
Salary Income chargeable to Tax	8,04,000

Working Notes:

- (1) No exemption is available in respect of allowance received for any education or hostel facility of children outside India.
- (2) If employer incurs expenditure on providing education facility to member of household, it is fully taxable.
- (3) Since car (2000cc) is used for official and personal purpose when Mr. Honey is in USA ₹ 2,400 p.m. will be taxable.
- (4) When Mr. Honey is in India, Car is used for personal purpose by his family members. Hence amount to be taxable is arrived as under:

Particulars	₹
Deprecation of car @ 10% p.a. of original cost of car $[8,00,000 \times 10\% \times 6/12]$	40,000
Monthly expenditure incurred by employer $[5,000 \times 6]$	30,000
Total	70,000

- (5) Guest house facility is not taxable, since it is provided for stay when he visits India wholly for official purposes.
- (6) Value of taxable RFA = Lower of the two-



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- a) 10% of salary i.e. 63,600
- b) Lease rent $15,000 \times 6 = ₹ 90,000$

Salary for rent free accommodation:

Particulars	₹
Basic pay	6,00,000
Hostel and education allowance	36,000
Total	6,36,000
10% of salary	63,600

(7) Premium of 5,000 paid by company for personal accident policy is not liable to tax.

ILLUSTRATION 45

Computation of salary income: Mrs. Padma (age: 25 years) is offered an employment by Pritam Ltd. at a basic salary of 24,000 per month; other allowances according to rules of the company are -

Dearness allowance : 18% of basic pay (not forming part of salary for calculating retirement benefits);

Bonus: 1 month basic pay; and Project allowance: 6% of basic pay.

The company gives Mrs. Padma an option either to take a rent-free unfurnished accommodation at Mumbai for which the company would directly bear the rent of 15,000 per month or to accept a house rent allowance of ₹ 15,000 per month and find out her own accommodation. If Mrs. Padma opts for house rent allowance, she will have to pay ₹ 15,000 per month for an unfurnished house. Which one of the two options should be opted by Mrs. Padma in order to minimize her tax liability? (Marks 5, CS June 2008)

SOLUTION

Computation of total taxable income of Mrs. Padma (amount in ₹):

The valuation of RFA has been solved as per the applicable old rule (from 1st april to 31st august) and as per amended rule (from 1st September to 31st march). Other questions have been solved as per amended rule for the entire financial year.

Particulars	Receipt of HRA	Rent-free accommodation
Basic Salary (24,000 × 12)	2,88,000	2,88,000
Dearness Allowance (18% of basic salary i.e. 18% of 2,88,000)	51,840	51,840
Bonus (1 month basic pay)	24,000	24,000
Project Allowances (6% of basic salary i.e. 6% of ₹ 2,88,000)	17,280	17,280
House Rent Allowance[WN-1]	36,000	
Rent Free Accommodation[WN-2]		32,928
Salary Income	4,17,120	4,14,048

Basic Salary (1) Computation of taxable HRA:

Particulars	₹	₹
HRA received		1,80,000
Least of following amount is exempt		
a) Actual amount received	1,80,000	
b) Rent paid less 10% of salary i.e. 1,80,000 - ₹ 28,800	1,51,200	



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c) 50% of salary	1,44,000	1,44,000
Taxable HRA		36,000

(2) Value of rent free accommodation shall be least of the following -

a) Actual rent paid or payable or	1,80,000
b) 10% of salary	32,928

(3) Salary for rent free accommodation:

Particulars	₹
Basic Salary	2,88,000
Bonus	24,000
Project Allowance	17,280
Total	3,29,280

ILLUSTRATION 46

Transfer of movable assets: Find out the taxable value of perquisites from the following particulars in case of an employee to whom the following assets held by the company were sold on 13th June, 2025 (amt. ₹)

	Car	Laptop	Furniture
Cost of purchase (in May 2023)	8,72,000	1,22,500	35,000
Sale price	5,15,000	25,000	10,000

The assets were put to use by the company from the day these were purchased.

SOLUTION

Computation of taxable value of perquisite (amounts in ₹)

	Car (20% WDV)	Laptop (50% WDV)	Furniture (10% SLM)
Cost of the asset	8,72,000	1,22,500	35,000
Less: Depreciation for each completed year of use			
1 year ending May 2024	1,74,400	61,250	3,500
Balance as on 1st June 2024	6,97,600	61,250	31,500
2nd year ending May 2024	1,39,520	30,625	3,500
Balance as on 1st June 2025	5,58,080	30,625	28,000
Less: Sale Price	5,15,000	25,000	10,000
Taxable value of perquisites	43,080	5,625	18,000

ILLUSTRATION 47

Interest free loan and transfer of movable asset: Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri:

- Housing loan @ 6% per annum. Amount outstanding on 01-4-2025 is 6,00,000. Mr. Badri pays 12,000 per month, on 5th of each month.
- Air conditioners purchased 4 years back for 2,00,000 have been given to Mr. Badri for 90,000

Compute the chargeable perquisite in the hands of Mr. Badri for the assessment year 2026-27. The lending rate of SBI as on 1-4-2024 for housing loan may be taken as 10%.



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(6 Marks, PCC May 2008)

SOLUTION

Computation of Taxable Perquisite in the hands of Mr. Badri (amounts in ₹)

Particulars	₹	₹
1) Concessional loan (See Note)		20,880
2) Transfer of movable asset: Actual cost of the air conditioner	2,00,000	
Less: (i) 10% depreciation on SLM basis for 4 years	80,000	
(ii) Amount paid by Mr. Badri	90,000	30,000
Total value of taxable perquisite		50,880

Note: Total maximum monthly outstanding balance means the amount outstanding on the last day of the concerned month.

Month	Maximum outstanding monthly balance ₹	Perquisite value
April 2025	5,88,000	1,960
May 2025	5,76,000	1,920
June, 2025	5,64,000	1,880
July, 2025	5,52,000	1,840
August, 2025	5,40,000	1,800
September, 2025	5,28,000	1,760
October, 2025	5,16,000	1,720
November, 2025	5,04,000	1,680
December, 2025	4,92,000	1,640
January, 2026	4,80,000	1,600
February, 2026	4,68,000	1,560
March, 2026	4,56,000	1,520
Total		20,880

ILLUSTRATION 48

Computation of taxable value of perquisites: Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire FY 2025-26:

- Medical facility given to his family in a hospital maintained by the company. The estimated value of benefit because of such facility is 40,000.
- Domestic servant was provided at the residence of Bala. Salary of domestic servant is 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case, the company has employed the domestic servant, what is the value of perquisite?
- Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at 900 per month and for Ashok at 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is 1,10,000.



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v) A gift voucher worth 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
State the taxability or otherwise of the above said perquisites and compute the total value of taxable perquisites
(8 Marks, PCC May 2011)

SOLUTION

Computation of total value of taxable perquisites (amount in ₹)-

	Particulars		₹
i)	Medical facility to family in a hospital maintained by the company	[WN-1]	Exempt
ii)	Salary of domestic servant of Bala reimbursed by the company (1,500 × 12)	[WN-2]	18,000
iii)	Free education provided to children of Bala in a school maintained by the company	[WN-3]	14,400
iv)	Movable assets provided by the ABC Co. Ltd	[WN-4]	11,000
v)	Gift voucher given by the company to Bala on his marriage anniversary		
	Total value of taxable perquisites		53,400

Working Notes:

- 1) The medical facility provided to an employee in a hospital maintained by the employer is exempt from tax under proviso to section 17(2).
- 2) Here, the servant is engaged by Bala i.e. reimbursement by the employer-company would be employee's obligation met by employer, hence, taxable under section 17(2)(iv). In case, the company has employed the domestic servant, then the same shall be taxable if Bala is specified employee.
- 3) Free education provided in a school maintained and owned by the employer is exempt if the cost of such education does not exceed 1,000 per month per child, otherwise it is fully taxable. In this case, free education for Arthy shall be exempt since it does not exceed 1,000 p.m.; but the free education for Ashok, which exceeds 1,000 per month shall be fully liable to tax [1,200 × 12].
- 4) In case employer allows use of movable asset, the value of perquisite shall be - 10% p.a. of the actual cost. Hence, taxable value = 10% of 1,10,000 = ₹ 11,000.
- 5) Gifts, the value of which is below 5,000, are exempt from tax. Here, the value of the gift voucher is 10,000, hence it is fully taxable.

ILLUSTRATION 49

Compute taxable gratuity: Mr. Shah, an Accounts Manager, has retired from JK Ltd. On 15-1-2026 after rendering services for 30 years 7 months. His salary is 25,000 p.m. up to 30-09-2025 and 27,000 thereafter. He also gets 2,000 p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits). He is not covered by the Payments of Gratuity Act, 1972. He has received 8 lacs as gratuity from the employer company. Compute taxable gratuity.
(4 Marks, IPCC Nov. 2010)

Solution: Computation of taxable gratuity: The relevant computations are as follows (amount ₹)

Particulars	₹	₹
Gratuity received		8,00,000
Exemption u/s 10(10): The least of the following is exempt -		
a) Gratuity received	8,00,000	



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b) $1/2 \times \text{Average Salary (26,700)} \times \text{Completed years (30)} [\text{WN}]$	4,00,500	
c) Specified limit	20,00,000	4,00,500
Taxable Gratuity = Gratuity Received - Exemption		3,99,500

Working Notes:

Ten months immediately preceding the month of retirement	1-3-2025 to 31-12-2025
Basic Salary for the said ten months $[25,000 \times 7 + 27,000 \times 3]$	2,56,000
DA (to the extent it forms part of retirement benefits), 55% of ₹ 2,000 $\times 10$	11,000
Total Salary during the said ten months	2,67,000
Average salary for the said ten months	26,700
Completed years of service ignoring any fraction	30

ILLUSTRATION 50

Computation of Gross salary: Mr. Jain retires from a Private service on 1st August 2025. At the time of his retirement after 28 years and 8 months of service, he was getting the salary of 34,000 per month. He gets pension of 10,000 per month upto 31st December 2025. With effect from 1st January 2026 he gets 4/5th of his pension commuted for 12,00,000. Determine his gross salary.

SOLUTION

Computation of gross salary (amounts in-

Particulars	₹
Salary @34,000 per month (April 2025 to July 2025)	1,36,000
Un commuted pension $[\text{₹}10,000 \times 5 \text{ months (August 2025 to December 2025)} + (\text{2000} \times 3 \text{ (January 2026 to March 2026)})]$ [WN-1]	56,000
Taxable portion of commuted value of pension [WN-1]	4,50,000
Gross salary	6,42,000

Working Notes:

- (1) Un commuted Pension: Since Mr. Jain commuted 4/5th pension in December, 2024. His uncommuted pension from January, 2026 onward shall be $[10,000 \times 1/5] = 2,000 \text{ p.m.}$
- (2) Commuted pension:
 - a) % of pension commuted = $4/5 = 80\%$
 - b) Commuted value of pension (Pension received + % commuted) = $12,00,000 / 80\% = \text{₹}15,00,000$
 - c) Exemption = $1/2$ of commuted value of pension (₹ 15,00,000) = ₹ 7,50,000 .
 - d) Taxable portion of commuted pension = ₹ 12,00,000 - ₹ 7,50,000 = ₹ 4,50,000

ILLUSTRATION 51

Computation of taxable salary: Mr. M is an area manager of M/s. N. Steels Co. Ltd. During the previous year 2025-26 he gets following emoluments from his employer:

Basic salary: upto 31-08-2025 = ₹ 20,000 p.m

from 01-09-2025 = ₹ 25,000 p.m.

Transport Allowance = ₹ 2,000 p.m

Contribution to recognized provident fund = 15% of basic salary

Children education allowance = ₹ 500 p.m. for two children

City Compensatory Allowance = ₹ 300 p.m



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Hostel expenses allowance = ₹ 380 p.m. for two children

Tiffin allowance (actual expenses ₹ 3,700) = ₹ 5,000 p.a.

Tax paid on employment = ₹ 2,500

Compute taxable salary of Mr. M. if he has not opted for the provisions of Section 115BAC.

(6 Marks, PCC Nov. 2008)

SOLUTION

Computation of income from salary of Mr. M (amount in ₹):

Particulars	₹	₹
Basic salary (20,000 × 5+ ₹ 25,000 × 7)		2,75,000
Transport Allowance (₹ 2,000 p.m. × 12)	24,000	
Less: Exempt	Nil	24,000
Children education allowance (500 p.m. × 12)	6,000	
Less: Exempt (100 × 2 × 12)	2,400	3,600
Hostel expenses allowance (380 × 12)	4,560	3,600
Less: Exempt (300 × 2 × 12)=7,200 but restricted to the actual allowance of ₹ 4,560	4,560	Exempt
Tiffin allowance (Fully taxable)		5,000
Tax paid on employment (Employee's obligation met by employer)[WN-2]		2,500
Employer's contribution to R.P.F. In excess of 12% of salary (ie., 3% of ₹ 2,75,000)[WN-1]		8,250
Gross salary		3,21,950
Less: Standard Deduction u/s 16(ia)[WN-3]		50,000
Employment tax u/s Section 16(iii)		2,500
Taxable Salary		2,69,450

- (1) The question states that contribution to recognised provident fund is at 15% of Basic salary + D.A. However, since the amount or rate of D.A. is not given in the question, contribution to recognised provident fund has been taken as 15% of basic salary.
- (2) Employment tax paid by employer should be included in the salary of Mr. M as a perquisite since it is discharge of monetary obligation of the employee by the employer. Thereafter, deduction of employment tax paid is allowed to the employee from his gross salary.
- (3) As per Section 16(ia), standard deduction will be allowed from gross salary amounting ₹ 50,000 or the amount of salary, whichever is less.

ILLUSTRATION 52

Interest-Free Loan : Ranjit has taken an interest-free loan of ₹ 10 lakhs from his company. The amount is utilized by him for purchasing a house on 30-06-2024. The house is self-occupied. As per the scheme of the company, loan would be recovered in 40 equal monthly instalments recoverable immediately after the completion of 18th month from the date of purchase. The SBI lending rate of similar loan on 01-04-2025 was 9.75%. Calculate the perquisite value of such loan in the hands of Ranjit for the assessment year 2026-27.

Is it possible to get deduction of perquisite value of interest under section 24(b)?

Does it make any difference, if the house is given on rent ?

SOLUTION



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First installment will be due on 01-01-2026. Amount of instalment will be = ₹ 10,00,000/40 = ₹ 25,000. Therefore, value for perquisite for interest-free loan will be calculated by applying the interest rate charged by the State Bank of India on the outstanding amount of loan. Therefore, the value of perquisite will be as follows :

Particulars	₹
From April 2024 to December 2025 ($₹ 10,00,000 \times 9.75\% \times 9/12$)	73,125
For the month of January 2026 ($₹ 9,75,000 \times 9.75\% \times 1/12$)	7,922
For the month of February 2026 ($₹ 9,50,000 \times 9.75\% \times 1/12$)	7,719
For the month of March 2026 ($₹ 9,25,000 \times 9.75\% \times 1/12$)	7,516
Total	96,281

Deduction u/s 24(b) : Interest on capital borrowed for the purchase, construction, re-construction, repair or renewals of house property is deductible under section 24(b). In this case, capital is borrowed from the employer without interest. There is no interest paid or payable in respect of the amount of loan of ₹ 10 lacs. Consequently, no deduction under section 24(b) would be available, whether the house is self-occupied or given on rent.

ILLUSTRATION 53

Accrual of salary: Rajesh Kumar, an Indian citizen, is posted in the Indian High commission at London during the previous year 2025-26. His emoluments consist of basic pay of ₹ 1,40,000 per month and overseas allowance of 40,000 per month. Besides, he is entitled to airfare for going from and coming to India and also to free use of Government's car at London. He has no taxable income except salary income stated above. His employer did not deduct tax at source. Rajesh Kumar argues that

- he is not liable to pay tax on salary earned and received outside India since he is a non-resident during the previous year 2025-26, and
- even if any tax is due, it is the duty of his employer to deduct tax at source and as such he has no responsibility to pay the tax. Discuss whether his contention is correct. Will it make any difference if Rajesh Kumar is a Foreign citizen? Give reasons. (Nov. 1998)

SOLUTION:

- If Rajesh is an Indian Citizen:** The argument of Rajesh Kumar is not correct. Since he is an Indian citizen being government employee his salary income is deemed to accrue or arise in India and is taxable in India. In case if employer does not deduct tax at source, the tax is to be paid directly by employee.

The computation of Taxable Salary is as under (amounts in ₹)

Particulars	₹
Salary ($1,40,000 \times 12$)	16,80,000
Overseas Allowance ($40,000 \times 12$) & Perquisites shall be exempt u/s 10(7)	Nil
Gross Salary	16,80,000
Less: Standard deduction u/s 16(ia)	50,000
Income under the head Salaries	16,30,000

- If Mr. Rajesh is a foreign citizen:** In case Rajesh Kumar is foreign citizen, then salary income shall not be deemed to accrue or arise in India, and hence not taxable in India.

ILLUSTRATION 54





Computation of exempted House rent allowance: Arun, a resident of Meerut, receives 38,000 per annum as basic salary. In addition, he gets 12,000 p.a. as dearness allowance, which does not form part of basic salary, 5% commission on turnover achieved by him (turnover achieved by him during the relevant previous year is 6,00,000) and 7,000 per annum as house rent allowance. He, however, pays 8,000 per annum as house rent. Determine the quantum of house rent allowance exempt from tax.

SOLUTION

HRA is exempt to the extent least of the following (amount in ₹) -

(1) Actual HRA received	7,000
(2) Rent paid -10% of salary (8,000 -10% of 68,000)	1,200
(3) 40% of the salary (40% of 68,000)	27,200
Exempted HRA	1,200

Note: Salary= ₹ 38,000+5% of 6,00,000= 68,000 for the year

ILLUSTRATION 55

Transport Allowance to employee of transport system: Examine with brief reasons, whether the following is chargeable to income-tax and the amount liable to tax with reference to The provisions of the Income-tax Act, 1961: Allowance received by an employee Mr. Ram working in a transport system at 12,000 p.m. which has been granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer. (2 Marks, Nov. 2018-NS)

SOLUTION

Under section 10(14), any allowance granted to an employee working in a transport system to meet his personal expenditure during his duty is exempt provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., 8,400 per month, being 70% of 12,000) or 10,000 per month, whichever is less. Hence, ₹ 8,400 p.m. is allowable as exemption u/s 10(14); and the balance ₹ 3,600 p.m. shall be taxable. Hence taxable allowance will be $3,600 \times 12 = 43,200$.

ILLUSTRATION 56

Valuation of rent-free accommodation in hotel: Calculate the value of perquisite, if any, chargeable to tax in respect of free accommodation provided by the employer in a hotel to an employee,

- for 10 days when he was transferred from Delhi to Mumbai.
- throughout the year as per contract of employment.

SOLUTION:

- (1) When the employee is provided accommodation in a hotel for a period not exceeding 15 days on account of his transfer from one place to another, then the value of such perquisite shall be nil. In this case, since the period of hotel accommodation doesn't exceed 15 days and the same has been provided on the transfer of employee from Delhi to Mumbai, the same shall be exempt.
- (2) When hotel accommodation is provided throughout the year as per contract of employment - The taxable value shall be Lower of -
 - the actual charges paid/payable to such hotel; or
 - 24% of salary;

Any amount recovered from the employee shall be reduced.



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ILLUSTRATION 57

Rent free accommodation: Compute the value of perquisite in respect of rent-free furnished house, if Ashok stays in a city with a population of

- not exceeding 15 lakh ;
- exceeding 15 lakh but not exceeding 40 lakh ; and
- exceeding 40 lakh.

Ashok is in receipt of the following amounts from his employer during the previous year -

- Basic pay: 1,80,000;
- Dearness allowance: 25% of basic pay;
- Commission: 5% of basic pay; and
- Bonus: 8,000.

His employer has paid income tax of ₹ 5,000 and professional tax of 1,500 on his behalf. Besides, his employer provided refrigerator and television costing 24,000 and paid 500 per month towards rent of other furniture provided. The refrigerator and television is provided w.e.f. 01-10-2025.

SOLUTION

Taxable value of Rent Free furnished Accommodation (amount in ₹):

Particulars	Cities having population		
	Not exceeding 15 lakh	Exceeding 15 lakhs but not exceeding 40L	Exceeding 40 lakh
Valuation of rent free accommodation	5% of salary	7.5% of salary	10% of salary
Perquisite value of RFA[WN]	12,100	18,150	24,200
Add: Furniture (10% p.a. of original cost of furniture)	1,200	1,200	1,200
Rent of furniture (500 × 6)	3,000	3,000	3,000
Taxable value of furnished	16,300	22,350	28,400

Working Notes: Salary for rent free accommodation (amount in ₹):

Particulars	₹
Basic Pay	1,80,000
DA (assuming DA form part of retirement benefits)	45,000
Commission (5% of basic pay)	9,000
Bonus	8,000
Income tax & professional tax paid by employer (not includible in salary, as they are 'perquisites')	Nil
Salary for rent free accommodation	2,42,000

ILLUSTRATION 58

Car facility: Mr. A is provided with two cars, to be used for official and personal work by his employer ABC Ltd. The following information is available from the company records -

	Car ₹	Car ₹
Cost of the Car	6,00,000	4,00,000



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Running and maintenance (Borne by the company)	40,800	28,000
Salary of driver (Borne by the company)	24,000	24,000

The taxable monetary emoluments of Mr. A are 90,000. Compute the taxable 'Perk' in respect of Cars on the assumption car 2, is exclusively used by 'A' for personal purpose. (4 Marks, Nov. 2004)

SOLUTION

The perquisite in respect of motor car will be taxable in the hands of Mr. A, as he is a 'specified employee'. Since in question it is specifically mentioned that Car 2 is used for private purposes therefore Car 1 shall be taken as used for partly official and partly personal purpose:

Particulars	₹
Car 1 (Partly official and partly personal, assumed to be above 1.6 litres cc) [(2,400 + 900) × 12]	39,600
Car 2 (Private use only) [Expenses actually incurred 28,000 and 24,000 + 10% of cost of car]	92,000
Total value of perquisite	1,31,600

ILLUSTRATION 59

Education facility : Vidya Bhawan is owned by ABC Ltd. Shri Ramesh is an employee of ABC Ltd drawing salary of 2,00,000 and his following family members are studying in the said school. Find out the taxable value of perquisite-

	Rahul, son of Ramesh	Kajri, daughter of Ramesh
Cost of education in a similar institution	₹ 3,500 p.m	₹ 1,800 p.m.
Amount charged from Ramesh	₹ 2,500 p.m	

SOLUTION

It was held in CIT v. Delhi Public School [2009] 318 ITR 234 (Del.) that perquisite in respect of education facility is exempt if its value is upto ₹ 1,000 p.m. If the value exceeds 1,000 p.m. then the entire amount will be taxable. Further, if value of concessional facility is upto 1,000 p.m., it will also be exempt. Further, if value of concessional facility is up to 1,000 p.m., it will also be exempt.

In case of Rahul, the value of perquisite shall be (3,500 - 2,500) 1,000 p.m. As the value of Perquisite doesn't exceed 1,000 p.m., hence, the perquisite shall not be taxable.

Taxable value of perquisite in case of Kajri = 1,800 × 12 = 21,600. (Since the value of the perquisite exceeds 1,000 p.m., entire amount is taxable.)

ILLUSTRATION 60

ESOP: Mr. M is working with MNO Limited for the last 10 years. He was granted an option on 01-7-2023 by the company to purchase 800 equity shares at a price of 250 per share. The period during which the option can be exercised to purchase 800 shares at a pre-determined price of 250 per share commencing on 01-7-2023 and ending on 31-3-2026. Mr. M exercised the option on 15-3-2025 to purchase 500 shares. Fair market value on the said date was 6,490 on the Bombay Stock Exchange and ₹ 6,500 on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share.

The company has allotted him 500 shares on 24th April, 2025. The fair market value on the date of allotment was 7,100 per share on NSE and 7,110 on the BSE, that has recorded the higher



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volume of trading in that share. The option was granted for making available rights in the nature of intellectual property rights. Determine the taxability of perquisite.
Does it make any difference if the option was granted for providing technical know-how?

SOLUTION

The value of perquisite shall be computed as follows

- In this question shares of M/s. MNO Ltd. are traded on more than one stock exchange (both, BSE and NSE) on the date of exercise of the option i.e. on 15-3-2025, hence, as per Valuation Rules, the average of the opening and closing prices on the recognised stock exchange, which records highest trading volume shall be taken to be the fair market value of each option
- Since NSE recorded the higher trading volume, hence, FMV on that date on NSE = 6,500 shall be taken to be the FMV for the purpose of valuation of perquisite.
- Value of perquisite = (FMV - Exercise Price) × No. of shares = (6,500 - 250) × 500 shares = 31,25,000.
- The taxability of perquisite will arise in the year in which shares are allotted or transferred to employee i.e. in the previous year 2025-26.
Even if the option is granted for providing know-how, the same will fall within the meaning of 'sweat equity shares' and, therefore, section 17(2)(vi) shall apply in the same manner as given above.

ILLUSTRATION 61

Medical facility: Himalaya Ltd. reimburses the following expenditure on medical treatment of the son of an employee Karan. The treatment was done at UK:

- Travelling expenses ₹ 1,15,000.
- Stay expenses at UK permitted by RBI 45,000 (Actual expenses ₹ 70,000).
- Medical expenses permitted by RBI 50,000 (Actual expenses 70,000).

Compute the taxable perquisites in the hands of Karan, if his annual income from salary (after standard deduction) was (i) 7,55,000; (ii) 7,56,000,

SOLUTION

Computation of taxable value of medical perquisite (amount in ₹)

In case salary is 7,55,000, taxable value of medical perquisite will be-

Particulars	₹
Stay expenses [70,000 - 45,000 (exempt)]	25,000
Medical expenses [70,000-50,000 (exempt)]	20,000
Travelling expenses (See note)	Nil
Taxable value of Medical perquisite	45,000

Note: The gross total income before including travel expenses = ₹ 7,55,000+ ₹ 25,000+ ₹ 20,000 = ₹ 8,00,000, i.e. does not exceed 2 lakh. Hence, the travel expenses will be exempt in this case.

In case salary is 1,56,000, taxable value of medical perquisite will be-

Particulars	₹
Stay expenses [70,000 - 45,000 (exempt)]	25,000
Medical expenses [70,000- 45,000 (exempt)]	20,000
Travelling expenses (See note)	1,15,000



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Taxable value of Medical perquisite	1,60,000

Note: The gross total income before including travel expenses = 7,56,000+25,000+20,000 = 8,01,000, i.e. greater than 2 lakh. Hence, the travel expenses will be taxable in this case.

ILLUSTRATION 62

Interest free loan: Ram is working as a General Manager of A Ltd. on a monthly salary of 20,000. In the previous year ending 31-3-2026, the Company provided him the following

- 1) Interest free loan (on 01-10-2025)
 - a. For purchase of residential flat (repayable in 8 years) (SBI Rate 12.25%) = ₹ 5,00,000
 - b. Education loan (for son) (SBI Rate 11.5%) = ₹ 15,000
- 2) Loan for purchase of computer on 01-10-2025 (8% interest p.a.) (SBI Rate 15.25%) = ₹ 30,000

You are required to state the basis for calculation and compute the chargeable perquisite. (Nov 2022)

SOLUTION

Computation of taxable perquisite in respect of interest-free or concessional loans

Particulars	(amount ₹)
Interest on Housing Loan $(5,00,000 \times 12.25\% \times 6/12)$ [1-10-2025 to 31-3-2026]	30,625.00
Education Loan for Son $(15,000 \times 11.50\% \times 6/12)$ [1-10-2025 to 31-3-2026]	862.50
Loan for purchase of Computer $[30,000 \times (15.25\% - 8\%) \times 6/12]$ [1-10-2025 to 31-3-2026]	1,087.50
Taxable value of Perquisite	32,575.00

Note: Since the aggregate value of all the loans during the previous year exceeds 20,000, hence, the education loan though less than 20,000 shall also be considered for valuation of perquisite.

ILLUSTRATION 63

Mr. Raj is an Employee of XYZ LTD. He received Rs 25,00,000 as gratuity. He retired on 16/2/2026 after rendering 25 years and 7 months of services. His basic salary with effect from 1/10/2025 was Rs 60000 pm. (prior to that Rs 50000 pm.). His dearness allowance was Rs 30,800 pm. Calculate the amount of gratuity exempt from tax if

- a) Mr. Raj is a government employee.
- b) Mr. Raj is covered by the Payment of Gratuity Act, 1972;
- c) Mr. Raj is not covered by the Payment of Gratuity Act, 1972; (40% of dearness allowance forms part of salary for retirement benefits)

SOLUTION:

Computation of taxable gratuity shall be as under

- i) **If Mr. Raj is a Government Employee:** The whole of the gratuity shall be exempt from tax.
- ii) **If Mr. Raj is covered by Payment of Gratuity Act:** The amount of exemption shall be (amount ₹)

Particulars	₹
Completed years of service (Part thereof in excess of 6 months shall be rounded off to higher side)	26
Exemption u/s 10(10): Least of the following is exempt -	
a) Gratuity received	25,00,000



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b) $15/26 \times \text{Salary last drawn} \times \text{Completed years of service}$ (Salary Last Drawn = Basic + DA (fully included) = 60,000+30,800 = 90,800)	13,62,000
c) Specified limit	20,00,000
Taxable Gratuity = Gratuity Received - Exemption	11,38,000

iii) If Mr. Raj is not covered by the Payment of Gratuity Act: The amount of exemption shall be (amt₹)

Particulars	₹	₹
Gratuity received		25,00,000
Exemption u/s 10(10): Least of the following is exempt -		
a) Gratuity received	25,00,000	
b) $\frac{1}{2} \times \text{Average Salary (66,320)} \times \text{Completed Years (25)}$ [WN]	8,29,000	
c) Specified limit	20,00,000	8,29,000
Taxable Gratuity = Gratuity Received - Exemption		16,71,000

Working Note:

Particulars	₹
Ten months immediately preceding the month of retirement	01-04-2025 to 31-01-2026
Basic Salary for the said ten months $[50,000 \times 6 + 60,000 \times 4]$	5,40,000
DA (to the extent it forms part of retirement benefits), 40% of 30,800 $\times 10$	1,23,200
Total Salary during the said ten months	6,63,200
Average salary for the said ten months	66,320
Completed years of service ignoring any fraction	25

ILLUSTRATION 64

Computation of taxable earned leave salary: Mr. Bansal was employed in M/s. ABC & Associates. After completing 40 years and 7 months of service he retired on 31st October 2025. From the following information, compute the amount of taxable leave salary -

Salary at the time of retirement - 10,000 p.m.

Average monthly salary for 10 months ending on 31 October 2025 - 9,500 p.m.

Leave entitlement - $1\frac{1}{2}$ months for each completed year of service.

Leave encashment received on the basis of salary at the time of retirement - 5,00,000

SOLUTION:

The relevant computations are (amount in ₹)

Particulars	₹	₹
Leave salary received		5,00,000
Exemption: Least of the following is exempt -		
Actual earned leave salary received	5,00,000	
10 months' Average salary	95,000	
Earned leave to the credit $\times$ Average Salary (30 $\times$ 9,500)	2,85,000	
Amount notified by the Central Government	25,00,000	95,000



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Taxable Leave Encashment = Sum Received - Exemption	4,05,000

Working Note: Computation of leave at the credit of an employee:

Particulars	As per Company Rules	As per Income-tax Rules
Leave entitlement for completed Year	1.5 months	1. months
Completed years of service	40	40
Total leave entitlement (months)	60	40
Leave availed while in service (months)	10	10
Balance leave at his credit(months)	50	30

ILLUSTRATION 65

Computation of taxable pension: Rani is entitled to get a pension of 1,500 p.m. from Raja Ltd. She gets three-fifth of the pension commuted and receives ₹ 90,000. Compute the taxable portion of commuted value of pension when

- ii) she does not receive gratuity;
- iii) receives 50,000 as gratuity.

SOLUTION

Computation of taxable pension

- i) When Rani doesn't receive gratuity:
 - a. % of pension commuted = $\frac{3}{5} = 60\%$
 - b. Commuted value of pension (Pension received + % commuted) = ₹90,000/60%= ₹ 1,50,000.
 - c. Exemption = $\frac{1}{2}$ of commuted value of pension (₹ 1,50,000)= ₹ 75,000
 - d. Taxable portion of commuted pension = ₹ 90000 - ₹ 75,000= ₹ 15,000.
- ii) When Rani receives gratuity:
 - a) Exemption = 1/3rd commuted value of pension (₹ 1,50,000)= ₹ 50,000
 - b) Taxable portion of commuted pension = ₹ 90000 - ₹ 50,000 = ₹40,000.

ILLUSTRATION 66

Exemption in respect of leave travel concession u/s 10(5): Mr. Amit avails the benefit of LTC and went by air (economy class) on a holiday in India on 25-01-2026 along with his wife and three children consisting of son aged 6 years and twin daughters of 2 years age. Total cost of tickets reimbursed by his employer was 1,00,000 (55,000 for 2 adults and 45,000 for the three children). State with reasons the amount which is exempt in the hands of Mr. Amit out of the reimbursement received by him. (Similar 4 Marks, IPCC May 2013) (Similar: 4 Marks, Nov. 2016)
What will be your answer in case among his three children, the twins were 6 years old and the age of the son was 2years?

SOLUTION

Exemption is available under section 10(5) to an employee in respect of value of LTC for himself and his family, in connection with his proceedings on leave to any place in India.

"Family" includes the spouse and children of the individual. In case of children born after 1-10-1998 exemption is available for 2 surviving children. However, exemption shall be available in respect of children born before 1-10-1998 and also in respect of multiple births after one child.



Further, as per Rule 2B, if journey is performed by air, the exemption will be available only upto the extent of economy air fare of national carrier by shortest route.

Case 1: Son aged 6 years & Twin daughters of 2 years age: This is a case of multiple birth (twin daughters) after one child, hence, all the three children will be eligible for exemption. Accordingly, the whole of the LTC of ₹ 1,00,000 will be exempt as the travel is economy class of air.

Case II: Twin daughters of 6 years age & son aged 2 years: In this case the number of children is three and one son was born after the multiple birth. Hence, the exemption will be available only in respect of two children and the economy air fare of one child will be taxable. Therefore, taxable value = $45,000 \div 3 = 15,000$; and the balance of 85,000 will be exempt.

ILLUSTRATION 67

Retrenchment Compensation: Mr. Gobind received retrenchment compensation of 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of 20,000 p.m; dearness allowance of 5,000 p.m. Compute his taxable retrenchment compensation. (4 Marks, IPCC May 2013)

SOLUTION

Computation of taxable retrenchment compensation (amount in ₹)

Retrenchment compensation received =	₹ 10,00,000
Less: Exemption under section 10(10B) [WN] =	₹ 4,32,692
Taxable retrenchment compensation	₹ 5,67,308

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

- Compensation actually received: ₹ 10,00,000
- Statutory Limit: ₹ 5,00,000
- Amount calculated in accordance with provisions of the Industrial Disputes Act, 1947

i.e., $\frac{15}{26} \times \text{Avg salary of last 3 months} \times \text{Completed year of service and part thereof in excess of 6 months}$

$$= \frac{15}{26} \times \frac{(20,000 \times 2) + (5,000 \times 3)}{3} \times 30 \text{ years} = 432629$$

ILLUSTRATION 68

VRS compensation: R is employed in a public company and is paid a sum of 6,00,000 on Voluntary Retirement from service. The normal age of retirement in the company is 60 years and R who was 45 years at the time of retirement had completed 20 years of service. His monthly salary at the time of retirement was as follows

Basic Pay = ₹ 10,000

Dearness Allowance (50% is includible for pension) = ₹ 6,000

HRA = ₹ 3,000

Conveyance Allowance = ₹ 800

What is the amount of compensation taxable under the Income-tax Act?

SOLUTION

As per section 10(10C) read with rule 2BA the exemption is available of 5,00,000 only if the amount received as compensation does not exceed higher of the following limits

- 3 months x salary last drawn x completed years of service i.e., $(3 \times 13,000 \times 20)$ [WN] = ₹ 7,80,000

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- b) Salary last drawn $\times$ No. of months of service left for retirement i.e., $(13,000 \times 15 \times 12) = ₹ 23,40,000$
 $₹ 5,00,000$ will be exempt, since the amount received is less than the aforesaid limits,
 Consequently, $₹ 1,00,000$ will be taxable

Working Notes: Salary means = $10,000 + 3,000$ (50% of DA of 6,000) = $₹ 13,000$.

ILLUSTRATION 69

Computation of taxable compensation: What will be the amount of taxable compensation in the illustration above, if instead of compensation of 6,00,000, R receives a compensation at the time of his retirement of

- $₹ 10,00,000$ or
- $₹ 29,80,000$.

SOLUTION

- Here, the amount received is within the limit of 23,40,000. Therefore, the exemption under section 10(10C) will be available. The amount taxable at the time of retirement = $10,00,000 - 5,00,000 = 5,00,000$.
- Since the compensation received exceeds 23,40,000, the payment is not in accordance with Rule 2BA and therefore no exemption will be available under section 10(10C). Therefore, entire compensation will be taxable i.e. 29,80,000.

ILLUSTRATION 70 [Repeated]

ILLUSTRATION 71

Computation of Gross Salary: Mr. M is an area manager of M/s. N. Steels Co. Ltd. During the previous year 2025-26 he gets following emoluments from his employer:

Basic salary	₹40,00,000
Dearness Allowance [50% forming part of retirement benefits]	₹20,00,000
Contribution to recognized provident fund	12% of basic salary and D.A.
Contribution to superannuation fund	₹2,00,000

Determine his gross salary for the Assessment Year 2026-27.

SOLUTION

Computation of income from salary of Mr. M

Particulars	₹	₹
Basic salary		40,00,000
Dearness Allowance		20,00,000
Employer's contribution to RPF [12% of salary (i.e., 12% of ₹50,00,000)]	6,00,000	
Contribution to approved superannuation fund	2,00,000	
Aggregate contribution to RPF and Approved superannuation fund	8,00,000	
Less: Exempt	7,50,000	50,000
Gross salary		60,50,000

ILLUSTRATION 72



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Medical facility: From the following data, you are required to calculate the perquisite value of the expenditure on medical treatment, which is assessable in the hands of the employee of a company inclusive of the conditions to be satisfied:

Particulars	₹
GTI inclusive of salary after standard deduction (but excluding the value of following benefits)	1,90,000
(1) Amount spent on treatment of employee's wife in a hospital maintained by employer	10,000
(2) Amount paid by the employer on treatment of the employee's child in a hospital	5,000
(3) Medical insurance premium reimbursed by the employer on a policy covering the employee, his wife and dependent parents	8,000
(4) (a) Amount spent on the medical treatment of the employee outside India	1,50,000
(b) Amount spent on stay abroad of the employee and the attendant in hotel	1,00,000
(c) Amount spent on travel of the employee and the attendant	50,000

SOLUTION

Computation of Taxable Value of perquisite

Particulars	₹
(1) Expenditure on treatment of employee's wife in hospital maintained by employer [Exempt]	Nil
(2) Amount paid by the employer on treatment of the employee's child in a hospital	5,000
(3) Medical insurance premium reimbursed by the employer [Exempt]	Nil
(4) Amount spent on the medical treatment of the employee outside India and stay abroad of such employee and one attendant [WN-1]	Nil
(5) Expenditure on travel of the employee and one attendant [WN-2]	Nil
Total	5,000

Working Notes:

- (3) Expenditure incurred on medical treatment of employee outside India and stay abroad of such employee and one attendant is exempt to the extent it is permitted by RBI. It has been assumed vardhan that full expenditure has been permitted by RBI.
- (4) Expenditure on travel of the employee and one attendant is exempt if the gross total income 91903 before including travel expenses does not exceed 2 lakh. Hence, the travel expenses will be 9190 exempt in this case as gross total income before including such expenses is 2 lakh.

ILLUSTRATION 73

Computation of taxable value of perquisites: Shri Kamal employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire F.Y. 2025-26:

- (i) Medical facility given to his family in a hospital maintained by the company. The company. The estimated value of benefit because of such facility is 80,000.



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- (ii) Domestic servant was provided at the residence of Kamal. Salary of domestic servant is 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case, the company has employed the domestic servant, what is the value of perquisite?
- (iii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at 900 per month and for Ashok at 1,200 per month. No amount was recovered by the company for such education facility from Kamal.
- (iv) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Kamal. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- (v) A gift voucher worth 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
State the taxability or otherwise of the above said perquisites and compute the total value of taxable perquisites.

SOLUTION

Computation of total value of taxable perquisites -

Particulars	₹
(i) Medical facility to family in a hospital maintained by the company [WN-1]	Exempt
(ii) Salary of domestic servant of Kamal reimbursed by the company (1,500 × 12) [WN-2]	18,000
(iii) Free education provided to children of Kamal in a school maintained by the company [WN-3]	14,400
(iv) Movable assets provided by the ABC Co. Ltd. [WN-4]	11,000
(v) Gift voucher given by the company to Kamal on his marriage anniversary [WN-5]	10,000
Total value of taxable perquisites	53,400

Working Notes:

- (1) The medical facility provided to an employee in a hospital maintained by the employer is exempt from tax under proviso to section 17(2).
- (2) Here, the servant is engaged by Kamal i.e. reimbursement by the employer-company would be employee's obligation met by employer, hence, taxable u/s 17(2)(iv) In case, the company has employed the domestic servant, then the same shall be taxable if Kamal is specified employee.
- (3) Free education provided in a school maintained and owned by the employer is exempt if the cost of such education does not exceed 1,000 per month per child, otherwise it is fully taxable. In this case, free education for Arthy shall be exempt since it does not exceed 1,000 p.m.; but the free education for Ashok, which exceeds 1,000 per month shall be fully liable to tax [1, 200 × 12].
- (4) In case employer allows use of movable asset, the value of perquisite shall be 10% p.a. of the actual cost. Hence, taxable value = 10% of ₹ 1,10,000= ₹ 11,000
- (5) Gifts, the value of which is below 5,000, are exempt from tax. Here, the value of the gift voucher is 10,000, hence it is fully taxable.

ILLUSTRATION 74



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LTC - Exemption u/s 10(5): Mr. Divyam avails the benefit of LTC and went by air (economy class) on a holiday in India on 25-01-2025 along with his wife and three children consisting of son aged 4 years and twin daughters of 1 year age. Total cost of tickets reimbursed by his employer was ₹ 90,000 (₹ 60,000 for 2 adults and ₹ 30,000 for the three children). State with reasons the amount which can be claimed by Mr. Divyam out of the reimbursement as not subject to tax. Will your answer be different where among his three children, the twins were of 4 years of age and the age of the son was of 1 year?

SOLUTION

Exemption is available under section 10(5) to an employee in respect of value of LTC for himself and his family, in connection with his proceedings on leave to any place in India.

"Family" includes the spouse and children of the individual. In case of children born after 1-10-1998, exemption is available for 2 surviving children. However, exemption shall be available in respect of children born before 1-10-1998 and also in respect of multiple births after one child. Further, as per Rule 2B, if journey is performed by air, the exemption will be available only upto the extent of economy air fare of national carrier by shortest route.

Case I: Son aged 4 years & Twin daughters of 1 years age: This is a case of multiple birth (twin daughters) after one child, hence, all the three children will be eligible for exemption. Accordingly, the whole of the LTC of ₹ 90,000 will be exempt as the travel is economy class of air.

Case II: Twin daughters of 4 years age & son aged 1 years: In this case, the number of children is three and one son was born after the multiple birth. Hence, the exemption will be available only in respect of two children and the economy air fare of one child will be taxable. Therefore, taxable value = ₹ 30000+3 = ₹ 10,000; and the balance of ₹ 80,000 will be exempt.

ILLUSTRATION 75

Exemption u/s 10(10C) on account of VRS: Mr. Ramanand, after putting 25 years of service, opted for voluntary retirement and under approved scheme, received an amount of 20 lakhs as VRS compensation on 01-01-2026. He was advised by his tax consultant to claim exemption to the extent as specified in section 10(10C) and also the relief under section 89. He, in order to have an expert opinion, consults you and asks whether such a treatment of VRS compensation is permissible under the Act?

SOLUTION

Where any relief is allowed under section 89 for any assessment year in respect of any amount received or receivable on voluntary retirement, no exemption under section 10(10C) shall be allowed in respect of the said sum in that assessment year or any other assessment year.

Similarly, relief u/s 89 cannot be claimed if benefit of exemption has been claimed u/s 10(10C). Mr. Ramanand can, therefore, opt to claim exemption of 5 lakhs under section 10(10C) or relief u/s 89 in respect of compensation received on voluntary retirement, but not both. Accordingly, the advice given by his tax consultant is not correct.

ILLUSTRATION 76

Tax relief: Mr. Ashok Kumar, an employee of a PSU, furnishes the following particulars for the previous year ending 31-3-2026:

Particulars	₹



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1. Salary income for the year [computed]	28,25,000
2. Salary for financial year 2008-09 received during the year	40,000
3. Assessed income for the financial year 2008-09	1,40,000

You are requested to compute relief under section 89 of the Income-tax Act, 1961, in terms of tax payable if assessee has opted out of the provisions of Section 115BAC.

The rates of Income-tax for the Assessment Year 2009-10 are -

On first 1,00,000 : Nil;

On 1,00,000-1,50,000: 10%;

On 1,50,000-2,50,000: 20%;

Above 2,50,000: 30%. Education cess 2% of tax payable.

SOLUTION

Computation of Relief under section 89 (amount in ₹)

Particulars	Tax liability for AY 2026-27		Tax liability for AY 2009-10	
	Salary inclusive of arrears	Salary without arrears	Salary inclusive of arrears	Salary without arrears
	(1)	(2)	(3)	(4)
Actual Salary	28,65,000	28,25,000	1,80,000	1,40,000
Income Tax thereon	4,39,500	4,27,500	11,000	4,000
HEC @ 4%/EC @ 2%	17,580	17,100	220	80
Total Tax liability	4,57,080	4,44,600	11,220	4,080
Step 1: Tax at (1) - Tax at (2)	12,480			
Step 2: Tax at (3) - Tax at (4)				7,140
Relief u/s 89: Step 1 - Step 2				5,340
Tax payable [Tax at (1) Relief] (Rounded off)				4,51,740

Assumption: Arrears of salary of F.Y. 2008-09 are not included in salary income of current year.

ILLUSTRATION 77 [Repeated]

ILLUSTRATION 78

Computation of taxable salary: From the following details find out the salary chargeable to tax: Mr. X is a regular employee of Rama & Co. in Gurgaon. He was appointed on 01-01-2025 in the scale of ₹20,000 ₹1,000-30,000. He is paid 10% D.A. & Bonus equivalent to one month pay. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. He is provided free housing facility which has been taken on rent by the company at 10,000 per month. He is also provided with following facilities:

- Facility of laptop costing 50,000
- Company reimbursed medical treatment bill of his brother of 25,000, who is dependent on him.
- The monthly salary of 1,000 of a house keeper is reimbursed by the company.
- A gift voucher of 10,000 on the occasion of his marriage anniversary.



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- (v) Conveyance allowance of ₹ 1,000 p.m. is given by the company towards actual reimbursement.
- (vi) He is provided personal accident policy for which premium of 5,000 is paid by the company.
- (vii) He is getting telephone allowance @500 per month.
- (viii) Company pays medical insurance premium of his family of ₹ 10,000.

Note: Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (8 Marks, Nov. 2010)

SOLUTION

Computation of taxable salary of Mr. X -

Particulars	₹
Basic pay [(₹20,000 × 9) + (₹21,000 × 3)]	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus [WN-1]	21,000
Telephone allowance [500 × 12]	6,000
Conveyance allowance [WN-2]	Exempt
Employer's contribution to RPF in excess of 12% [WN-3]	8,019
Rent-free accommodation [WN-4]	29,430
Medical reimbursement [WN-5]	25,000
Reimbursement of salary of housekeeper - Taxable u/s 17(2)(iv)	12,000
Facility of laptop - Exempt under Rule 3 of the Income-tax Rules	Exempt
Medical insurance premium paid by employer on self or family member - Exempt under proviso to Section 17(2) of the Act	Exempt
Premium of ₹ 5,000 paid by the company for personal accident policy [WN-6]	Exempt
Gift voucher [WN-7]	10,000
Gross Salary	3,78,749
Less: Standard Deduction u/s 16(ia)	50,000
Salary income chargeable to tax	3,28,749

Working Notes:

- (1) Bonus has been taken as 1 month's basic pay as at the end of year i.e. 21,000. Alternatively, it may be taken 20,000, being 1 month's basic pay upto 31-12-2024.
- (2) Conveyance Allowance is exempt as it is fully used for official purposes.
- (3) Taxable part of employer's contribution to RDE = 3% of (Basic pay + DA) = 3% of (₹ 2,43,000 + 24,300) = ₹ 8,019.
Since employer contributes to RPF on basic pay plus DA, hence, even the DA forms the part of salary for computing retirement benefits.
- (4) Value of taxable RFA = Lower of the two -
 - (a) 10% of salary i.e. 29,430
 - (b) Lease rent 10,000 × 12 = 1,20,000.

Salary for rent free accommodation:

Particulars	₹
Basic pay	2,43,000
Dearness allowance	24,300
Bonus	21,000



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Telephone allowance	6,000
Conveyance allowance	Exempt
Total	2,94,300

- (5) Reimbursed medical treatment bill of his brother of ₹25,000 who is dependent on him is fully taxable.
- (6) Premium of 5,000 paid by company for personal accident policy is not liable to tax.
- (7) Gifts below 5,000 are not taxable; otherwise it is fully taxable.

ILLUSTRATION 79

Income from Salary: The particulars given below are of Mr. Radhey's income (age 47 years) posted in a private company in Delhi, for the previous year 2025-26:

- Basic Pay 35,000 per month till January 31, 2026, 40,000 p.m. from February 2026.
- Dearness allowance 30% of basic salary (54% of DA forms part of retirement benefits)
- Leave encashment for P.Y. 2025-26 ₹10,000.
- He received salary for the month of April 2026 in advance on 31st March 2026. Also, he received an arrear salary for the month of March 2025 on the same day.
- His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2024. This house is owned by his employer. During the previous year 2024-25, the perquisite value of such rent-free furnished accommodation was valued at 39,000. The employer also provided him with the facility of a gardener to maintain this house. The salary of gardener paid by the employer was 1,000 p.m. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of 1,50,000 on 01.04.2024. Electricity and water bills of 4,000 p.m. for the said house were paid by the employer. Cost Inflation Index: F.Y. 2024-25-363, F.Y. 2025-26-376.
- The employer also spent 50,000 on a refresher course for upgrading Mr. Radhey's skills.
- During the previous year his wife had been admitted in a notified hospital for treatment of her kidney disease, the hospital bills amounting to 3,50,000 were paid by the employer. You are required to compute the taxable salary income of Mr. Radhey for the Assessment Year 2026-27 assuming that he has opted out of the default tax regime under section 115BAC. (6 Marks, Sept. 2024)

SOLUTION

Computation of taxable salary of Mr. Radhey for A.Y. 2026-27:

Particulars	₹	₹
Basic Pay [35000 × 10 + ₹40,000×2]		4,30,000
Dearness Allowance [₹4, 30000 × 30 %]		1,29,000
Leave encashment for P.Y. 2024-25		10,000
Advance salary for April 2025 received on 31.3.2025		40,000
Arrear salary for March 2024, assumed it is taxed on due basis during the P.Y. 2023-24.		-
Value of Rent-free accommodation (refer note below)		40,397
Facility of gardener [Salary of gardener paid by the employer would be taxable as perquisite] [₹ 1000 × 12]		12,000
Facility of use of electricity [Electricity and water bills paid by the employer would be taxable as perquisite] [₹ 4000 × 12]		48,000



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Refresher course for upgrading skills [Tax free perquisite]		Nil
Value of medical treatment [Exempt, since medical treatment for wife is in notified hospital]		Nil
Gross Salary		7,09,397
Less: Deduction under section 16 - Standard deduction		50,000
Taxable Salary		6,59,397

Note: Valuation of rent free furnished accommodation :

Salary for RFA:	₹
Basic Pay [₹ 35,000 × 10 + ₹ 40,000 × 2]	4,30,000
Dearness Allowance to the extent it forms part of retirement benefit [₹ 4,30,000 × 354%]	1,29,000
Leave encashment for P.Y. 2024-25	10,000
Salary for RFA	5,69,000
Value of rent free unfurnished accommodation being 10% of salary	56,900
Add: 10% p.a. Of original cost of furniture [10% of ₹ 1,50,000]	15,000
Total (I)	71,900
Value of RFA in FY 2023-24 ₹ 39000 × 376 ÷ 363 (II)	40,397
Lower of (I) and (II)	40,397

ILLUSTRATION 80

Computation of Income from Salary: Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15, March, 1993. At the time of leaving LMN Ltd., she was paid 3,50,000 as leave salary out of which 59,000 was exempted from tax under section 10(10AA).

Thereafter, she joined CD (P) Ltd. and received 4,14,000 as leave salary at the time of retirement on December 31, 2025. In addition she received a gratuity of 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2025:

From February 1 to July 31 (p.m.)	₹ 22,600
From August 1 to December 31 (p.m.)	₹ 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the of retirement	18 months

She received 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution 2,00,000; employer's contribution 2,10,000; interest on employee's contribution 60,000; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for the assessment year 2026-27, clearly showing all workings. (Ignore section 115BAC provisions). **(6 Marks, Nov. 2023)**

SOLUTION

Computation of Total income of Ms. Neelima for A.Y. 2026-27:

Particulars	₹	₹	₹



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Income under the head "Salaries"			4,30,000
Basic Salary [$22,600 \times 4 + ₹ 22,900 \times 5$]			2,04,900
Gratuity [$₹12,00,000 - ₹ 1,59,040$]			10,40,960
Less: Exempt under section 10(10) - Least of the following:			
(i) Notified limit	20,00,000		
(ii) Actual gratuity received	12,00,000		
(iii) $1/2 \times 22,720 [(22,600 \times 6 + 22,900 \times 4) / 10] \times 14$ [No. of completed years of services, ignore fraction]	1,59,040		
Leave encashment [$4,14,000 - 2,27,500$]		1,86,500	
Less: Exempt under section 10(10AA) - Least of the following:			
(i) Notified limit [25,00,000 ₹ 59,000, amount exempted earlier]	24,41,000		
(ii) Actual leave salary received	4,14,000		
(iii) $10 \text{ months} \times 22,750 [(22,600 \times 5 + 22,900 \times 5) / 10]$	2,27,500		
(iv) Cash equivalent of leave to his credit [$22,750 \times 11$] [420 days (30 days $\times$ 14 years of service) less 90 days of leave availed/30]	2,50,250		
Employer's contribution from unrecognized provident fund received on retirement		2,10,000	
Interest on Employer's contribution from unrecognized provident fund received on retirement		50,000	
Gross Salary		16,92,360	
Less: Standard deduction u/s 16(ia)		50,000	
Taxable Salary			16,42,360
Income from Other Sources			
Interest on employee's contribution from unrecognized provident fund		60,000	
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]		-	60,000
Gross Total Income/Total Income			17,02,360

ILLUSTRATION 81 [Repeated]

ILLUSTRATION 82 [Repeated]

ILLUSTRATION 83 [Repeated]

ILLUSTRATION 84 [Repeated]

ILLUSTRATION 85 [Repeated]

ILLUSTRATION 86 [Repeated]



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ILLUSTRATION 87 [Repeated]

ILLUSTRATION 88 [Repeated]

ILLUSTRATION 89 [Repeated]

ILLUSTRATION 90 [Repeated]

ILLUSTRATION 91 [Repeated]

ILLUSTRATION 92 [Repeated]

ILLUSTRATION 93 [Repeated]

ILLUSTRATION 94 [Repeated]

ILLUSTRATION 95 [Repeated]

ILLUSTRATION 96 [Repeated]

ILLUSTRATION 97 [Repeated]

ILLUSTRATION 98 [Repeated]

ADDITIONAL QUESTIONS

ILLUSTRATION 99

Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2024 in the scale of ₹ 60,000 - ₹ 1,000 - ₹ 70,000. He furnishes the following information for the previous year 2025-26:

- (i) Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)
- (ii) Bonus equal to one month's salary. Paid in November 2025 on basic salary applicable for that month.
- (iii) Leave encashment for P.Y. 2025-26 of ₹ 10,000.
- (iv) He also received a motor car on 01.12.2025 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.
- (v) His employer granted him a loan of ₹ 2,00,000 on 1st June, 2025 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2025. The State Bank of India (SBI) lending rate for such loans is 9.5% per annum as on 01.04.2025, while the employer recovers interest @5.5% per annum from the employee.
- (vi) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2024. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the previous year 2024-25 was valued at ₹ 92,000. Further, the accommodation is continued to be provided by the employer to the employee in P.Y. 2025-26 also.



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(vii) The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2024. Electricity and water bills of ₹ 5,000 p.m. for the said house were paid by the employer.

Cost Inflation Index F.Y. 2024-25-363; F.Y. 2025-26-376.

(viii) His colleagues gifted him a mobile phone worth ₹ 45,000 from their own contribution on account of his marriage.

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the Assessment Year 2026-27 assuming that he wants to pay tax under default tax regime under section 115BAC.

Answer

Computation of income chargeable under the head "Salaries" of Mr. Kunal for A.Y.2026-27 under default tax regime

Particulars	₹	₹
Basic Pay [₹ 61,000 × 10 + ₹ 62,000 × 2]		7,34,000
Dearness Allowance [₹ 7,34,000 × 25%]		1,83,500
Bonus		61,000
Leave encashment for P.Y. 2025-26		10,000
Value of perquisite		
Perquisite of Motor Car [₹ 3,300 × 4]		13,200
As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹ 3,300 (₹ 2,400 + ₹ 900). The car was provided to employee from 01.12.2025, therefore the perquisite value has been calculated for 4 months.		
Perquisite of interest on loan (Working Note Below)		5,917
Value of Rent-free accommodation		
Value of Rent-free accommodation {10% of ₹ 9,15,100 i.e., [₹ 7,34,000, basic salary + ₹ 1,10,100 (1,83,500 × 60%, DA forming part of retirement benefit) + ₹ 10,000, leave encashment + ₹ 61,000, bonus]}	91,510	
Add: Value of furniture [₹ 1,50,000 × 10% p.a.]	15,000	
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one	1,06,510	



CHAPTER - 3

INCOME FROM SALARY



CA VARDHAMAN DAGA

previous year, shall not exceed the amount calculated for first previous year, as multiplied by the amount which is a ratio of CII for the previous year for which the value is calculated and CII for the previous year in which accommodation was initially provided to the employee.		
Accordingly, value of perquisite for P.Y. 2025-26 to be restricted to = ₹ 92,000 x 376/363	95,295	95,295
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [₹ 5,000 x 12]		60,000
Mobile phone received as gift from colleagues (Not taxable under the head "Salaries")		Nil
Gross Salary		11,62,912
Less: Standard deduction under section 16 [Actual salary or ₹ 75,000, whichever is less]		75,000
Net Salary		10,87,912

Working Note:

Perquisite of Interest on Loan

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

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month. The perquisite value for computation is $9.5\% - 5.5\% = 4\%$ p.a.

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
June, 2025	2,00,000	667
July, 2025	2,00,000	667
August, 2025	2,00,000	667
September, 2025	2,00,000	667
October, 2025	1,75,000	583
November, 2025	1,75,000	583
December, 2025	1,75,000	583
January, 2026	1,50,000	500



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February, 2026	1,50,000	500
March, 2026	1,50,000	500
Taxable Value of perquisite		5,917



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INCOME FROM HOUSE PROPERTY

STUDY MATERIAL

ILLUSTRATION 1

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below

Partizculars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A	78,000
Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000

SOLUTION - GAV (a) 90,000 (b) 72,000 (c) 60,000 (d) 30,000 (e) 78,000

ILLUSTRATION 2

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2025-26. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2025-26. The value of one £ in Indian rupee to be taken at ₹ 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2026-27.

SOLUTION

NAV - 1,06,40,000

ILLUSTRATION 3

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2024. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2024 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2026-27 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Deduction u/s 24 - 2,00,000

ILLUSTRATION 4



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INCOME FROM HOUSE PROPERTY



CA VARDHAMAN DAGA

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for A.Y.2026-27.

SOLUTION

income from house property - 35,600

ILLUSTRATION 5

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2026. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2026-27.

SOLUTION

income from house property - 47,000

ILLUSTRATION 6

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2019 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2019. The construction was completed on 30.11.2021. The accumulated interest up to 31.3.2021 is ₹ 3,60,000. On 31.3.2026, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2026-27 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

loss from house property - 2,00,000

ILLUSTRATION 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2025. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2025 could not be realized in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2026-27.

SOLUTION

income from house property - 2,69,000

ILLUSTRATION 8



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INCOME FROM HOUSE PROPERTY



CA VARDHAMAN DAGA

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2025-26 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	-
Interest for current year on money borrowed in April, 2017 for purchase of			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2026-27 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

SOLUTION

(a) under 115BAC - H1 & H2 SOP, H3 LOP, income from house property - 73,640 (b) under normal provision - H1 & H3 SOP, H2 LOP, income from house property - 1,840

ILLUSTRATION 9

Prem owns a house in Madras. During the previous year 2025-26, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2021 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2026-27 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be Prem's income from house property under the default tax regime?

SOLUTION

loss from house property - 57,000, as per section 115bac - 23000

ILLUSTRATION 10

Mr. Anand sold his residential house property in March, 2024.

In June, 2025, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2019 to March 2021. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2021-22.

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Satish. In April, 2023, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2025, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2023 to February, 2025.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

SOLUTION



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CA VARDHAMAN DAGA

income from house property - 55,300

ILLUSTRATION 11

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2024 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2024 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2026-27, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

deduction - 2,00,000

TEST YOUR KNOWLEDGE

ILLUSTRATION 12

Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000. The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman if he has opted out of the default tax regime. (6 marks, Nov 2009)

SOLUTION

income from house property - 96,000 (50% share each - 48,000)

ILLUSTRATION 13

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2025-26 are as under:

Standard rent	₹ 1,62,000 p.a
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m
Lease money.	₹ 1,200 p.a



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Insurance charges .

₹ 3,000 p.a.

Repairs

₹ 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

income from house property - 43,675

ILLUSTRATION 14

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2018 and was completed on 31-5-2021. Vikas took a loan of ₹ 1,00,000 on 1-7-2018 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

income from house property - 20,936

ILLUSTRATION 15

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2025-26. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2025, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2026. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax ₹ 16,200

Sewerage Tax ₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2023 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2025	49,200
1.4.2025 to 30.6.2025	50,800
1.7.2025 to 31.3.2026	1,31,300

She had a house property in Bangalore, which was sold in March, 2022. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2026. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2026-27 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

SOLUTION



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loss from house property - 1,49,940, as per 115 Bac - 42,000

ILLUSTRATION 16

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2017-2018. The property consists of eight identical units and is situated at Cochin.

During the financial year 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	₹
(i) Repairs	40,000
(ii) Insurance premium (paid)	15,000
(iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2025-26.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2026-27 if they pay tax under the default tax regime under section 115BAC. Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

(a) under 115 BAC - Arun - 4,15,850 Bimal - 3,05,850 (b) under normal provision - Arun - 3,78,350 Bimal - 2,68,350

PAST EXAM QUESTIONS

ILLUSTRATION 17

Computation of Total Income: From the following particulars furnished by Kiran for the previous year ending 31-3-2024, compute the taxable income:

- He owns a house property at Metro City. The fair rental value per annum is 27,000 and the Municipal value is ₹ 24,000.
- The house was let out from 1-4-2024 to 31-8-2024 at a monthly rent of ₹ 2,100. From 1-9-2024 Kiran occupies for his residence (self).
- Expenditure incurred on property and paid a) Municipal tax= ₹4,000 b) Fire Insurance = ₹2,500 c) Land Revenue = ₹ 4,600 d) Repairs = ₹ 1,000
- Interest paid on borrowing for construction: a) For the year = ₹ 21,600 b) Proportionate pre-construction interest = ₹ 12,960
- Income from Firm (PF A/c) as partner: Salary 25,000; Interest on Capital ₹ 20,000; and Share Income ₹ 35,000

SOLUTION

Computation of Total Income of Kiran (amounts in ₹)

Particulars	₹



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INCOME FROM HOUSE PROPERTY



CA VARDHAMAN DAGA

Gross Annual Value	[WN-1]	27,000
Less: Municipal Taxes paid		4,000
Net Annual Value		23,000
Less: Deduction under section 24		
a) Standard deduction 30% of NAV		6,900
b) Interest on Borrowed Capital (21,600 + 12,960)		34,560
Income from House Property		18,460
Profits and Gains of Business or Profession [WN-2]		45,000
Gross Total Income/Total Income		26,540

Working Notes:

- (1) GAV = (a) Expected Rent 27,000 (being higher of Municipal Value or Fair Rent); or (b) ARR 10,500 (2,100 × 5 months) = ₹ 27,000, whichever is higher.
- (2) Salary and interest from partnership firm is taxable under the head profits and gains of business or profession, however share income from firm is exempt under section 10(2A).

ILLUSTRATION 18

Computation of Income from house property: Rohit is the owner of a house property, its municipal valuation is 80,000. It has been let-out for 1,20,000 per annum. The local taxes payable by the owner amount to 16,000, but as per agreement between the tenant and the landlord, the tenant has paid the amount directly to the municipality. The landlord, however, bears the following expenses on tenant's amenities:

Extension of water connection = ₹ 3,000

Water charges = ₹ 1,500

Lift maintenance = ₹ 1,500

Salary of gardener = ₹ 1,800

Lighting of stairs = ₹ 1,200

Maintenance of swimming pool = ₹ 750

The landlord claims the following deductions:

a) Repairs and collection charges = ₹ 7,500

b) Land revenue paid = ₹ 1,500

Compute the taxable income of Rohit from the house property. (10 Marks, CS Executive Dec. 2009)

SOLUTION

Computation of income from the property (amount in ₹):

Particulars	₹
Total sum received from the tenant	1,20,000
Less: Sum incurred towards tenant's amenities [WN-1]	
Extension of water connection	-3,000
Water charges	-1,500
Lift maintenance	-1,500
Salary of gardener	-1,800
Lighting of stairs	-1,200
Maintenance of swimming pool	-750
Total Rent received for the property	1,10,250
Less: Municipal taxes	Nil



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Net annual value	1,10,250
Less: Standard Deduction u/s 24 @ 30% [WN-3]	33,075
Income from house property	77,175

Working Notes:

- (1) The expenses borne by the landlord towards amenities of the tenant is included in the rent of 1,20,000, hence the same is to be excluded for calculating actual rent as the same have been incurred on behalf of the tenant, for his personal amenities.
- (2) No deduction shall be allowed for municipal taxes as the same have been paid by the tenant.
- (3) No deduction is allowed for repair and collection charges and land revenue paid by the landlord, only a standard deduction under section 24 @ 30% of the NAV shall be allowed.

ILLUSTRATION 19

Computation of Income from house property: Mr. Raphael constructed a shopping complex. He had taken a loan of 25 lakhs for construction of the said property on 01-08-2023 from SBI @ 10% for 5 years. The construction was completed on 30-06-2024. Rental income received from shopping complex 30,000 per month-let out for the whole year. Municipal Taxes paid for shopping complex ₹ 8,000. Arrears of rent received from shopping complex 1,20,000.

Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2025-26, 3 lakhs. You are required to compute Income from House property of Mr. Raphael for A.Y. 2026-27 if he has opted out of the default tax regime

(8 Marks, Nov. 2015) (Similar: 4 Marks, May 2017).

SOLUTION

Computation of Income From House Property of Mr. Raphael (amount in ₹)

Particulars	₹
Let out property [Shopping Complex]	
Gross Annual Value (30,000 × 12)	3,60,000
Less: Municipal taxes paid	8,000
Net Annual Value	3,52,000
Less: Deductions under section 24	
a) Standard deduction @ 30% of NAV	1,05,600
b) Interest on Housing Loan [WN-2]	2,83,333
Net annual value	-36,933
Add: Arrears of rent received [WN-3]	84,000
Income from let out property [A]	47,067
Self occupied house:	
Net Annual Value	Nil
Less: Interest on borrowed capital [WN-1]	-2,00,000
Income From Self occupied property [B]	-2,00,000
Income from House property [A] + [B]	-1,52,933

Working Notes:

- (1) The maximum amount of interest on borrowed capital to be allowed as deduction in case of self occupied house is ₹ 2,00,000
- (2) The pre-construction period starts from 01-08-2023 (date of loan) and ends on 31-03-2024. The interest for the said period i.e. for 8 months shall be - $25,00,000 \times 10\% \times (8 \div 12) = 166,667$. Such interest is deductible in 5 equal annual instalments starting with previous year 2024-25, each installment being 33,333 (i.e., $1,66,667 \div 5$). Interest of



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2,50,000 for current year will be deductible. Therefore, total interest deductible=283,333 (i.e., 33,333 + 2,50,000).

- (3) Taxable value of arrears of rent under section 25A=1,20,000 - 30% of 1,20,000 = ₹84,000.

ILLUSTRATION 20

Computation of Income from house property: Mr. Aditya, a resident but not ordinarily resident in India during the Assessment Year 2026-27. He owns two house, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1 DHS INR 18). The entire rent is received in India. He paid Property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2025-26. The house in Mumbai is self-occupied. He had taken a loan of 25,00,000 to construct the house on 1st June, 2022 @ 12%. The construction was completed on 31 May, 2024 and he occupied the house on 1st June, 2024. The entire loan is outstanding as on 31st March, 2026. Property tax paid in respect of the second house is 2,400 for the Financial Year 2025-26.

Compute the income chargeable under the head "Income from House Property" in the hands of Mr. Aditya for the Assessment Year 2026-27 if he has not opted for the provisions of Section 115BAC.

(5 Marks, Nov. 2017)

SOLUTION

Though Mr. Aditya is a resident but not ordinarily resident in India but the income from property in Dubai will be taxable in India since the rent is received in India.

Particulars	₹
Let out property [Dubai House]	
Gross Annual Value (DHS 20,000 × 18 × 12)	43,20,000
Less: Municipal taxes paid (DHS (2,500 + 1,500) × 18)	72,000
Net Annual Value	42,48,000
Less: Deductions under section 24-	12,74,400
a) Standard deduction @ 30% of NAV	
b) Interest on Housing Loan	
Income from let out property [A]	29,73,600
Self occupied house:	
Net Annual Value	Nil
Less: Interest on borrowed capital [WN]	-2,00,000
Income From Self occupied property [B]	-2,00,000
Income from House property [A] + [B]	27,73,600

Working Note:

The pre-construction period starts from 01-06-2022 (date of loan) and ends on 31-03-2024. The interest for the said period i.e. for 22 months shall be- $25,00,000 \times 12\% \times (22 \div 12)$ 550,000. Such interest is deductible in 5 equal annual instalments starting with previous year 2024-25, each installment being 1,10,000 (i.e., $5,50,000 \div 5$).

Interest for current year is 3,00,000 ($25,00,000 \times 12\% \times 1$). Therefore, total interest = 410,000 (i.e., $1,10,000 \div 3,00,000$). Since the house is self-occupied the maximum allowable interest is ₹ 2,00,000.

ILLUSTRATION 21



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Computation of Income from house property: Mrs. Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. The Municipal value of the property is 7,50,000, Fair Rent of the property is 6,30,000 and Standard Rent is 7,20,000 per annum.

The property was let out for 75,000 per month for the period April 2025 to December 2025.

Thereafter, the tenant vacated the property and Mrs. Disha Khanna used the house for self occupation. Rent for the months of November and December 2024 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of 35,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from "House Property" for the A.Y. 2026-27.

(7 Marks, Nov. 2018-NS)

SOLUTION

Computation of Income from House Property (amount in ₹)

Particulars	₹	₹
Annual value	[WN-1]	7,20,000
Less: Municipal taxes paid (7,50,000 × 12%)		90,000
Net Annual Value (NAV)		6,30,000
Less: Deductions u/s 24		
a) Standard deduction @ 30% of NAV		1,89,000
b) Interest on borrowed capital		35,000
Income from House Property		4,06,000

Working Notes:

- (1) Where the property is let for a part of a year and self-occupied for remaining period, the benefit of self-occupation shall not be available and the annual value shall be determined as per Section 23(1)(a).

Thus, annual value =

- a) Expected Rent i.e. Municipal Value (7,50,000) or Fair Rent (6,30,000) whichever is higher subject to maximum of Standard Rent (7,20,000) i.e. 7,20,000; or
 - b) Actual Rent i.e. $75,000 \times 9 = 6,75,000$;
- whichever is higher.

- (2) Unrealised Rent cannot be deducted from actual rent since the conditions of Rule 4 have not been satisfied.

ILLUSTRATION 22

Computation of Total Income: Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of 27,00,000 and standard rent of 29,80,000. Market rent of similar property is 30,00,000. Annual rent was 40,00,000 which includes 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

- Municipal taxes of 4,00,000 for the financial year 2025-26 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2024-25 paid during the year of 1,40,000 which includes interest on arrears of 25,000.
- Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash.
- Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.



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Compute the total income of Mr. Ravi for the assessment year 2026-27 assuming that Mr. Ravi has not opted for the provisions under section 115BAC. (6 Marks, Dec. 2021)

SOLUTION

Computation of total income of Mr. Ravi for A.Y. 2026-27 under the regular provisions of the Act:

Particulars	₹	₹
Income from house property		
Gross Annual Value		
• Expected rent 29,80,000 (Higher of Municipal Value of 27,00,000 p.a. and Fair Rent of 30,00,000 p.a., but restricted to Standard Rent of 29,80,000 p.a.)		
• Actual rent 29,40,000 [30,00,000, being annual rent for house property less rent of 60,000 ($2,40,000 \times 4/12 \times 3/4$) due to vacancy]		
Gross Annual Value	29,40,000	
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent.		
Less: Municipal taxes actually paid during the year:		
• 4,00,000 rebate of ₹ 40,000	3,60,000	
• 1,40,000 arrears 25,000 interest	1,15,000	
	4,75,000	
Net Annual Value	24,65,000	
Less: Deduction from Net Annual Value 30% of Net Annual Value	7,39,500	17,25,500
Income from Other Sources/Profits and gains from business or Profession		
Rent for amenities	10,00,000	
Less: Loss due to vacancy $2,40,000 \times 4/12 \times 1/4$	20,000	
	9,80,000	
Less: Expenditure in respect thereof		
• Lift maintenance expenses [excluding cash payment of 30,000 disallowed] = $2,40,000 - ₹30,000$	2,10,000	
• Salary to staff $88,000 \times 1/4$, being the proportion pertaining to amenities]	22,000	
	2,32,000	7,48,000
Total Income		24,73,500

ILLUSTRATION 23

Computation of Gross Annual Value : Vinod is the owner of the three houses, which are all let out and covered by the Rent Control Act. From the following particulars, find out the gross annual value in each case:

Particulars	House - I	House - II	House - III
Municipal value	30,000	30,000	35,000
Annual rent	42,000	36,000	30,000
Fair rent	36,000	28,000	30,000



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Standard rent	30,000	35,000	36,000
Unrealised rent	7,000	9,000	6,000
Period of vacancy	1 month	2 month	3 month

SOLUTION

Computation of Gross Annual Value (amount in ₹)

Particulars	House - I	House - II	House - III
Expected rent [WN-1]	30,000	28,000	35,000
Let out period (in months)	11	10	9
Proportionate Expected Rent for the [WN-2]	27,500	23,333	26,250
Actual rent for let out period	38,500	30,000	22,500
Actual rent received (ARR) [WN-3]	31,500	21,000	20,000
Gross Annual Value (GAV) [WN-4]	31,500	28,000	35,000

Working Notes:

- ER = Municipal Value or Fair Rent, whichever is higher subject to maximum of Standard Rent
i. $PER = ER \times \text{Let-out period} \div 12$.
- ARR = Actual rent - Unrealised rent.
- If ARR is greater than or equal to PER, then GAV = ARR, otherwise GAV = ER.

ILLUSTRATION 24

Self occupied properties: Nisha has two houses, both of which are self occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	House - I	House - II
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard rent per annum	1,00,000	1,65,000
Date of completion	31-03-2017	31-03-2018
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for acquisition of house properties	1,80,000	80,000

Compute Nisha's income from the House Property if she has shifted out of default tax regime.

SOLUTION

Section 23 of the Income-tax Act provides relief to the taxpayer by allowing him an option to claim nil annual value in respect of any two houses, declared as self-occupied. Besides this section 24 of the Income-tax Act provides that the monetary limit of deduction on account of interest payable on borrowed capital i.e. ₹ 30,000/ ₹ 2,00,000 shall continue to apply to the aggregate of the amounts of deduction in case of more than one self-occupied houses. Hence, the Income from house property shall be computed as under:

Computation of income from houses when they are treated as self-occupied (amount in ₹)-



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Particulars	House I & II
Annual Value [Since both the houses are self occupied]	Nil
Less: Interest on loans [House - I: 1,80,000 and House - II: 80,000 (Restricted to 2,00,000)]	2,00,000
Income from house property	-2,00,000

ILLUSTRATION 25

Self occupied properties: Mr. X has three houses, all of which are self occupied. The particulars of these are given below:

Particulars	(Value in ₹)		
	House - I	House - II	House - III
Municipal Valuation per annum	1,20,000	1,15,000	2,00,000
Fair Rent per annum	1,50,000	1,75,000	2,50,000
Standard rent per annum	1,00,000	1,65,000	2,40,000
Date of completion	31-03-2017	31-03-2019	31-03-2019
Municipal taxes payable during the year (paid for House II & House III)	12%	8%	10%
Interest on money borrowed for acquisition of house properties	1,80,000	80,000	75,000

Compute Mr. X income from the House Property if he has shifted out of default tax regime

SOLUTION

Section 23 of the Income-tax Act provides relief to the taxpayer by allowing him an option to claim nil annual value in respect of any two houses, declared as self-occupied, instead of one such house as provided earlier. Besides this section 24 of the Income-tax Act provides that the monetary limit of deduction on account of interest payable on borrowed capital i.e. ₹ 30,000/ ₹ 2,00,000 shall continue to apply to the aggregate of the amounts of deduction in case of more than one self-occupied houses.

Thus, assessee has the following options:

Option I: House I and II self occupied and House III - deemed to be let out.

Option II: House I and III self occupied and House II - deemed to be let out.

Option III: House II and III self occupied and House I - deemed to be let out.

The lowest value of house property amongst the above options shall be offered for taxation. Hence, the Income from house property shall be computed as under:

1) Computation of income from houses when they are deemed to be let out (amount in ₹) -

Particulars	House-I	House-II	House-III
Gross Annual Value[Note-A]	1,00,000	1,65,000	2,40,000
Less: Municipal taxes paid[Note-B]	Nil	9,200	20,000
Net Annual Value	1,00,000	1,55,800	2,20,000
Less: Deductions under section 24-			
a) Statutory Deduction @ 30% of NAV	30,000	46,740	66,000
b) Interest on loans	1,80,000	80,000	75,000

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Income from house	-1,10,000	29,060	79,000

Notes:

- GAV = Municipal Value or Fair Rent, whichever is higher subject to maximum of Standard Rent.
- Municipal taxes actually paid shall only be allowed as deduction.

2) Computation of income from houses when they are treated as self-occupied (amount in ₹)-

Particulars	House-I	House-II	House-III
Annual Value [Since both the houses are self occupied]	Nil	Nil	Nil
Less: Interest on loans (Restricted to 2,00,000)	2,00,000	2,00,000	1,55,000
Income from house property	-2,00,000	-2,00,000	-1,55,000

3) Hence, the taxable value shall be arrived as under:

Option	Total
Option I: House I and II self occupied and House III - deemed to be let out	-1,21,000
Option II: House I and III self occupied and House II - deemed to be let Out	-1,70,940
Option III: House II and III self occupied and House I - deemed to be let out.	-2,65,000

ILLUSTRATION 26

Determination of heads of income for taxability: In the following cases, state the head of income under which the receipt is to be assessed and comment

- X Ltd. lets out its property to Y. Y sublets the same.
- X has built a house on a leasehold land. He has let out the above property and claims income from House Property under other Sources and deducted expenses on repair, security charges, insurance and collection charges in all amounting to 40% of receipts.

SOLUTION

- income from subletting (Subletting receipts Less rent paid to X Ltd.) shall be taxed as "Income from Other Sources" in hands of Y.
- House constructed on leasehold land is assessable under head "Income from house property", hence the rent there from shall be taxable as Income from house property. Further, the standard deduction under section 24 @ 30% of NAV and interest on capital borrowed will only be allowable to him.

ILLUSTRATION 27

Self-occupied and let out property period wise: Ram owned a house property at Madras which was occupied by him for the purpose of his residence. He was transferred to Bombay in June, 2025 and therefore he let out the property with effect from 1-7-2025 on a monthly rent of ₹ 3,000. The corporation tax payable in respect of the property was 6,000 of which 50% was paid by him before 31-3-2026. Interest on money borrowed for the construction of the property amounted to 20,000. Compute the income from house property.

SOLUTION

Computation of Income from House Property (amount in ₹)



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Particulars	₹
Annual value [WN-1]	36,000
Less: Municipal taxes paid (6,000 × 50%) [WN-2]	3,000
Net Annual Value (NAV)	33,000
Less: Deductions under section 24 -	
a) Standard deduction @ 30% of NAV	9,900
b) Interest on borrowed capital	20,000
Interest on borrowed capital	3,100

Working Notes:

- Where the property is let for a part of a year and self-occupied for remaining period, the benefit of self-occupation shall not be available and the annual value shall be determined as per Section 23(1)(a). Thus, annual value =
 a) Expected Rent i.e. $3,000 \times 12 = ₹ 36,000$; or
 b) Actual Rent i.e. $3,000 \times 9 = ₹ 27,000$;
 whichever is higher.
- Municipal taxes paid by Ram shall only be allowed as deduction.

ILLUSTRATION 28

Computation of Income from House Property: A and B construct their houses on a piece of land purchased by them at New Delhi. The built up area of each house is 1,000 sq. ft. (ground floor and an equal area in the first floor). A starts construction on April 1, 2024 and completes it on March 31, 2025. B starts the construction on April 1, 2025 and completes on June 30, 2025 and lets out the first floor for a rent of 15,000 per month. The tenant vacates the house on December 31, 2025 and B occupies the entire house during the period January 1, 2026 to March 31, 2026. The following are the other information (amount in ₹):

Particulars	₹
Fair rental value of each unit (ground floor/first floor) (per annum)	72,000
Municipal value of each unit (ground floor/first floor) (per annum)	1,00,000
Municipal taxes paid by - A	8,000
- B	8,000
Repair and maintenance charges paid by - A	28,000
- B	30,000

A has availed a housing loan of 20 lakhs @ 12% on April 1, 2024. B has availed a housing loan of 12 lakh @ 10% on July 1, 2024. No repayment is made by either of them till March 31, 2026. Compute the Income from house property if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (Nov 2023)

SOLUTION

Computation of Income from House Property of A and B (amounts in ₹)

1) In case of Mr. A:

Particulars	₹
Net Annual Value (self-occupied)	Nil
Less: Interest on borrowed capital [WN]	2,00,000
Income from House Property	-2,00,000

Working Note:



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'A' started construction on 01-04-2024, which ended on 31-03-2025. Since A had taken loan on 01-04-2024 and the construction was completed on 31-03-2025, there is no pre-construction period. Thus, interest from 01-4-2025 to 31-03-2026 i.e. ₹ 2,40,000 shall be deductible, subject to maximum of ₹ 2,00,000.

2) In case of Mr. B:

Particulars	Unit 1 - Self occupied	Unit 2 - Partly SOP and partly let out
Expected Rent [WN-1]	-	75,000
ARR (15,000 × 6)	-	90,000
Gross Annual Value [WN-2]	-	90,000
Less: Municipal taxes (50% of 8,000)	-	4,000
Net Annual Value	Nil	86,000
Less: Deductions under section 24 -		
(a) Statutory deduction @ 30% of NAV	-	25,800
(b) Interest on borrowed capital [WN-3]	69,000	69,000
Income from house property	-69,000	-8,800

Working Notes:

- 1) ER = Municipal value (of 9 months) or Fair rent (of 9 months), whichever is higher = higher of 75,000 or ₹ 54,000 = 75,000. B has occupied the ground floor for self-occupation from 01-07-2025. Its annual value will be computed as per Section 23(2). The first floor is let for a part of the year and then it is self-occupied. Its annual value will also be computed as per Section 23(1). However, since the house has come into existence on 01-07-2025, the annual fair value and annual municipal value for the period when the property was in existence (9 months) shall be considered for computing GAV.
- 2) Since ARR is greater than ER, hence GAV = ARR.
- 3) The pre-construction period starts from 01-07-2024 (date of loan) and ends on 31-03-2025. The interest for the said period i.e. for 9 months shall be $12,00,000 \times 10\% \times (9 \div 12) = 90,000$; 45,000 for ground floor and ₹45,000 for 1st floor. Such interest is deductible in 5 equal annual instalments starting with previous year 2025-26, each installment being 9,000 (i.e., $45,000 \div 5$). Interest of 1,20,000 for current year will be apportioned between the 2 units at 60,000 each. Therefore, total interest deductible = 69,000 (i.e., $60,000 + 9,000$) in each case.

ILLUSTRATION 29

Computation of Income from House Property: Mrs. Indu, a resident individual, owns a house in U.S.A. She receives rent @ \$2,000 per month. She paid municipal taxes of \$1,500 during the financial year 2025-26. She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of 10,000. Standard rent for each floor is 11,000 per month. Municipal taxes paid for the house amounts to 7,500. Mrs. Indu had constructed the house by taking a loan from a nationalised bank on 20-6-2023. She repaid the loan of 54,000 including interest of 24,000. The value of one dollar is to be taken as 75.

Compute total income from house property of Mrs. Indu if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(7 Marks, PCC Nov. 2009)

SOLUTION

Computation total Income from House Property of Mrs. Indu (amounts in ₹)



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1) Mumbai House - Ground Floor:

Particulars	₹
Net Annual Value	Nil
Less: Interest on borrowed capital [See Note]	12,000
Net Income from Ground Floor	-12,000

Note: Interest on capital borrowed for construction = $24,000 \times 1/2 = 12,000$, remaining half is for 1st floor.

2) Mumbai House - First Floor:

Particulars	₹
Gross Annual Value being actual rent [WN-1]	1,20,000
Less: Municipal Taxes paid [WN-2]	3,750
Net Annual Value	1,16,250
Less: Deductions under section 24-	
(a) Statutory deduction @ 30% of NAV	34,875
(b) Interest on borrowed capital	12,000
Income from First Floor of Mumbai House	69,375

Working Notes:

- GAV = $10,000 \times 121 = ₹ 20,000$
- Municipal taxes paid in respect of first floor = $7,500 \times 1/2 = ₹ 3,750$, as balance half is for ground floor.
- Interest on capital borrowed for construction $24,000 \times 1/2 = 12,000$.

3) U.S.A. House:

Particulars	₹
Gross Annual Value [WN-1]	18,00,000
Less: Municipal Taxes paid [WN-2]	1,12,500
Net Annual Value	16,87,500
Less: Standard Deduction u/s 24 @ 30% of NAV	5,06,250
Income from U.S.A. House	11,81,250

Working Notes:

(1) GAV = $\$2,000 \times 12 \times 75$ per dollar = ₹ 1800000.

(2) Municipal Taxes paid = $\$1,500 \times 75 = 112500$.

Therefore, total Income from House Property of Mrs. Indu = $(-12,000) + 69,375 + 11,81,250 = 1,238,625$.

ILLUSTRATION 30

Tax treatment of unrealised rent: An owner of a house property is allowed a deduction of 12,000 by way of unrealised rent for assessment year 2019-20. He sold the house on 15-4-2024 and ceases to be the owner thereof. A decree for the unrealised rent was given in his favour on 1-12-2024 and he receives the full amount on 1-2-2025. Examine the tax consequence. (May 2006)

SOLUTION

According to Section 25A, recovery of unrealised rent is taxable as "Income from House Property" whether the assessee is owner of the house or not. Hence, in the given case, the amount of 12,000 received by A by way of unrealised rent after giving deduction of 30%, shall be taxable



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as his income for the previous year 2024-25 even if he ceases to be the owner of the house property during the previous year.

Taxable (amount in ₹)

Particulars	₹
The amount received as unrealised rent	12,000
Less: Standard Deduction @ 30% of such amount	3,600
Income from house property	8,400

ILLUSTRATION 31

Computation of income from house property: X is the owner of a commercial property let out at 20,000 p.m. The municipal tax on the property is 25,000 annually, 50% of which is payable by the tenant. This tax was actually paid on 15-4-2025. He had borrowed a sum of 10 lacs from his cousin, resident in USA (In Dollars) for the construction of the property on which interest at 10% is payable. He has also received arrears of rent of 20,000 during the year, which was not charged to tax in the earlier years. What is the property income of X? (Nov. 2002)

SOLUTION

Computation of Income From House Property of Mr. X (amount in ₹)

Particulars	₹
Gross Annual Value (₹ 20,000 × 12)	2,40,000
Less: Municipal taxes paid[WN-1]	Nil
Net Annual Value	2,40,000
Less: Deductions under section 24-	
a) Standard deduction @ 30% of NAV	72,000
b) Interest on Housing Loan (10,00,000 × 10%)[WN-2]	1,00,000
	68,000
Add: Arrears of rent received[WN-3]	14,000
Income from House Property	82,000

Working Notes:

- (1) No deduction shall be allowed for municipal taxes as the same were not actually paid during the previous year.
- (2) It is assumed that the tax has been deducted at source on the amount of interest paid outside India.
- (3) Taxable value of arrears of rent under section 25A = 20,000 - 30% of 20,000 = 14,000.

ILLUSTRATION 32

Computation of taxable income: Ramesh (58 years) retired as General Manager of XYZ Co. Ltd. on 30-11-2024 after rendering service for 20 years and 10 months. He received 3,00,000 as gratuity from the employer. (He is not covered by Gratuity Act, 1972). His salary particulars are given below:

Basic Pay	10,000 p.m. upto 30-06-2024
Basic Pay	12,000 p.m. from 01-07-2024
Dearness allowance (Eligible for retirement benefits)	50% of basic pay
Transport Allowance	2,300 p.m.



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He resides in his own house. Interest on monies borrowed for the self-occupied house is 24,000 for the year-ended 31-3-2025. From a fixed deposit with a bank he earned interest income of 18,000 for the year ending 31-3-2025. Compute taxable income of Ramesh if he has not opted for the provisions of Section 115BAC of the Act. (May 2004)

SOLUTION

Computation of taxable income of Ramesh (amount in ₹)

Particulars	₹	₹	₹
Income from Salaries			
Basic Pay (10,000 × 3 + 12,000 × 5)		90,000	
Dearness Allowance (50% of basic pay)		45,000	
Transport Allowance (2,300 × 8)[WN-1]		18,400	
Gratuity Received	3,00,000		
Less: Exempt[WN-2]	1,62,000	1,38,000	
Gross Salary		2,91,400	
Less: Standard deduction u/s 16(ia)		50,000	2,41,400
Income from House Property			
Annual Value		Nil	
Less: Interest on borrowed capital[WN-3]		24,000	-24,000
Income from other sources (Bank Interest)			18,000
Total Income			2,35,400

Working Notes:

- (1) Transport allowance is fully taxable.
- (2) Gratuity received shall be exempt to the extent of least of the following (Payment of Gratuity Act is not applicable)
 - a) Actual amount received = ₹ 3,00,000
 - b) Notified Amount = ₹ 20,00,000
 - c) $\frac{1}{2} \times \text{Average Salary} \times \text{No. of completed years of service} = \frac{1}{2} \times 16,200 \times 20 \text{ years} = ₹ 1,62,000$

Average Salary = Basic and DA for 10 months preceding the month of retirement i.e. January to October $\div 10 = [(10,000 \times 6 \div 12,000 \times 4) \div 50\% \text{ of } (10,000 \times 6 \div 12,000 \times 4)] = ₹ 1,62,000$.
- (3) Since the house is self-occupied, hence its annual value shall be Nil.

ILLUSTRATION 33

Computation of Gross Annual Value: Mr. Vaibhav owns five houses at Cochin. Compute the gross annual value of each house from the information given below:

Particulars	House-I	House-II	House-III	House-IV	House-V
Municipal Value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair Rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard Rent	1,08,000	N.A	1,44,000	N.A	78,000
Actual Rent Received / Receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000

SOLUTION



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Computation of Gross Annual Value (amount in ₹)

Particulars	House-I	House-II	House-III	House-IV	House-V
Expected Rent [WN]	1,08,000	2,40,000	1,14,000	90,000	78,000
Actual rent receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
Gross Annual value (Higher of the above two)	1,80,000	2,40,000	1,20,000	1,08,000	78,000

ILLUSTRATION 34

Computation of Income from House Property: XYZ Ltd. is engaged in construction of residential flats. One building consisting of 25 residential apartments was constructed and completion certificate was obtained on 15-07-2023. Out of 25 residential apartments 5 apartments remained unsold upto 31-03-2026. The expected rent of each apartment is ₹ 30,000 per month. You are required to determine Income from House property for Assessment Year 2026-27 and Assessment Year 2027-28.

SOLUTION

As per provisions of Section 23(5), where the house property consisting of any building and land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period upto two years from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.

Thus, the income from house property upto 31-03-2026 i.e., two years from end of Financial Year 2023-24 shall be taken as NIL. Thus, income from house property for AY 2026-27 shall be taken as NIL.

Computation of Income from House property for Assessment Year 2027-28:

Particulars	₹
Expected Rent being Gross annual value (30,000 × 12 × 5)	18,00,000
Less: Municipal taxes paid	Nil
Net Annual Value	18,00,000
Less: Deductions under section 24 (Statutory deduction @ 30% of NAV)	5,40,000
Income from House Property	12,60,000

ILLUSTRATION 35

Self occupied properties: Mr. Naman owns two house properties one at Mumbai, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Mumbai, he has taken a loan of 25 lakh @ 12% p.a. on 01-04-2022. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of 6 lakh @ 11% p.a. on 01-10-2022 towards repairs. Compute the deduction which would be available to him u/s 24(b) for A.Y. 2024-25 in respect of interest payable on such loan.

SOLUTION

Mr. Naman can claim benefit of Nil Annual Value in respect of his house property at Mumbai and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such



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properties due to reason of his employment at Chandigarh, where he lives in a rented house.
Computation of deduction u/s 24(b) for A.Y. 2024-25 (amount in ₹)

Particulars	₹
i) Interest on loan taken for acquisition of residential house property at Mumbai [₹ 25,00,000 × 12% = ₹ 3,00,000 (restricted to ₹ 2,00,000)]	2,00,000
ii) Interest on loan taken for repair of residential house property at Delhi [₹ 6,00,000 × 11% = ₹ 66,000 (restricted to ₹ 30,000)]	30,000
Total Interest	2,30,000
Deduction u/s 24(b) in respect of (I) and (II) above to be restricted to -	2,00,000

ILLUSTRATION 36

Interest on borrowed capital: Arvind commenced construction of a residential house, intended exclusively for his residence, on 01-11-2024. He raised a loan of 10,00,000 at 12% interest for the purpose of construction on 01-11-2024. Finding that there was an over-run in the cost of construction, he raised a further loan of ₹ 12,00,000 at the same rate of interest on 1-10-2025. What is the interest allowable under section 24, assuming that the construction was completed by 31-3-2026 and if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

According to Section 23(2), the annual value shall be taken as NIL since the house is self-occupied by the assessee.

Thus, the interest allowable (including interest relating to pre-construction period) will be subject to maximum limit of ₹ 2,00,000. Pre-construction period shall start from 01-11-2024 and end on 31-03-2025 i.e. (31st March preceding the date of completion of construction). Computation of interest allowable under section 24(b) (amounts in ₹)

Particulars	₹
Total pre-construction interest[WN-1]	50,000
Pre-construction interest allowable in assessment year 2024-25 (1/5th of above)	10,000
Current year interest[WN-2]	1,92,000
Total interest	2,02,000

Hence, total amount deductible under section 24(b) = ₹ 2,00,000.

Working Notes:

- 1) Pre-construction interest = $10,00,000 \times 12\% \times 5 \div 12$ (from 1-11-2024 to 31-3-2025) = 50,000.
- 2) Current year interest (FY 2025-26) = Loan-I: 10 lakhs × 12% × 1 + Loan-II: 12 lakhs × 12% × 6 ÷ 12 = 1,92,000.

ILLUSTRATION 37

Computation of Income from House Property: Mr. Krishna owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. Krishna and another unit is rented for 12,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year are as under:

Standard Rent	2,20,000 p.a.
Municipal Valuation	2,44,000 p.a.
Fair Rent	2,35,000 p.a.



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Municipal tax paid by Mr. Krishna	12% of the Municipal Valuation
Light and water charges	800 p.m
Interest on borrowed capital	2,000 p.m.
Insurance charges	3,500 p.a
Painting expenses	16,000 p.a.

Compute income from house property of Mr. Krishna.

(8 Marks, Nov. 2013)

SOLUTION

Computation of Income from House Property of Mr. Krishna (amount in ₹)

1) In case of Unit-I (Self-occupied):

Particulars	₹
Net Annual Value	Nil
Less: Interest on the borrowed capital u/s 24(b) $(2,000 \times 12 \times 1/2)$	12,000
Net Income from Unit - I	-12,000

2) In case of Unit-II (Let-out) :

Particulars	₹	₹
Expected Rent	[WN-1]	1,10,000
Actual rent received $(12,000 \times 9)$		1,08,000
Proportionate Expected Rent (PER)	[WN-2]	82,500
Gross Annual Value	[WN-3]	1,08,000
Less: Municipal taxes paid $(12\% \text{ of } 2,44,000 \times 1/2)$		14,640
Net Annual Value		93,360
Less: Deductions under section 24-		
a) Statutory deduction @ 30% of NAV		28,008
b) Interest on the borrowed capital $(2,000 \times 12 \times 1/2)$		12,000
Net Income from Unit - II		53,352

Thus, total Income from House Property = $-12,000 + 53,352 = 41,352$.

Working Notes:

- 1) ER = Fair Rent 1,17,500 or Municipal Value ₹ 1,22,000 whichever is higher; subject to maximum of Standard Rent ₹ 1,10,000.
- 2) PER = Expected Rent $9 \div 12 = 1,10,000 \times 9 \div 12 = 82,500$.
- 3) Since ARR is greater than PER, therefore, ARR is less than ER on account of vacancy hence ARR is GAV.

ILLUSTRATION 38

Tax Treatment of unrealised rent and arrears of rent received: Mr. Krishna sold his residential house property in March, 2025. In June, 2025, he recovered rent of 35,000 from Mr. Ravindra, to whom he had let out his house for two years from April 2019 to March 2021. He could not realise two months rent of ₹ 40,000 from him and to that extent his actual rent was reduced while computing Income from house property for A.Y. 2021-22.

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Kamlesh. In April, 2023, he had increased the rent from 20,000 to 25,000 per month and the same was a subject matter of dispute. In September, 2025, the matter was finally settled and Mr. Krishna received 1,15,000 as arrears of rent for the period April 2023 to February, 2025.



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Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Krishna, and if so in which year?

SOLUTION:

Since the unrealised rent was recovered in the P.Y. 2025-26, the same would be taxable in the A.Y. 2026-27 under section 25A, irrespective of the fact that Mr. Krishna was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2025-26, and hence the same would be taxable in the A.Y. 2026-27 under section 25A, even though Mr. Krishna was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Krishna for A.Y. 2026-27.

Computation of income from house property of Mr. Krishna for A.Y. 2026-27 (amount in ₹):

Particulars	₹
i) Unrealised rent recovered	35,000
ii) Arrears of rent received	1,15,000
	1,50,000
Less: Deduction @ 30%	45,000
Income from house property	1,05,000

ILLUSTRATION 39

Deemed owner: Answer the following

- (1) Mr. Rajesh transfers a property of market value ₹ 38,00,000 to his wife out of natural love and affection. The income from such property is 2,00,000. How will the property income be taxed?
- (2) Mr. Amit gifts a property valuing 10,00,000 to his minor child. The annual income from such property is 2,00,000. How will the property income be taxed?
- (3) What will your answer be, if in the above case Mr. Amit has gifted the house property to his minor married daughter?
- (4) Mr. Anuj gives his house property to Mr. Dinesh on lease for 20 years. However, the lease is to be renewed by Mr. Dinesh every year. How will the property income be taxed?
- (5) What will your answer be if in the above case Mr. Anuj gives his house property on lease to Mr. Dinesh for 2 years and Mr. Dinesh can get the lease renewed for another 2 years on payment of a specified sum and so on for indefinite period?

SOLUTION:

The above mentioned cases have been discussed as follows

- (1) In this case, Mr. Rajesh has transferred his house property to his wife in natural love and affection i.e. otherwise than for adequate consideration. Therefore, he will be the deemed owner of such property and hence income of 2,00,000 will be assessed in the hands of Mr. Rajesh as 'Income from House Property'.
- (2) Here, Mr. Amit has gifted the property to his minor child i.e. without any adequate consideration. Thus, Mr. Amit shall be the deemed owner of such property and the income of 2,00,000 from the said property shall be taxable in his hands.
- (3) In case, an individual transfers the property without adequate consideration to his minor married daughter, then he shall not be treated as deemed owner in respect of such property as per Section 27. Hence, the income from such property will be taxed in the hands of the minor married daughter.



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- (4) In this case, the lease is for 20 years i.e. for more than 12 years, but the same is to be renewed every year by Mr. Dinesh i.e. for a period of not more than one year. Thus, Mr. Dinesh is not treated as the deemed owner of such property and the income from such property will be taxable for Mr. Anuj.
- (5) Here, the lease is for 2 years but Mr. Dinesh can renew it after every 2 years for indefinite period, which implies that the lease can be for more than 12 years. Thus, Mr. Dinesh will be the deemed owner of such property and income therefrom will be taxable in his hands.

ILLUSTRATION 40

Let-out property: Rajeev owns a house, which is self-occupied upto 31-5-2025. W.e.f. 1-6-2025, the property is let to Rafi at 20,000 p.m. On 1-12-2025, Rafi vacated the house and the property after remaining vacant for one month, was let to Rachna w.e.f. 1-1-2026 at 25,000 p.m. Determine the Gross Annual Value of the house if the expected rent of the property is - (a) 3,00,000.

SOLUTION

In this case, the property is -

- self-occupied for 2 months;
- let-out for 9 months; and
- vacant for 1 month.

Hence, no benefit of self-occupation will be available.

The Actual Rent Receivable (ARR) for 9 months will be compared with Proportionate Expected Rent (PER) for 11 months to determine the Gross Annual Value.

(a) Case 2- If expected rent is ₹ 3,00,000 : In this case -

$$\text{ARR} = 20,000 \times 6 + ₹ 25,000 \times 3 = ₹ 1,95,000;$$

$$\text{PER} = 3,00,000 \times 11/12 = 2,75,000.$$

This implies that since ARR is less than PER, hence ARR is less than ER not on account of vacancy but due to other reasons.

Therefore, GAV = ER = ₹ 3,00,000.

ILLUSTRATION 41 [Repeated]

ILLUSTRATION 42

Computation of Total Income: Mr. Sandeep, manager in CTL Pvt. Ltd. at Mumbai, furnishes following information for the year ended 31st March, 2026:

Basic salary is 55,000 per month and entitled to a commission of 2,500 per month. A company owned accommodation is provided to him in Mumbai. Furniture costing 2,40,000 was also provided. He took a personal loan of ₹ 3,00,000 on 1st September, 2025 on which the interest @ 7.75% per annum was charged by the company. The entire loan is still outstanding. SBI rate of interest on 1st April, 2025 is 12.75%. Mr. Sandeep is the owner of a house property in Kolkata which he constructed during the financial year 2016-17. The property consists of four identical units. He occupied one unit for his residence and three units were let out at a rent of 20,000 per month per unit. The municipal value is ₹ 9,00,000 and the municipal tax was paid @ 20% of municipal value. Fair rent and standard rent are 7,50,000 and 8,50,000 respectively. One of the let out units was vacant for six months during the year. Interest on loan taken for construction of the house is 2,00,000.

Compute total income of Mr. Sandeep for the A.Y. 2026-27 assuming he has opted out default tax regime u/s 115BA(1A). (6 Marks, May 2025)



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SOLUTION

Computation of total income of Mr. Sandeep for A.Y. 2026-27 as per the optional tax regime:

	Particulars	₹	₹	₹
1.	Income from Salaries Basic Salary [55,000 × 12] Commission [2,500 × 12]		6,60,000 30,000	
	Value of Rent-free accommodation 10% of salary [6,60,000 + 30,000] Add: Value of furniture [2,40,000 × 10% p.a.]	69,000 24,000	93,000	
	Value of perquisite for interest on personal loan Interest on loan as per SBI rate [3,00,000 × 12.75% × 7/12] Less: Interest charged by the company [3,00,000 × 7.75% × 7/12]	22,312.50 13,562.50	8,750	
	Gross Salary		7,91,750	
	Less: Standard deduction u/s 16 [Actual salary or 50,000, whichever is less]		50,000	
	Net salary			7,41,750
	Income from house property Let out portion [three units] Municipal value [9,00,000 × 3/4] Fair Rent [7,50,000 × 3/4] Higher of Municipal value or fair rent Standard Rent [8,50,000 × 3/4] Expected Rent [Higher of Municipal value or fair rent but restricted to standard rent] Actual rent received/ receivable [20,000 × 12 × 320,000 × 6] Actual rent of ₹ 6,00,000 is lower than the expected rent of 6,37,500 owing to vacancy since, had the property not been vacant the actual rent would have been ₹7,20,000. Therefore, the actual rent is Gross Annual Value.	6,75,000 5,62,500 6,75,000 6,37,500 6,37,500 6,00,000		
	Gross Annual Value		6,00,000	
	Less: Municipal taxes (6,75,000 × 20%)		1,35,000	
	Net Annual Value		4,65,000	
	Less: Deduction under section 24 - 30% of net annual value - Interest on loan [2,00,000 × 3/4]	1,39,500 1,50,000	2,89,500	
			1,75,700	
	Self-occupied portion [One Unit]			
	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on loan for construction [₹2,00,000 × 1/4]	50,000	-50,000	1,25,500



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	Gross Total Income/ Total Income		8,67,250

ILLUSTRATION 43 [Repeated]

ILLUSTRATION 44 [Repeated]

ILLUSTRATION 45 [Repeated]

ILLUSTRATION 46 [Repeated]

Illustration 47 [Repeated]

ILLUSTRATION 48 [Repeated]

ILLUSTRATION 49 [Repeated]

ADDITIONAL QUESTIONS

ILLUSTRATION 50

Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2025-26. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2025, which is used for self-occupation, while he is in India. The flat was used by him for 2 months at the time when he visited India during the previous year 2025-26. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2023 for purchasing this flat. No amount is repaid by him till 31.03.2026.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2025-26.

Compute the income chargeable from house property of Mr. Roxx for the A.Y.2026-27 if he has shifted out of the default tax regime.

Answer



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Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the letout property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for A.Y.2026-27 will be calculated as under:

Particulars		₹	₹
1.	Self-occupied house at Delhi		
	Annual value		Nil
	Less: Deduction under section 24	Nil	
	Interest on borrowed capital (See Note below)		2,00,000
	Chargeable income from this house property		(2,00,000)
2.	Let out house property at Bangalore		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [$40,000 \times 12$]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [$30\% \times ₹ 4,74,600$]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

Particulars		₹
Interest for the current year [$18,00,000 \times 9.5\%$]		1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 $\times$ 1/5)		57,000
1.8.2023 to 31.03.2024 - (₹ 18,00,000 $\times$ 9.5% $\times$ 8/12)	1,14,000	
1.4.2024 to 31.03.2025 - (₹ 18,00,000 $\times$ 9.5%)	<u>1,71,000</u>	
		2,28,000
Interest deduction allowable under section 24, restricted to		2,00,000

ILLUSTRATION 51



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Mr. Roy owns a house in Kolkata. During the previous year 2025-26, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2026. The property was vacant during March, 2026. Rent for the months of January 2026 and February 2026 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2018 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2026-27 if he has shifted out of the default tax regime.

Answer

There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self-occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let-out during the previous year and its annual value has to be determined as per section 23(1).
Computation of Income from house property of Mr. Roy for the A.Y. 2026-27

Particulars	₹	
Unit I (3/4th area - self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4 th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		(1,13,250)
Unit II (1/4th area - let out)		
Computation of GAV		
Step 1 - Computation of Expected Rent (ER)		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4 th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4 th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4 th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		



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Step 2 - Computation of actual rent received/ receivable $\text{₹ } 12,000 \times 9 = 1,08,000$ [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2026 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]	1,08,000	
Step 3 - Computation of GAV The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2026, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
Gross Annual Value (GAV)		1,08,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion $1/4\text{th of } (10\% \text{ of ₹ } 4,50,000) = ₹ 45,000/4 = ₹ 11,250$		11,250
Net Annual Value (NAV)		96,750
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 96,750	29,025	
(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	66,775
Income from Unit II (let-out)		29,975
Loss under the head "Income from house property" (-₹ 1,13,250 + ₹ 29,975)		-83,275

Note - Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,08,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.





CHAPTER - 5

PROFIT AND GAINS OF BUSINESS OR PROFESSION

ILLUSTRATION 1

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2025 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2024-25)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2025	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2025	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2026	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

SOLUTION

Computation of depreciation and additional depreciation for A.Y. 2026-27

Particulars	Plant & Machinery (15%)	Computer (40%)
Total depreciation	12,90,000	60,000

ILLUSTRATION 2

A car purchased by Dr. Soman on 10.08.2022 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2025 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the A.Y. 2026-27 assuming the rate of depreciation to be 15%.

SOLUTION

As per section 43(1), the expression "actual cost" would mean the actual cost of asset to the assessee.

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant. Therefore, amount of depreciation on car as per section 32 for the A.Y.2025-26 would be ₹ 78,750, being ₹ 5,25,000 × 15%.

ILLUSTRATION 3

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2025-26 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2026-27. Assume that all the assets were purchased by way of account payee cheque.

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Sl. No	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 25	1 Oct., 25	35,000
2.	Computer UPS	2 Oct., 25	8 Oct., 25	8,500
3.	Computer printer	1 Oct., 25	1 Oct., 25	12,500
4.	Books (other than annual publications are of ₹ 12,000	1 Apr., 25	1 Apr., 25	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 25	1 Apr., 25	3,00,000
6.	Laptop	26 Sep., 25	8 Oct., 25	43,000

SOLUTION

Computation of depreciation allowable for A.Y.2026-27

Asset	Rate	Depreciation (₹)
Block 1 Furniture	10%	30,000
Block 2 Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books)	40%	34,500
Total depreciation allowable		64,500

ILLUSTRATION 4

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2025. The manufacturing unit was set up on 1.5.2025. He commenced his manufacturing operations on 1.6.2025. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of depreciation allowable for the A.Y. 2026-27 in the hands of Mr. Gamma

Particulars	₹ in crore
Depreciation allowable for A.Y.2026-27	32.75

ILLUSTRATION 5

Mr. A, furnishes the following particulars for the P.Y.2025-26. Compute the deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head "Profits and gains of business or profession",

(i) if, he is paying tax under default tax regime under section 115BAC

(ii) he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Particulars	₹



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1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

SOLUTION

(i) If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction under section 35 for the A.Y. 2026-27

Particulars	₹	Section	Allowability	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)		Nil
X Ltd.	4,00,000	35(1)(ia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable Under default tax regime	3,00,000
Capital expenditure	2,50,000	35(1)(iv)		2,50,000
(excluding cost of acquisition of land ₹ 5,00,000)		read with 35(2)(ia)		
Deduction allowable under section 35				5,50,000

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

Computation of deduction under section 35 for the A.Y. 2026-27

Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science,	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(ia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure	2,50,000	35(1)(iv)	100%	2,50,000

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(excluding cost of acquisition of land ₹ 5,00,000)		read with 35(2)(ia)		
Deduction allowable under section 35				13,00,000

ILLUSTRATION 6

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2025. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2025 to March, 2025 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2025. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2025-26, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2026-27 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

SOLUTION

Computation of profits and gains of business or profession for A.Y.2026-27

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32 10% of ₹ 30 lakh, being (₹ 50 lakh - ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under "Profits and gains from business or profession"	28

Computation of income/loss from specified business under section 35AD Particulars

	Particulars	Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD) Less: Deduction under section 35AD	16	14	13
(B)	Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on	30	20	50
(C)	Capital expenditure incurred during the P.Y. 2023-24	20	15	35



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(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD 100% of capital expenditure (food grains/ sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2025-26	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2024-25.
- Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

ILLUSTRATION 7

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2025. He incurred capital expenditure of ₹ 50 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2025. Further, during the P.Y. 2025-26, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C - Deductions in respect of certain incomes". He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2026-27. Also, assume that payments for capital expenditure were made by net banking.

SOLUTION

Computation of profits and gains of business or profession for A.Y. 2026-27



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Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2025-26 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh - ₹ 150 lakh	50 Lakh
Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024	50 lakh
Total deduction under section 35AD for A.Y.2026-27	100 lakh
Loss from the specified business of new hotel in Madurai	(75 Lakh)
Profit from the existing business of running a hotel in Coimbatore	120
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45

ILLUSTRATION 8

Mr. Arnav is a proprietor having two units - Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

SOLUTION

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2025-26, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2026-27.

Particulars	₹
Deduction allowed u/s 35AD for A.Y.2025-26	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation u/s 32 on the building in Unit B for A.Y.2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Deduction allowed u/s 35AD for A.Y.2025-26	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

ILLUSTRATION 9

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2026 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2025-26, assuming that

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the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in ₹
(1)	Salary to its employee, Mr. X (credited and paid in March, 2026)	14,00,000
(2)	Directors' remuneration (credited in March, 2026 and paid in April, 2026)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2024 at the time of payment and remitted the same in July, 2026?

SOLUTION

The amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y. 2026-27 is as follows -

Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia) @30%
Disallowance under section 40(a)(ia)		4,28,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y. 2026-27 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2027-28.

ILLUSTRATION 10

During the financial year 2025-26, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2025 was ₹ 99 lacs):

- Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- Commission of ₹ 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2025 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

SOLUTION

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- The obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding P.Y., i.e., P.Y. 2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.
- The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year. Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary

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payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

- (iii) The obligation to deduct tax at source under section 194H from commission paid in excess of ₹15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2025-26. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

ILLUSTRATION 11

A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2025-26, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh. What is the remuneration allowable as deduction?

SOLUTION

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be -

Particulars	₹
Allowable remuneration	7,80,000

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 - ₹ 7,80,000) would be disallowed as per section 40(b)(v).

ILLUSTRATION 12

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

- (1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute: (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

(ii) Allowable working partner salary for the A.Y. 2026-27 as per section 40(b).

SOLUTION

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Book Profit		14,90,000

Therefore, the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	₹
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the A.Y.2025-26 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

ILLUSTRATION 13



- ARHAM INSTITUTE



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X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

SOLUTION

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,96,000)	1,96,000
Excess contribution disallowed under section 40A(9)	4,000

ILLUSTRATION 14

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

	Particulars	₹
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2023-24 & 2024-25)	15,00,000
(ii)	Indian Bank (P.Y.2023-24)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2026, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

SOLUTION

Accordingly, the amount of interest eligible for deduction for the A.Y.2026-27 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest Allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

ILLUSTRATION 15

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars ₹

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Financial year 2023-24	1,15,000
Financial year 2024-25	1,80,000
Financial year 2025-26	2,10,000

What is his obligation regarding maintenance of books of accounts for each Assessment Year under section 44AA of Income-tax Act, 1961?

SOLUTION

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2023-24, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

ILLUSTRATION 16

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2025-26. Amount received in cash during the P.Y. 2025-26 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2026. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2026-27 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2026-27?
- If so, determine his income from retail trade as per the applicable presumptive provision.
- In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- What is the due date for filing his return of income under both the options?

SOLUTION

- Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover $(14,00,000 / 2,98,50,000 \times 100)$ and his total turnover for the F.Y. 2025-26 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- Mr. Praveen had declared profit for the previous year 2024-25 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2026-27 to A.Y. 2030-31, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2025-26 relevant to A.Y. 2026-27, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2027-28 to A.Y. 2031-32.
Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- In case he declares presumptive income under section 44AD, the due date would be 31st July, 2026.



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In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October 2026.

ILLUSTRATION 17

Mr. X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the P.Y.2025-26. Compute his income under section 44AE for A.Y.2026-27.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
1)	7,000	2	10.04.2025
2)	6,500	1	15.03.2026
3)	10,000	3	16.07.2025
4)	11,000	1	02.01.2026
5)	15,000	2	29.08.2025
6)	15,000	1	23.02.2026

Would your answer change if the goods vehicles purchased in April, 2025 were put to use only in July, 2025?

SOLUTION

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2025-26, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Type of Carriage	Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months x No. of vehicles	Deemed income per month	Amount (₹)
For Heavy goods Vehicle	2	29-08-2025	8	16	15,000	2,40,000
	2	23-02-2026	2	2	15,000	30,000
For goods vehicle other than heavy goods vehicle	2	10-04-2025	12	24	7,500	1,80,000
	1	15-03-2026	1	1	7,500	7,500
	3	16-07-2025	9	27	7,500	2,02,500
	1	02-01-2026	3	3	7,500	22,500
Profits from the business referred to u/s 44AE						6,82,500

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The answer would remain the same even if the two vehicles purchased in April, 2025 were put to use only in July, 2025, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

ILLUSTRATION 18

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2026:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2026-27.

SOLUTION

Computation of business income and agricultural income of Ms. Vivitha
for the A.Y. 2026-27

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.



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2. Explanation 3 to section 2(1A) provides that the income derived from saplings or Seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).

TEST YOUR KNOWLEDGE

ILLUSTRATION 19

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

Particulars	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2025	30.00
Depreciation including additional depreciation for P.Y. 2024-25	4.75
New machinery purchased on 1-9-2025	10.00
New machinery purchased on 1-12-2025	8.00
Computer purchased on 3-1-2026	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2025 and computer have been installed in the office.
- During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2024, 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 1.4.2025.

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 31-3-2026 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.

SOLUTION

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2026

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2025)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2024-25	4.75	-
Opening balance as on 1.4.2025	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2025	10.00	-
New machinery purchased on 1.12.2025	8.00	-
Computer purchased on 3.1.2026	-	4.00
Less: Assets sold/discarded/destroyed during the year	43.25	4.00
	Nil	Nil



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Written Down Value (as on 31.03.2026)	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. 2026-27

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Total Depreciation (A+B+C)	8.89	0.80

(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. 2026-27

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Total Depreciation	5.89	0.80

ILLUSTRATION 20

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2026-27, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

Particulars	(₹ in lacs)
(i) WDV of block as on 31.3.2025 (15% rate)	50.00
(ii) Depreciation for P.Y. 2024-25	7.50
(iii) New machinery purchased on 12-10-2025	10.00
(iv) Machinery imported from Colombo on 12-4-2025. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v) New computer installed in generation wing unit on 15-7-2025	2.00

All assets were purchased by A/c payee cheque.

SOLUTION

Computation of depreciation under section 32 for A.Y. 2024-25

Particulars	₹	₹
Depreciation on Plant and Machinery		10,67,500

ILLUSTRATION 21

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains



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from business or profession for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2024-25 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

SOLUTION

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

- (i) **Construction of school building in compliance with CSR activities** Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction under section 37.

- (ii) **Purchase of building for setting up and operating a warehousing facility for storage of food grains**

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2025-26, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

- (iii) **Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted**

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2024-25 exceeds ₹ 100 lakhs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

- (iv) **Commodities transaction tax of ₹ 20,000 paid on sale of bullion**

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession". Taking that income from this commodities transaction is included while computing the business income of Mr.



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Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

ILLUSTRATION 22

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- (ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment
- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2025 is a deductible expenditure under section 36.
- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

SOLUTION

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.



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- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(iia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 23

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2026-27:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- (iv) Payment of ₹ 50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

SOLUTION

- (i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
 - (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
 - (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.
Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.
- (ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.
Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil directly to the farmer.
- (iii) **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).
As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.
- (iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic source.
- (v) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹

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35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

ILLUSTRATION 24

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2026 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).
- (b) (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
- (ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a nonresident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

SOLUTION

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
- (ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

ILLUSTRATION 25

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		



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To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:
 Opening stock ₹ 9,000
 Closing stock ₹ 18,000
 - Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
 - The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.
 - The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
 The opening balance of plant and machinery (i.e., the written down value as on 31.3.2025 minus depreciation for P.Y. 2024-25) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2025 for ₹ 70,000. Two old plants were sold on 1.10.2025 for ₹ 50,000.
 - Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2026.
 - Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.
- You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

SOLUTION

Computation of business income of Mr. Sivam for the A.Y. 2024-25

Particulars	₹	₹
Business Income		1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes,

presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 × 6 / 100 = ₹ 6,72,690

ILLUSTRATION 26

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2025, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2025, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2025. This new vehicle could, however, be put to use only on 15th June, 2025.

Compute the total income of Mr. Sukhvinder for the A.Y. 2026-27, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses		



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Depreciation as per section 32	6,25,000	
Other office expenses	1,85,000	8,25,000
	15,000	
Net Profit		4,45,000
Other business and non-business income		70,000

SOLUTION

Computation of total income of Mr. Sukhvinder for A.Y. 2026-27

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Computation of total income of Mr. Sukhvinder for the A.Y. 2026-27

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount
(1)	(2)		(3)	(4)
Heavy goods vehicle			15	30,000
1 goods carriage upto 1st May	2	1000	(15,000/1,000)	
5 goods carriage held throughout the year	12	1000	15	9,00,000
			(15,000/1,000)	
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7500		82,500
4 goods carriage held throughout the year	12	7500		3,60,000
			Total	13,72,500

ILLUSTRATION 27

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026:

Manufacturing, Trading and Profit & Loss Account
for the year ended 31.03.2026

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		



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	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2025-26:

- Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2025. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2026 was ₹ 20,000 and the balance was paid in November 2026.
- Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2024-25 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	₹
WDV as on 31.03.2025 minus Depreciation for P.Y. 2024-25	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2026-27 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

SOLUTION

Computation of total income of Mr. Raju for the A.Y. 2026-27

Particulars	₹	₹
Total Income		3,03,500

ILLUSTRATION 28

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2026 are given below:



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Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	3,00,000
Opening balance of machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2026-27. (6 marks, may 2010)

SOLUTION

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹
Total profits from composite activities		12,89,000
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of depreciation for P.Y. 2025-26

Particulars	₹	₹
Car		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		15,00,000
Depreciation @ 15% for P.Y. 2025-26		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

PAST EXAM QUESTIONS



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ILLUSTRATION 29

Computation of Business profits: Following is the Profit and Loss account of Mr. A (amounts in ₹)-

Particulars	₹	Particulars	₹
To Repairs on building	1,30,000	By Gross profit	6,01,000
To Advertisement	51,000	By IT Refund	4,500
To Amount paid to Scientific Research Association approved u/s 35	1,00,000	By Interest from company deposits	6,400
		By Dividends	3,600
To Interest	1,10,000		
To Traveling	1,30,000		
To Miscellaneous Expenditure	550		
To Net Profit	93,950		
	6,15,500		6,15,500

Following additional information is furnished:

- Repairs on building includes 95,000 being cost of raising a compound wall for the own business premises.
- Interest payments include interest of 12,000 payable to a resident Indian on which tax has not been deducted and penalty of 24,000 for contravention of Central Goods and Services Tax Act.

Compute the income chargeable under the head 'Profits and gains of business or profession' of Mr. A ignoring depreciation he has exercised the option of opting out of default tax regime.

(7 Marks, May 2006) (Similar IPCC May 2012, 10 Marks)

SOLUTION

Profits and gains of business or profession of Mr. A (amounts in ₹)-

Particulars	₹	₹
Net profit as per Profit and Loss Account		93950
Add: Expenses not allowable		
Expenses on raising a compound wall [WN-1]	95,000	
Penalty for contravention of CGST Act [WN-2]	24,000	
Interest payable to a resident, as tax has not been deducted on the same ₹ 12,000 × 30% [WN-5]	3,600	1,22,600
Less: Income not forming part of business income - [WN-3]	6400	
Interest from company deposits [WN-4]	4,500	
I.T. Refund Dividend [WN-6]	3,600	14,500
Profit and Gains of Business or Profession		2,02,050

Working Notes:

- Expenses on raising a compound wall shall not be deductible as it is a capital expenditure.
- Penalty paid for violation or infringement of any law is not allowable as deduction under section 37(1).
- Interest from company deposits shall not form part of business income as it is taxable as Income from other sources.



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- (4) I.T. Refund is not taxable, as it is not 'income'.
- (5) 30% of interest payable to a resident, as tax has not been deducted on the same shall not be allowed as deduction under section 40(a).
- (6) Dividend from shares of Indian Company is taxable in hands of shareholder under the head Income from other sources.
- (7) Amount paid to Scientific Research Association approved u/s 35 is eligible for 100% deduction. Since the same is debited to profit and loss account, hence no adjustment will be required.

ILLUSTRATION 30

Computation of Business profits: Ram, who is 28 years of age, is a businessman in Delhi. On the basis of the following profit and loss account for the financial year 2024-25, compute his taxable income:

Particulars	₹	Particulars	₹
Opening stock	20,700	Sales	15,00,000
Purchases	10,00,000	Closing stock	25,200
Household expenses	10,000		
Income-tax for the financial year 2024-25	30,000		
Interest on capital	8,400		
Depreciation on furniture	12,000		
Reserve for bad debts	1200		
Salaries and wages	60,000		
Rent and rates	25,000		
Net profit	3,57,900		
	15,25,200		15,25,200

Other relevant particulars are as follows:

- (i) Opening stock and closing stock have consistently been valued at 10% below cost price.
- (ii) Household expenses include a contribution of ₹ 1,500 towards public provident fund.
- (iii) Amount of depreciation on furniture as per income-tax provisions is 10,000. (6 Marks, CS Executive Dec. 2008)

SOLUTION

Computation of taxable income of Mr. Ram (amounts in ₹) -

Particulars	₹	₹
Net profit as per Profit and Loss A/c		3,57,900
Add: Expenses not allowable		
Household expenses	10,000	
Income-tax for the financial year 2021-22	30,000	
Interest on capital	8,400	
Depreciation on furniture	12,000	
Reserve for bad debts	1,200	61,600
Add: Undervaluation of closing stock (25,200 × 1/9)		2,800
Less: Undervaluation of opening stock (20,700 × 1/9)		-2,300
Less: Allowable depreciation		-10,000
Total income		4,10,000



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ILLUSTRATION 31

Computation of Business Income: Mr. Rameshwar is registered Medical practitioner. He keeps his book on cash basis and his summarised cash account for year ended 31 March 2024 is as under (amounts in ₹):

Particulars	₹	Particulars	₹
To Balance b/d	2,700	By Costs of medicines	20,000
To Loan from Bank	6,000	By Surgical equipment	6,000
To Sale of medicines	30,500	By Motor car purchased	12,000
To Consultation fees	50,10,000	By Car expenses	1,800
To Visiting fees	8,000	By Salaries	48,01,200
To Interest on investments	9,000	By Rent on dispensary	1,200
To Dividend on shares	7,200	By General expenses	600
To Sale of building	15,000	By Personal expenses	3,600
To Sale of furniture	5,000	By Life insurance premium	2,000
	50,93,400	By Insurance of personal property	400
		By Interest on bank loan for investment	360
		By Fixed Deposit in Bank	30,000
		By Balance c/d	2,14,240
	50,93,400		50,93,400

Compute his Income from profession taking into account the following further information:

- 1) 1/3rd of the motorcar expenses is in respect of his personal use.
- 2) The original cost of the building was 20,000 and written down value of furniture as on 1st April 2023 was ₹ 4,000. There was no other asset in this block.
- 3) The rate of depreciation on motorcar and on surgical equipments is 15%. An old car was purchased in May 2023 while the surgical equipments were purchased in December 2023.
- 4) Outstanding consultancy fees and outstanding salaries are 20,000 and 1,000 respectively. Further, medicines valuing 5,000 were sold to Mr. Babu on credit.

SOLUTION

Computation of taxable income from profession (amounts in ₹)-

Particulars	₹	₹
Gross Receipts: Sale of medicines	30,500	
Consultation fees	50,10,000	
Visiting fees	8,000	
Less: Allowable expenses viz. cost of medicines	20,000	
Car expenses (1,800 × 2/3)	1,200	
Salaries	48,01,200	
Rent of dispensary	1,200	
General Expenses	600	



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Allowable Depreciation Motor car (12,000 × 15%) × 2/3	1,200	
Surgical equipment (7.5% × 6,000)	450	48,25,850
Income from profession		2,22,650

Note: Since the assessee maintains accounts as per cash basis, therefore, outstanding consultancy fees, outstanding salaries and sale of medicines on credit will not be considered.

ILLUSTRATION 32

Taxability/ Deductibility of various items: Ramji Ltd., engaged in manufacture of medicines (pharmaceuticals) furnishes the following information for the year ended 31-03-2026

- Municipal tax relating to office building 51,000 not paid till 31-10-2025.
- Patent acquired for ₹ 20,00,000 on 01-09-2025 and used from the same month.
- Capital expenditure on scientific research 10,00,000 which includes cost of land ₹ 2,00,000.
- Amount due from customer X outstanding for more than 3 years written off as bad debt in the books 5,00,000.
- Income tax paid 90,000 by the company in respect of non-monetary perquisites provided to its employees.
- Provident fund contribution of employees ₹ 5,50,000 remitted in July 2026.
- Expenditure towards advertisement in souvenir of a political party 1,50,000.
- Refund of Goods and Services Tax 75,000 received during the year, which was claimed as expenditure in an earlier year.

State with reasons the taxability or deductibility of the items given above under Income-tax Act, 1961. Note: Computation of total income is not required. **(8 Marks, CA IPCC Nov. 2011)**

SOLUTION

The treatment is as under

- As per Section 43B, municipal tax is not deductible for assessment year 2026-27 since it is not paid on or before 31-10-2026, being the due date of filing the return for assessment year 2026-27.
- Patent is an intangible asset eligible for depreciation @ 25%. Since, it has been acquired and put to use for more than 180 days during the previous year 2025-26, full depreciation of 5,00,000 (i.e. 25% of 20,00,000) is allowable as deduction under section 32.
- Deduction @ 100% is available under section 35(2AB) in respect of expenditure incurred by a company on scientific research on in-house research and development facility as approved by the prescribed authority. However, cost of land is not eligible for deduction. Deduction under section 35(2AB) = 100% of 8 lakhs = ₹ 8,00,000.
- Bad debts i.e. 5,00,000 written off in the books of account as irrecoverable is deductible under section 36(1)(vii), provided the debt has been taken into account in computing the income of the company in the current previous year or any of the earlier previous years.
- As per Section 40(a)(v), income-tax of 90,000 paid by the company in respect of non-monetary perquisites provided to its employees, exempt in the employee's hands under section 10(10CC), is not deductible while computing business income of the employer-company.
- The employees' contribution to provident fund is taxable in the hands of the company since it is included in the definition of income under section 2(24)(x). As per section 36(1)(va), provident fund contribution of employees is deductible only if such sum is credited to the employee's provident fund account on or before the due date under the Employees' Provident Fund and Miscellaneous Provisions Act, 1952. In this case, since it is remitted after the due date under the said Act, it is not deductible.



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- (vii) Expenditure towards advertisement in souvenir of a political party is disallowed under section 37(2B) while computing business income. However, the same is deductible under section 80GG from gross total income.
- (viii) Refund of a trading liability is taxable under section 41(1), if a deduction was allowed in respect of the same to the taxpayer in an earlier year. Since Goods and Services Tax was claimed as expenditure in an earlier year, refund of the same during the year would attract the provisions of Section 41(1).

ILLUSTRATION 33

Computation of IHP & PGBP: Mr. Ramesh constructed a big house (construction completed in P.Y. 2008-09) with 3 independent units. Unit 1 (50% of floor area) is let out for residential purpose at monthly rent of 15,000. A sum of 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Ramesh is occupied by the tenant. Unit - 1 remains vacant for 2 months when it is not put to any use. Unit 2 (25% of the floor area) is used by Mr. Ramesh 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:

Particulars	Amount ₹
Municipal valuation	1,88,000
Fair rent	2,48,000
Standard rent under the Rent control Act	2,28,000
Municipal taxes	20,000
Repairs	5,000
Interest on capital borrowed for the construction of the property	60,000
Ground rent	6,000
Fire insurance premium paid	60,000

Income of Ramesh from the business is 1,40,000 (without debiting house rent and other incidental expenditure). Determine the taxable income of Mr. Ramesh for the assessment year 2026-27 if he does not opt to be taxed under section 115BAC. (6 Marks, July 2021)

SOLUTION

Computation of Taxable Income of Mr. Ramesh under the regular provisions of the Act (amount in ₹)

Income from house property:		
Unit-1 [50% of floor area - Let out]		
Gross Annual Value, higher of:		
Expected rent 1,14,000 [Higher of Municipal Value of 94,000 p.a. and Fair Rent of 1,24,000 p.a., but restricted to Standard Rent of 1,14,000 p.a.]	1,14,000	
Actual rent 1,47,000 [15,000 × 10] [Less unrealized rent of 3,000 since conditions of Rule 4 has been satisfied]	1,47,000	
Gross Annual Value	1,47,000	
Less: Municipal taxes [50% of 20,000] [Assumed to have been paid during the year by Mr. Ramesh]	10,000	
Net annual value	1,37,000	
Less: Deductions from Net Annual Value		



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(a) 30% of Net Annual Value	41,100	
(b) Interest on loan [50% of 60,000]	30,000	
Unit -3 [25% of floor area - Self occupied]		
Net Annual Value		65,900
Less: Interest on loan [25% of 60,000]	15,000	- 15,000
Income from house property		50,900
Profits and gains from business or profession:		
Business Income [without deducting expenditure on Unit - 2 25% floor area used for business purposes]	1,40,000	
Less: Expenditure in respect of Unit -2		
• Municipal taxes [25% of 20,000] [Assumed to have been paid on or before the due date u/s 139(1)]	5,000	
Repairs [25% of ₹ 5,000]	1,250	
• Interest on loan [25% of 60,000]	15,000	
• Ground rent [25% of ₹ 6,000]	1,500	
• Fire Insurance premium [25% of ₹ 60,000]	15,000	
	37,750	1,02,250
Taxable Income		1,53,150

ILLUSTRATION 34

Computation of tax liability in case of Business income & Other income: Mr. Avani, a resident aged 25 years, manufactures tea leaves from the tea plants grown by him in India. These are then sold in the Indian market for 40 lakhs. The cost of growing tea plants was 15 lakhs and the cost of manufacturing tea leaves was 10 lakhs. Compute his tax liability for the Assessment Year 2025-26 if he has not opted for the provisions of Section 115BAC. (7 Marks, May 2018-NS)

SOLUTION

Computation of tax liability of Mr. Avani (amount in ₹)

Particulars	₹	₹
Sale value of manufactured Tea		40,00,000
Less: Expenditure incurred for growing tea plants	15,00,000	
Expenditure incurred for manufacturing tea leaves	10,00,000	25,00,000
Composite income from growing and manufacturing tea		15,00,000
Agricultural Income @ 60%		9,00,000
Business Income @ 40%		6,00,000

Computation of tax payable by Mr. Avani (amounts in ₹)

Particulars	₹
Tax on business income including agricultural income (6,00,000+ 9,00,000)	2,62,500
Less: Tax on agricultural income + basic exemption (9,00,000+ 2,50,000)	1,57,500
Tax payable	1,05,000
Add: HEC @ 4%	4,200
Tax liability (rounded off)	1,09,200

ILLUSTRATION 35

Agricultural Income: Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

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- (i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of 10,000. He sublets the land to Mr. Manish for a monthly rent of 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
- (ii) Mr. Pratham, a non-resident in India, received a sum of 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai.
- (iii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income tax since paddy as grown on land is not fit for sale in its original form.

(3 x 2 = 6 Marks, Jan. 2021)

SOLUTION:

- (i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.
Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1).
As per section 14A, no deduction is allowable in respect of exempt income.
- (ii) Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per section 9(1)(vi)(b), since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.
- (iii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market.
Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

ILLUSTRATION 36 [Repeated]

ILLUSTRATION 37 [Repeated]

ILLUSTRATION 38

Block exists but there is no WDV: Mr. Prakash has the following assets which are eligible for depreciation at 15% on Written Down Value (WDV) basis:

01-04-2022	WDV of plant 'X' and Plant 'Y'	₹ 2,00,000
10-12-2025	Acquired a new plant 'Z' for	₹ 2,00,000
22-01-2026	Sold Plant 'Y' for	₹ 4,00,000
Expenditure incurred in connection with transfer		₹ 10,000

Compute eligible depreciation claim/chargeable capital gain if any. (7 Marks, PCC May 2010)



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SOLUTION:

Computation of capital gain/depreciation claim of Mr. Prakash (amount in ₹) -

Particulars	₹	₹
Sale proceeds of Plant Y		4,00,000
Less: Deduction under section 50(1)		
Purchase of new Plant 'Z'	2,00,000	
WDV as on 1-4-2024 of Block comprising of Plants 'X' and 'Y' [WN-1]	1,22,825	
Expenditure incurred in connection with such Transfer	10,000	3,32,825
Short-term capital gains for 2025-26 (Assessment Year 2026-27)		67,175

Working Notes:

(1) Computation of WDV:

Particulars	₹
WDV as on 1-4-2022 of Block comprising of Plants 'X' and 'Y'	2,00,000
Less: Depreciation for previous year 2022-23 @ 15%	30,000
WDV as on 1-4-2023	1,70,000
Less: Depreciation for previous year 2023-24 @ 15%	25,500
WDV as on 1-4-2024	1,44,500
Less: Depreciation for previous year 2024-25 @ 15%	21,675
WDV as on 1-4-2025	1,22,825

(2) Since the block is reduced to Nil, hence, no depreciation shall be admissible for assessment year 2026-27.

ILLUSTRATION 39

Computation of depreciation: From the following data, calculate the depreciation admissible to an individual carrying on trading business :

Particulars	₹
Factory Building (WDV)	5,00,000
Plant and Machinery (WDV):	8,00,000
Additions-30-06-2025	1,00,000
31-12-2025	1,00,000
Sales-01-12-2025	6,00,000
Computer Addition 1-1-2026 (60,000 is paid through A/c payee cheque and balance in cash)	80,000
Furniture and Fixtures (WDV)	1,00,000
Motor-car (WDV)	60,000

SOLUTION

The admissibility of depreciation shall be computed as follows (amount in ₹)-

Particulars	Block 1 Plant &	Block 2- Furniture & Fittings	Block 3- Factory	Block 5 Computer (40%)



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	Machinery & Motor Car(15%)	(10%)	Building (10%)	
WDV as on 1-4-2025	8,60,000	1,00,000	5,00,000	Nil
Add: Actual cost of asset acquired during the year - 30-06-2025	1,00,000	Nil	Nil	Nil
31-12-2025 & 1-1-2026	1,00,000	Nil	Nil	Nil
	10,60,000	1,00,000	5,00,000	Nil
Less: Sales (1-12-2025)	6,00,000	Nil	Nil	Nil
WDV as on 31-3-2026	4,60,000	1,00,000	5,00,000	60,000
Less: Depreciation at block rate	61,500	10,000	50,000	12,000
WDV as on 1-4-2026	3,98,500	90,000	4,50,000	48,000

Working Notes:

- (1) Since assessee is carrying on trading business, no additional depreciation is admissible.
- (2) Since the new plant acquired during the previous year is put to use for less than 180 days depreciation on such plant is calculated at half of the block rate. Hence, depreciation on Plant & Machinery and motor car = 15% of ₹ 3.6 lakh +50% of 15% of 1 lakh (since used for less than 180 days) = 61,500
- (3) Though purchase price of computer is 80,000 but 20,000 is paid in cash, hence its actual cost will be 80,000 - 20,000 = ₹ 60,000. Since the new computer acquired during the previous year is put to use for less than 180 days, hence depreciation on such computer is calculated at half of the block rate. Depreciation on computer = 50% of 40% of 60,000 = ₹12,000.

ILLUSTRATION 40 [Repeated]

ILLUSTRATION 41

Computation of depreciation: Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days.

He has purchased a car on 21-09-2025, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed.

He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the assessment year 2026-27, if this is the only asset in the block.

If this car were to be used in the subsequent assessment year 2027-28 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

(4 Marks, Nov. 2018-NS)

SOLUTION



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According to Section 32, if an asset is acquired by the assessee during the previous year and the same is put to use for less than 180 days during that previous year, then the depreciation will be limited to 50% of the depreciation allowable on such asset as per the rate prescribed in Rule 5(1). Since the car was ready for use for more than 180 days, the date of purchase being 21-09-2025 (the date when car was put to use), hence depreciation will be allowed on such car at full rate.

Since, no input tax credit is admissible of CGST and SGST paid in respect of motor vehicles (subject to certain exceptions), the actual cost of car shall be 15,36,000.

Where any motor car is not exclusively used for the purposes of business or profession, then the deduction u/s 32 shall be restricted to a fair proportionate part thereof which is used for the purpose of business. The amount of depreciation actually allowed shall be reduced from the written down value to find out depreciated value of the block of asset.

Thus, taking into account the above observations depreciation shall be computed as under (amount ₹)

Particulars	₹	₹
Assessment Year 2026-27:		
Actual cost of car		15,36,000
Less: Depreciation @ 15% of 15,36,000	2,30,400	
Less: Disallowed as per Section 38(2) for personal use [25%]	57,600	1,72,800
Depreciated value of the block at the end of year		13,63,200
Assessment Year 2027-28:		
Depreciated value of the block at the beginning of year		13,63,200
Less: Depreciation @ 15% of 13,63,200	2,04,480	
Less: Disallowed as per Section 38(2) for personal use [25%]	51,120	1,53,360
Depreciated value of the block at the end of year		12,09,840
Thus, depreciation allowable for A.Y. 2026-27 is 1,72,800 and for A.Y. 2027-28 is 1,53,360.		

ILLUSTRATION 42

Apportionment of Depreciation: Sai Ltd. has a block of assets carrying 15% rate of depreciation, whose written down value on 01-04-2025 was 40 lacs. It purchased another asset of the same block on 01-11-2025 for 14.40 lacs and put to use on the same day. Sai Ltd. was amalgamated with Shirdi Ltd. with effect from 01-01-2026.

Compute the depreciation allowable to Sai Ltd. & Shirdi Ltd. for the previous year ended on 31-03-2026 assuming the assets transferred of Shirdi Ltd. at 60 lacs. (8 Marks, IPCC Nov. 2010)

SOLUTION

The amount of depreciation in any previous year, on tangible and intangible assets, allowable to amalgamating company and amalgamated company shall not exceed the depreciation calculated at prescribed rates, had such amalgamation not taken place. Such depreciation determined shall be apportioned between amalgamating company and amalgamated company, in the ratio of the number of days of use of assets by them during that previous year.

Apportionment of Depreciation: Number of days in the year = 365; Date of amalgamation = 01-01-2026

Asset	Total Depreciation	Total Days Used	Days used by Sai	Days used by Shirdi	Sai Ltd.	Shirdi Ltd.



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(a) On opening balance [WN-1]	6,00,000	365	275	90	4,52,055	1,47,945
(b) Additions made by Sai Ltd. [WN-2]	1,08,000	151	61	90	43,629	64,371
Total	7,08,000				4,95,684	2,12,316

Working Notes:

(1) Statement showing computation of depreciation:

Particulars	₹
WDV as on 1-04-2025	40,00,000
Add: Actual cost of asset acquired during the year (used for less than 180 Days)	14,40,000
Depreciation on 40,00,000 @ 15%	6,00,000
Depreciation on 14,40,000 @ 7.5%	1,08,000

(2) The price at which the assets were transferred, i.e., 60 lacs, has no effect on depreciation.

ILLUSTRATION 43

Computation of depreciation and additional depreciation: Venus Ltd., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai (for the year ending 31-03-2026):

Opening WDV of Plant and Machinery = ₹ 20

New machinery purchased on 1-9-2025 = ₹ 10

New car purchased on 1-12-2025 = ₹ 8

Computer purchased on 3-1-2026 = ₹ 4

Additional information:

- ♦ All assets were put to use immediately.
- ♦ Computer has been installed in the office.
- ♦ During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2024, for 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- ♦ Depreciation rate of machinery may be taken as 15%.

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 31-3-2026. **(8 Marks, May 2016)**

Solution: Computation of depreciation and the WDV of different blocks of asset as on 31-03-2026 (amount in ₹):

Particulars	Block I (Plant & Machinery) & (Car) Block Rate 15%	Block II (Computer) Block Rate 40%
Opening WDV [Opening WDV in case of car is Nil]	20,00,000	Nil
Add: Assets acquired during the previous year (10,00,000 + 8,00,000)(Computer = 4,00,000)	18,00,000	4,00,000
Less: Moneys payable in respect of assets sold during the year	Nil	Nil
WDV as on 31-3-2025 eligible for depreciation	38,00,000	4,00,000
Less:		
(a) Normal Depreciation - On car (8,00,000 × 7.5%, since used for less than 180 days and balance WDV i.e.	5,10,000	80,000



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30,00,000 × 15%) - On Computer (4,00,000 × 40% × 50%, since used for less than 180 days)		
(b) Additional Depreciation - On plant (10,00,000 × 20%, since used for more than 180 days) [WN]	2,00,000	-
(c) Additional Depreciation - On plant (10,00,000 × 10%, since purchased in FY2024-25 and put to use for less than 180 days) [WN]	1,00,000	
WDV as on 1-4-2026	29,90,000	3,20,000

Working Notes:

- (1) In case of new machinery of 20,00,000, additional depreciation is calculated @ 20% of actual cost since the asset is acquired during the previous year and put to use for a period of not less than 180 days.
- (2) Since the computer is installed in office building, the same shall not be eligible for additional depreciation.
- (3) Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business for a period of less than 180 days in that previous year, and the additional depreciation in respect of such asset is restricted to 10% of the actual cost for that previous year, then, the deduction for the balance additional depreciation i.e. 10% of the actual cost of such asset shall be allowed in the immediately succeeding previous year in respect of such asset. Hence, on plant of 10,00,000 which was purchased in FY 2024-25 and put to use for less than 180 days in that year, the remaining additional depreciation @ 10% is allowed in FY 2025-26.

ILLUSTRATION 44

Computation of depreciation and additional depreciation: Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2025-26:

- (i) Opening WDV of block (15% rate) = ₹ 42
- (ii) New machinery purchased on 12-10-2024 = ₹ 10
- (iii) Machinery imported from Colombo on 12-04-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India. = ₹ 9
- (iv) New computer installed in generation wing of the unit on 15-07-2024. = ₹ 2

SOLUTION

Computation of depreciation (amount in ₹):

Particulars	Block I (Plant) Block Rate 15%	Block II (Computer) Block Rate 40%
Opening WDV	42,00,000	Nil
Add: Assets acquired during the previous year (10,00,000+ 9,00,000)	19,00,000	2,00,000
Less: Moneys payable in respect of assets sold during the year	Nil	Nil
WDV as on 31-3-2025 eligible for depreciation	61,00,000	2,00,000
Less: (a) Normal Depreciation - On plant (10,00,000 ×	8,40,000	80,000



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7.5%, since used for less than 180 days and balance WDV i.e. $51,00,000 \times 15\%$ - On Computer ($2,00,000 \times 40\%$)		
(b) Additional Depreciation - On plant ($10,00,000 \times 10\%$, since used for less than 180 days) - On computers ($2,00,000 \times 20\%$) [WN]	1,00,000	40,000
WDV as on 1-4-2025	51,60,000	80,000

Working Notes:

- No Additional depreciation shall be allowed in respect of Machinery imported from Colombo which before its installation by the assessee, was used by any other person.
- In case of new machinery of 10,00,000, additional depreciation is calculated @ 10% of actual cost since the asset is acquired during the previous year and put to use for a period of less than 180 days. The balance additional depreciation amounting 1,00,000 will be allowed in the immediately succeeding previous year.
- Since the computer is installed in generation wing of the unit, the same shall be eligible for additional depreciation @20% i.e. $2,00,000 \times 20\%$ 40,000.

ILLUSTRATION 45

Expenditure on Scientific research: Vivitha Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	₹
31-03-2023	Land	10,00,000
(incurred after 1-9-2022)	Building	25,00,000
31-03-2024	Plant and machinery	5,00,000
31-03-2025	Raw materials	2,20,000
31-03-2026	Raw materials and salaries	1,80,000

The business was commenced on 01-09-2025. In view of availability of better model plant and machinery, the existing plant and machinery were sold for 8,00,000 on 01-03-2026.

Discuss the implications of the above for assessment year 2026-27 along with brief computation of deduction permissible under section 35, assuming that necessary conditions have been fulfilled.

(7 Marks, PCE Nov. 2007)

SOLUTION

Expenditure incurred (other than cost of land or building) on in-house research and development facility as approved by the prescribed authority, by a company engaged in the business of bio-technology shall be allowed as deduction to the extent of 100% of such expenditure under section 35(2AB).

Expenditure incurred within the 3 years preceding the date in which the business commences, on salary paid to an employee engaged in such scientific research or on the purchase of materials used in such scientific research, or capital expenditure (other than cost of land), shall be allowed as deduction, to the extent of 100% of such expenditure (allowed in the previous year i.e. year of commencement of business). The relevant computation is as under-

Computation of amount of deduction under section 35 (amounts in ₹)

Particulars	Expenditure allowable u/s	Expenditure allowable u/s 35(2AB) at 100%



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Land	-	-
Building	25,00,000	-
Plant and Machinery	5,00,000	-
Raw material	2,20,000	-
Raw material and salaries		1,80,000
Eligible expenditure	32,20,000	1,80,000
Deduction allowable	32,20,000	1,80,000
Total deduction allowable u/s 35		34,00,000

- When the asset is sold without being used for other purposes: In such a case, there shall be deemed profits in the year in which sale took place.
 - The taxable amount under section 41(3) shall be = So much of the sale proceeds which do not exceed the amount of deduction allowed under section 35 i.e. 5 lakhs.
 - Capital gains under section 45 Excess of sale proceeds over the cost of acquisition and expenditure incurred on transfer. Short-term capital gains = Moneys payable - Cost = 8 lakhs - 5 lakhs = 3 lakhs.

ILLUSTRATION 46

Consequences of mis-utilisation of asset whose deduction is claimed u/s 35AD: XYZ Ltd. commenced business of production of fertilizer on 1-4-2023. The company purchased plant and machinery for manufacture of the fertilizer amounting 100 lakhs for which deduction was claimed under Section 35AD. In financial year 2025-26 the said asset was used for non specified business. You are required to determine the tax implications of the said transaction in hands of XYZ Ltd.

SOLUTION

According to Section 35AD(7B), if any asset is used for any purpose other than the specified business, the total amount of deduction so claimed and allowed in any previous year in respect of such asset, as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction had been allowed under section 35AD, shall be deemed to be income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which the asset is so used. Hence, the relevant computation will be as under:

Particulars	₹ in lakh
Total amount of deduction claimed and allowed in respect of such asset u/s 35AD	100
Less: Depreciation eligible under Section 32 in respect of such asset [WN]	44.75
Deemed profits u/s 35AD	55.25

Particulars	₹ in lakh
Actual Cost of asset	100
Less: Depreciation eligible under Section 32 (including additional depreciation) for FY 2023-24	35
WDV	65
Less: Depreciation eligible under Section 32 for FY 2024-25	9.75
WDV as on 01-04-2025	55.25

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Deduction admissible on account of depreciation for FY 2023-24 and 2024-25

44.75

ILLUSTRATION 47

Allowable expenditure: Discuss the tax implications of the following in the case of a doctor running a nursing home (amount in ₹):

- 1) Amount paid to a scientific research association approved by the Central Government and run by a drug manufacturing company = ₹ 20,000
- 2) Payments made in cash towards purchases of medicines = ₹ 50,000
- 3) Amounts received from the employees of the nursing home as contributions towards Provident Fund for the month of March 2025, paid to the P.F. Commissioner on 25-4-2025 = ₹ 25,000

SOLUTION

Tax implications of the following in the case of a doctor running a nursing home (amounts in -

Cases	Deduction
1) Amount paid to a scientific research association approved by the Central Government and run by a drug manufacturing company [WN-1]	20,000
2) Payments made in cash towards purchases of medicines [WN-2]	Nil
3) Amounts received from the employees of the nursing home as contributions towards Provident Fund [WN-3]	Nil

Working Notes:

- (1) 100% of such expenditure is allowable as deduction under section 35(1)(ii) i.e. 100% of 20,000 = 20,000
- (2) Such cash payments are not allowable under section 40A(3) since the same exceeds 10,000.
- (3) The amount received will be first included in income of the assessee and then deduction shall be allowed under section 36(1)(va) if payment is made on or before due date of relevant fund i.e. 15-04-2025 + 5 days. In this case since payment was made on 25-04-2025 therefore no deduction shall be allowed under section 36(1)(va).

ILLUSTRATION 48

Deduction on payment basis: An analysis of the profit and loss account and the balance sheet of Kapil as at 31 March, 2026 reveals that the following expenses which were due, were though debited to the profit and loss account, but have been paid after 31 March, 2026:

- (i) Goods and Services Tax: 50,000 (20,000 paid on 14th September, 2026; and 30,000 paid on 15th December, 2026)
- (ii) Customs duty: 1,20,000 (40,000 paid on 14th September, 2026; 40,000 paid on 15th December, 2026; and 40,000 paid on 24th December, 2026).
- (iii) Bonus to staff: 60,000 (58,000 paid on 10th September, 2026; & 2,000 paid on 15th December, 2026).
- (iv) Employer's contribution to provident fund: 55,000 (25,000 paid on 15th July, 2026; 10,000 paid on 30th September, 2026; and 20,000 paid on 15th December, 2026).
- (v) Interest on term loan from cooperative bank: 1,50,000 (1,20,000 paid on 14th July, 2026; and 30,000 paid on 15th December, 2026).

The due date for filing of return is 31st October, 2026. In which previous years can the above payments be claimed as a deduction?
(Modified CS Dec. 2004)



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SOLUTION

The aforesaid amounts shall be deductible as follows -

Expenses	Amount of Expenditure	Date of payment	Amount of payment	Previous year in which deductible
Goods and Services Tax	50,000	14-09-2026	20,000	2025-26
		15-12-2026	30,000	2026-27
Customs duty	1,20,000	14-09-2026	40,000	2025-26
		15-12-2026	40,000	2026-27
Bonus to staff	60,000	10-09-2026	58,000	2026-27
		15-12-2026	2,000	2025-26
Employer's contribution to PF	55,000	15-07-2026	25,000	2025-26
		30-09-2026	10,000	2025-26
		15-12-2026	20,000	2026-27
Interest on term loan from cooperative bank	1,50,000	14-07-2026	1,20,000	2025-26
		15-12-2026	30,000	2026-27

ILLUSTRATION 49

Applicability of Section 43CA: Mr. Ramesh, a property dealer, purchased a building on 15 July 2025 for a sum of 65 lakh. The said building was sold by him during the course of his business to his friend Mahesh, who is a dealer in cosmetic goods, for 90 lakh on 1-1-2026, when the stamp duty value was 185 lakh. The agreement was entered on the same day and the property was registered on the same day. Discuss tax implications in hands of Ramesh.

What would be your answer if the agreement was entered into on 1-7-2025 when the stamp duty value was 120 lakh. Mr. Ramesh had received a down payment of 15 lakh by cheque from Mahesh on the date of agreement. Will your answer change if the said sum of 15 lakhs has been received by cash instead of cheque.

SOLUTION

The tax implications in hands of Ramesh shall be as under

Case I: In case the agreement has been entered on the date of sale and property has been registered on the same day: The provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value on the date of registration of property and the stamp duty value exceeds 110% of the consideration. Therefore, 120 lakh, being the difference between the stamp duty value on the date of registration (i.e., 185 lakh) and the purchase price (i.e. 65 lakh), would be chargeable as business income in the hands of Mr. Ramesh.

Case II: In case the agreement has been entered on 1-7-2025: In this case the stamp duty value on the date of agreement will be considered to compute business profits since, Mr. Ramesh had received a down payment of ₹ 15 lakh by cheque from Mahesh on the date of agreement and stamp duty does exceeds 110% of the consideration received or accruing as a result of the transfer. Therefore, 55 lakh, being the difference between the stamp duty value on the date of agreement (i.e. 120 lakh) and the purchase price (i.e. ₹ 65 lakh), would be chargeable as business income in the hands of Mr. Ramesh.



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Yes, the answer will change in case if on the date of agreement cash has been received instead of cheque. In such case stamp duty value on the date of agreement shall not be considered but the stamp duty value on the date of registration of property shall be considered and the business profits shall be ₹ 120 lakhs.

ILLUSTRATION 50

Presumptive basis taxation Section 44AD: Mr. Querashi is a business man. During the year ended 31-03-2026 he was engaged in the business of Hypermarket and Super Market. He maintains proper books of accounts for both businesses in mercantile system. Sales from Hypermarket achieved a turnover of ₹ 75 lakhs and all receipts were in cash. However, Supermarket business is through online and entire receipts of ₹ 50 lakhs during the year were received though online in his bank account. The expenses were incurred in the ratio 65:35.

Following additional information is furnished:

To Salary = ₹ 10,00,000

To Repairs on building = ₹ 1,81,000

To Interest = ₹ 1,10,000

To Travelling = ₹ 1,30,550

To Depreciation = ₹ 8,12,000

Net profit = ₹ 3,93,950

- (a) In addition to the above, repairs of ₹ 1,00,000 was incurred for building a new room which was debited to P&L a/c.
- (b) Depreciation as per Income-tax Act is 7,17,000.
- (c) ₹ 75,000 was paid in cash on 30-09-2025 to Mrs. Ann, accountant for preparation of the accounts for the year ended 31-03-2025 and adjusted under the head "expenses payable" account.
- (d) He was forced to shutdown his furniture business in the year 2022 as his accountant absconded with cash of 5 lakhs and fully allowed in that year. Unabsorbed business loss of furniture business is 3 lakhs. 4 lakhs was received as insurance compensation on 31-03-2026 for the cash theft.
- (e) Mr. Querashi wants to declare income under "Presumptive income" basis. Compute the income chargeable under the head profits and gains of business or profession of Mr. Querashi under Presumptive Income scheme u/s 44AD and his Total Income for the year ended 31-03-2026.
(10 Marks, May 2018)

SOLUTION

- (1) As per Section 44AD, in case of an eligible assessee engaged in an eligible business
 - (a) a sum equal to 8% of the total turnover or gross receipts of the assessee in the previous year on account of such business (6% of the amount of total turnover or gross receipts which is received by an account payee cheque or an account payee bank draft or use of electronic clearing system through a bank account during the previous year or before the due date specified in Section 139(1) in respect of that previous year); or
 - (b) a sum higher than the aforesaid sum claimed to have been earned by the eligible assessee, shall be deemed to be the profits and gains of such business chargeable to tax under the head "Profits and gains of Business or Profession".
- (2) Any deduction allowable under the provisions of Sections 30 to 38 (including unabsorbed depreciation, unabsorbed capital expenditure on scientific research/ family planning) shall be deemed to have been already deducted and no further deduction under those sections shall be allowed. Thus, His Presumptive Income under section 44AD is as under = 8% of turnover of 75,00,000 + 6% of turnover of 50,00,000 = ₹ 900,000.



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Particulars	₹	₹
Presumptive Income under Section 44AD		9,00,000
Furniture business Recovery against deduction taxable as business profits [WN-1]	4,00,000	
Less: Unabsorbed business loss as per Section 41(5) [WN-2]	3,00,000	1,00,000
Profits and Gains of Business and Profession/Total Income		10,00,000

In the question it is stated that Mr. Querashi "maintains proper books of accounts for both businesses in mercantile system". The income as per regular books of account has to be computed and if such income is more than the presumptive income computed under section 44AD, the higher income can be declared under section 44AD. Hence, income of Mr. Querashi for the assessment year 2026-27 as per books of account is computed below: (amount in ₹)

Particulars	₹	₹
Income under the head Profits & Gains of Business and Profession Net profit as per Profit and Loss Account	3,93,950	
Add: Expenses not allowable		
Depreciation debited in Profit and loss Account	8,12,000	
Cash payment in excess of 10,000 made in a day in the current year in respect of expenditure allowed on mercantile basis in the previous year, would be deemed as income in the current year	75,000	
Building construction expenditure debited to P & LA/c	1,00,000	13,80,950
Less: Expenses allowable under this head		
Depreciation as per Income-tax Act, 1961	7,17,000	
Depreciation on building extension of a room @ 10%	10,000	7,27,000
Profits and gains of business computed as per books of account		6,53,950

Note: The assessee's total income from hypermarket and supermarket business computed as per books of account is less than the income computed under section 44AD. The question states that the assessee wants to declare income under presumptive provision i.e. section 44AD. Hence, the total income computation would include only the presumptive income computed under section 44AD for both hypermarket and supermarket businesses.

Computation of Total Income (amount in ₹)

Particulars	₹	₹
Presumptive Income under Section 44AD		9,00,000
Furniture business Recovery against deduction taxable as business profits [WN-1]	4,00,000	
Less: Unabsorbed business loss as per Section 41(5) [WN-1]	3,00,000	1,00,000
Profits and Gains of Business and Profession/Total Income		10,00,000

Working Note:

- (1) As per provisions of Section 41(1), recovery of any amount in respect of any loss which was earlier claimed as deduction is chargeable to tax under the head Profits and gains of business whether the business is in existence or not. Hence, 4,00,000 shall be treated as taxable profits.
- (2) As per Section 41(5), where the business or profession is no longer in existence; and there is income chargeable to tax under section 41(1) in respect of that business or profession any loss, not being a loss sustained in speculation business, which arose in that

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business or profession during the previous year in which it ceased to exist and which could not be set off against any other income of that previous year shall be set off against such deemed profits to the extent of such profits. Thus, loss of 3,00,000 shall be set-off from such recovery of 4,00,000 and balance amount will be taxable.

ILLUSTRATION 51

Presumptive basis u/s 44ADA: Ms. Kriti is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended 31 March, 2026 reads as follows:

Expenditure	₹	Income	₹	₹
Salary to staff	5,50,000	Fees earned:		
Stipend to articled assistants	37,000	Audit	17,88,000	25,98,300
Incentive to articled assistants	3,000	Taxation services	5,40,300	
Office rent	24,000	Consultancy	2,70,000	
Printing and stationery	22,000	Dividend on shares of Indian companies (Gross)		10,524
Meeting, seminar and conference	31,600	Income from units of mutual fund (Gross)		7,600
Purchase of car	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance	4,000	Rent received from residential flat let out		85,600
Travelling expenses	35,000			
Municipal tax paid in respect of house				
Property	3,000			
Net Profit	19,28,224			
	27,17,824			27,17,824

Other Information:

- Allowable rate of depreciation on motor car is 15%.
- Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt
- Salary include 15,000 to a computer specialist in cash on 15-07-2025 for assisting Ms. Kriti in one professional assignment.

On the basis of above information, determine whether Ms. Kriti should opt for presumptive basis taxation for computation of her Gross Total Income for assessment year 2026-27.

SOLUTION

Computation of the Gross Total Income for the assessment year 2026-27

- CASE I:** When Ms. Kriti opt for the provisions of Section 44ADA: Computation of gross total income (amounts in ₹)

Particulars	₹	₹
Income from house property:		



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Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Standard deduction u/s 24 @ 30% of NAV	24,780	57,820
Income under the head Profits & Gains of Business and Profession 50% of the Gross receipts i.e. 50% of 25,98,300 is deemed profits from profession under Section 44ADA		12,99,150
Income from other sources:		
Dividends from Indian companies [Taxable in hands of shareholder]	10,524	
Income from Unit Trust of India. [Taxable in hands of unit holder]	7,600	
Honorarium for valuation of answer papers	15,800	33,924
Gross Total Income		13,90,894

CASE II: When income is computed as per normal provisions of the Act.

Computation of gross total income (amounts in ₹):

Particulars	₹	₹
Income from house property:		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Standard deduction u/s 24 @30% of NAV	24,780	57,820
Income under the head Profits & Gains of Business and Profession		
Net profit as per Income and Expenditure Account	19,28,224	
Add: Expenses debited but not allowable -		
Municipal Taxes of house property in respect of residential flat let out	3,000	
Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment is in excess of 10,000	15,000	
Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
Less: Income credited but not taxable under this head Dividend on shares of Indian Companies [The same taxable under the head Income From Other Sources]	10,524	
Income from Unit Trust of India [The same taxable under the head Income From Other Sources]	7,600	
Honorarium for valuation of answer papers [The same is taxable under the head 'Income from other sources']	15,800	
Rent received from residential flat let out [The same is taxable under the 'Income from house property']	85,600	
Depreciation on Motor Car @ 15% [WN]	12,000	18,94,700
Income from other sources:		
Dividends from Indian companies [Taxable in hands of shareholder]	10,524	
Income from Unit Trust of India. [Taxable in hands of shareholder]	7,600	

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Honorarium for valuation of answer papers	15,800	33,924
Gross Total Income		19,86,444

Working Note: It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Conclusion: The assessee should opt for the provisions of Section 44ADA since her income from profession as per the said section is ₹12,99,150 which is less than actual income of 18,94,700.

ILLUSTRATION 52

Income from plying goods carriages: Ramamurthy had 4 light goods vehicles as on 1-4-2025. He acquired 7 light goods vehicles on 27-6-2025. He sold 2 light goods vehicles on 31-5-2025. He has brought forward business loss of 50,000 relating to A.Y. 2022-23 of a discontinued business. Assuming that he opts for presumptive taxation of income as per section 44AE, compute his total income chargeable to tax.
(4 Marks, PCC May 2011)

SOLUTION

In this case, section 44AE shall apply because Ramamurthy didn't have more than 10 vehicles at any time during the previous year.

The relevant computations are

No. of light Goods Vehicle	Period during which owned	No. of months	Rate p.m.	Amount ₹
2	01-04-2025 to 31-03-2026	12	7,500	1,80,000
2	01-04-2025 to 31-05-2025	2	7,500	30,000
7	27-06-2025 to 31-03-2026	10	7,500	5,25,000
Profits from the business referred to u/s 44AE				7,35,000
Less: Set-off of the brought forward business loss				50,000
Total Income				6,85,000

As per provision of Section 44AE, the computed income is profits and gains of business or profession. Hence, the assessee will be entitled to set off other business loss from such presumptive income.

ILLUSTRATION 53

Presumptive incomes under section 44AD & 44AE: Mr. R furnishes you the following information for the year-ended 31-3-2026 (amounts in ₹):

- Income from plying of vehicles (computed as per books) (He owned 10 light goods vehicle throughout the year) = ₹ 10,10,000
- Income from retail trade of garments (computed as per books) (Sales turnover 1,81,70,000) = ₹ 11,00,000
- Brought forward depreciation relating to assessment year 2025-26 = ₹ 2,20,000
- Amount deposited into PPF Account on 06-04-2026 = ₹ 1,00,000

Compute taxable income of Mr. R and his tax liability if sale proceeds of garments is received through account payee cheque and he has not opted for the provisions of Section 115BAC.

(May 2004)

SOLUTION

If Mr. R opts for presumptive taxation under section 44AD and 44AE, then, any deduction allowable under the provisions of Sections 30 to 38 (including unabsorbed depreciation, unabsorbed capital expenditure on scientific research/ family planning) shall be deemed to have



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been already deducted and no further deduction under those sections shall be allowed. The relevant computation is as under:

Computation of taxable income of R and his tax liability (amounts in ₹) -

Particulars	Presumptive taxation	Income as per books
Income from plying of vehicles (7,500 × 12 × 10)	9,00,000	10,10,000
Income from retail trade business (6% of 1,81,70,000) (Since sale proceeds are received through account payee cheque)	10,90,200	11,00,000
	19,90,200	21,10,000
Less: Unabsorbed depreciation	-	2,20,000
Gross total income	19,90,200	18,90,000
Gross total income [WN-1]		18,90,000
Less: Deduction u/s 80C in respect of PPF [WN-2]		Nil
Taxable income		18,90,000
Income tax on total income		1,78,000
Add: HEC @ 4%		7,120
Tax liability (rounded off)		1,85,120

Working Notes:

- (1) Since total income as per books of accounts is lower than presumptive income under section 44AD and Section 44AE, therefore, Mr. R should claim his income as per books and get his such books of accounts audited.
- (2) Deduction in respect of PPF is not allowable under default tax regime.

ILLUSTRATION 54

Presumptive incomes under section 44AE: Mr. Prakash is in the business of operating goods vehicles. As on 1 April, 2025, he had the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2024-25
A	8,500	02-04-2024	Yes
B	13,000	15-05-2024	Yes
C	12,000	04-08-2024	No (as under repairs)

During P.Y. 2025-26, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11,000	30-04-2025	10-05-2025
E	15,000	15-05-2025	18-05-2025

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2026-27.

(4 Marks, Nov. 2019)

SOLUTION

Since Mr. Prakash does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and 7,500 per month or part of month for each goods carriage other than heavy goods



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vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg. Computation of income u/s 44AE:

Type of Carriage	Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	Deemed income per month	Amount ₹
For Heavy goods Vehicle	B	15-05-2024	12	13,000	1,56,000
	E	15-05-2025	11	15,000	1,65,000
For goods vehicle other than heavy goods vehicle	A	02-04-2024	12	7,500	90,000
	C	04-08-2024	12	7,500	90,000
	D	30-04-2025	12	7,500	90,000
Profits from the business referred to u/s 44AE					5,91,000

ILLUSTRATION 55

Computation of Business and agricultural Income: Mr. Tony had estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31-3-2026, he furnishes the following particulars of his sources of income from estates and sale of plants

Particulars	₹
(a) Manufacture of Rubber	5,00,000
(b) Manufacture of Coffee grown and cured	3,50,000
(c) Manufacture of Tea	7,00,000
(d) Sale of plants from nursery	1,00,000

You are requested to compute the taxable income.

(5 Marks, CA PE-II Nov. 2004)

SOLUTION

Computation of taxable income of Tony (amount in ₹)-

Particulars	Business income	Agricultural income
Income from growing and manufacturing rubber (Rule 7A) - 35% : 65%	1,75,000	3,25,000
Income from growing and curing coffee (Rule 7B) - 25%:75%	87,500	2,62,500
Income from growing and manufacturing tea (Rule 8) 40% : 60%	2,80,000	4,20,000
Sale of plants from nursery (It is an agricultural income)	Nil	1,00,000
Total	5,42,500	11,07,500

Hence, total income of Mr. Tony = 5,42,500.

ILLUSTRATION 56 [Repeated]

ILLUSTRATION 57



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Computation of tax liability in case of Business income & Other income: Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2024-25. Compute his tax liability if he has not opted for the provisions of Section 115BAC.

Particulars	₹
(a) Income from salary (Computed)	₹ 3,80,000
(b) Income from house property (computed)	₹ 2,00,000
(c) Agricultural income from a land in Jaipur	₹ 2,80,000
(d) Expenses incurred for earning agricultural income	₹ 1,70,000

SOLUTION

Computation of total income of Mr. X for the A.Y. 2025-26 (amount in ₹)

Income from salary (Computed)		3,80,000
Income from house property		2,00,000
Net agricultural income [2,80,000 - 1,70,000]	1,10,000	
Less: Exempt under section 10(1)	-1,10,000	
Gross Total Income		5,80,000
Less: Deductions under Chapter VI-A		
Total Income		5,80,000

Computation of tax payable by Mr. X (amounts in ₹)

Particulars	₹
Tax on business income including agricultural income (5,80,000+ 1,10,000)	50,500
Less: Tax on agricultural income + basic exemption (1,10,000+2,50,000)	5,500
Tax payable	45,000
Add: HEC@ 4%	1,800
Tax liability (rounded off)	46,800

ILLUSTRATION 58

Computation of Business and agricultural Income: Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 40% of paddy produce is ₹ 7,00,000 which is sold for 15,00,000; and the cost of cultivation of balance 60% of paddy is 12,00,000 and the market value of such paddy is 24,00,000. To manufacture the rice, he incurred ₹ 2,00,000 in the manufacturing process on the balance (60%).

(4 marks, Nov 2016)

Solution

Computation of Business income and Agriculture Income of Mr. Kamal (amount in ₹)

Particulars	₹	₹
Agricultural Income:		
Sale value of paddy	15,00,000	
Less: Cost of Cultivation	7,00,000	8,00,000
Market value of paddy used for production of rice	24,00,000	
Less: Cost of Cultivation	12,00,000	12,00,000
Business Income:		
Sale Value of Rice	30,00,000	



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Less: Cost of Paddy [Market Valued Paddy is taken for computing Business Income as u/r 7]	24,00,000	
Less: Further Processing Cost [Note: These are processing Costs, not Agri. Operations]	2,00,000	4,00,000

ILLUSTRATION 59

Expenditure on Scientific research : Mr. Rao furnished the following information regarding the payments made towards Scientific Research during the financial year 2025-26 :

- Revenue expenditure on Scientific Research incurred during the year ₹ 1,00,000.
 - Capital Expenditure for Scientific Research ₹ 3,00,000.
 - Contribution to Notified approved research association ₹ 1,50,000.
 - Amount paid to H Limited an Indian company which has as its main object scientific research and approved by the prescribed authority ₹ 2,50,000.
 - Expenditure of ₹ 2,50,000 towards purchase of Land for scientific research.
 - He also incurred revenue expenditure of ₹ 2,00,000 towards salary of research staff in the F.Y. 2024-25 (before commencement of business) and certified by the prescribed authority.
- Compute the deduction allowable u/s 35 for the assessment year 2026-27, assuming, that he has not opted for default tax regime u/s 115BAC. **(4 Marks, May 2024)**

SOLUTION

Computation of deduction allowable u/s 35 for the A.Y. 2026-27

	Particulars	₹
(i)	Revenue expenditure on scientific research allowable as deduction u/s 35(1)(i), assuming such expenditure is related to his business.	1,00,000
(ii)	Capital expenditure allowable as deduction u/s 35(1)(iv), assuming such expenditure is incurred for his business.	3,00,000
(iii)	Contribution to notified approved research association for scientific research - 100% of the amount paid is allowed as deduction u/s 35(1)(ii).	1,50,000
(iv)	Amount paid to H Ltd., an Indian company approved by the prescribed authority - 100% of the amount paid is allowed as deduction u/s 35(1)(ia)	2,50,000
(v)	Expenditure towards purchase of land - not allowed as deduction	Nil
(vi)	Revenue expenditure towards salary of research staff incurred in the F.Y. 2024-25 (before commencement of business) - allowed as deduction u/s 35(1)(i) in the P.Y. 2025-26 as it was expended within the 3 years immediately preceding the commencement of business (assuming business is commenced during the P.Y. 2025-26).	2,00,000
	Total deduction allowable	10,00,000

ILLUSTRATION 60

Computation of depreciation - Impact of cash payment on actual cost: From the following data, calculate the depreciation admissible to an individual carrying on trading business :

Particulars	Amount ₹
Plant and Machinery (Block Rate 15%) (WDV of Plant A and Plant B on 01-04-2025)	25,00,000
Additions - Plant C on 30-06-2025 (5,00,000 is paid in cash and balance 10,00,000 is paid through account payee cheque)	15,00,000

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Plant D on 31-12-2025 (4,80,000 is paid in cash and balance 7,20,000 through RTGS transfer)	12,00,000
Sales Plant A on 01-12-2025	6,00,000

SOLUTION

Where the assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account, exceeds 10,000, such expenditure shall be ignored for the purposes of determination of actual cost. Thus, Actual cost of Plant C will be 10,00,000 i.e. [₹15,00,000 - ₹5,00,000] and Plant D will be [₹12,00,000 - ₹4,80,000] = ₹7,20,000

Computation of the amount of depreciation allowable (amounts in ₹)-

Particulars	₹
WDV as on 01-04-2025	25,00,000
Add: Actual cost of asset acquired during the year -	
30-06-2025	10,00,000
31-12-2025	7,20,000
	42,20,000
Less: Sale proceeds of Plant A on 1-12-2025	6,00,000
WDV	36,20,000
Less: Depreciation (7.5% of 7,20,000 and 15% of 29,00,000)	4,89,000
Depreciated value as on 31-03-2026	31,31,000

Working Note: Depreciation is allowed to the extent of 50% as the asset is used for less than 180 days during the previous year. Thus, depreciation on Plant D acquired on 31-12-2025 shall be allowed @ 7.5% of 7,20,000.

ILLUSTRATION 61

WDV exists but there is no asset in the block: WDV of the block as on April 1, 2025 is 15,00,000; rate of depreciation = 15%.

- Assets, falling within the block, are purchased during the year for 5,00,000.
- Sale of entire block = 8,80,000. Determine the tax consequences.

SOLUTION

WDV of the block as on 31st March 2026 (amounts in ₹)-

Particulars	₹
Opening WDV	15,00,000
Add: Actual cost of the asset acquired during the year	5,00,000
	20,00,000
Less: Moneys payable in respect of entire block sold during the year	8,80,000
WDV as on 31-3-2026 (as block ceases to exist)	-
Depreciation admissible	-
Short term capital Loss (20,00,000-8,80,000)	11,20,000

ILLUSTRATION 62



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Section 43A & Section 32: M/s. Y Industries Ltd. purchased a plant worth USD 8 lakh on 1-4-2024 on which date the rate of exchange was 50. The consideration towards the plant was payable in 3 instalments of USD 3 lakh, 2.6 lakh and 2.4 lakh respectively on 1-1-2025, 1-7-2025 and 1-1-2026; the rate of exchange being 52, 48 and 51 respectively. Compute the amount of depreciation allowable on the plant for the two assessment years, assuming the rate of depreciation to be 15%.

SOLUTION

Computation of depreciation on the plant, assuming it to be the only asset in the block

Particulars	₹
Actual cost on the date of acquisition [8 lakh × 50]	4,00,00,000
Add: Forex diff. arising out of increase in liability u/s 43A on 1-1-2025 [3 lakh × (52-50)]	6,00,000
Actual cost for the purposes of section 43(1)/WDV as on 31-3-2025	4,06,00,000
Less: Depreciation @ 35% (Normal @ 15% + Additional @ 20%) - Depreciation will be allowed for the whole of the year, as the asset has been put to use for more than 180 days during the previous year; the date of increase in liability u/s 43A shall not affect depreciation.	1,42,10,000
WDV as on 1-4-2025	2,63,90,000
Less: Forex diff. arising out of decrease in liability u/s 43A on 1-7-2025 [2.6 lakh × (50 - 48)]	5,20,000
Add: Forex diff. arising out of increase in liability u/s 43A on 1-1-2026 [2.4 lakh × (51 - 50)]	2,40,000
WDV as on 31-3-2026	2,61,10,000
Less: Depreciation @ 15%	39,16,500
WDV as on 1-4-2026	2,21,93,500

ILLUSTRATION 63

Apportionment of Depreciation: Mr. Gopi carrying on business as proprietor converted the same into a limited company by name Gopi Pipes (P) Ltd. from 01-07-2025. The details of the assets are given below:

Block - I WDV of plant & machinery (rate of depreciation @ 15%) = ₹ 12,00,000

Block - II WDV of building (rate of depreciation @ 10%) = ₹ 25,00,000

The Company Gopi Pipes (P) Ltd. acquired plant and machinery in December 2025 for ₹10,00,000. It has been doing the business from 01-07-2025.

Compute the quantum of depreciation to be claimed by Mr. Gopi and successor Gopi Pipes (P) Ltd. For the A.Y. 2026-27.

Note: Ignore additional depreciation.

(4 Marks, Nov. 2014)

SOLUTION

The amount of depreciation in any previous year, on tangible and intangible assets, allowable to Sole Proprietor and Private limited company shall be maximum upto the depreciation calculated at prescribed rates, had such conversion not taken place. Such depreciation shall be apportioned between predecessor and successor, in the ratio of the number of days of use of assets by them during that previous year.

Apportionment of Depreciation: No. of days in the year = 365; Date of conversion = 01-07-2025



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Asset	Total Depreciation (WDV on 1-4-2025 Dep. Rate)	Total Days used	Days used by Gopi Proprietor	Days used by Gopi Pipes (P) Ltd.	Allowable Depreciation to Gopi Proprietor	Allowable depreciation Gopi Pipes (P) Ltd.
Buildings	2,50,000	365	91	274	62,329	1,87,671
Plant & Machinery	1,80,000	365	91	274	44,877	1,35,123
New Plant and machinery	75,000	-	-	Less than 180 days	-	75,000
Total	5,05,000				1,07,206	3,97,794

ILLUSTRATION 64

Computation of depreciation and additional depreciation: GP Ltd. was incorporated on 31-12-2024 for manufacture of tyres and tubes for motor vehicles in Rajasthan. The manufacturing unit was set up on 30-4-2025. The company commenced its operations on 01-05-2025. The total cost of the plant and machinery installed in the unit is ₹ 10 crores. The said plant and machinery included second-hand plant and machinery bought for 1 crores and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of 1 crores. Out of the said plant and machinery, new plant and machinery acquired at cost of 2 crores was put to use on 14-12-2025.

Compute the amount of depreciation allowable u/s 32 of the Income-tax Act, 1961 in respect of the assessment year 2026-27 and assessment year 2027-28. Furnish explanations in support of your computation. (4 Marks, May 2007)

SOLUTION

Computation of depreciation allowable for the assessment year 2026-27 to GP Ltd. (crores):

Particulars	(₹ in crores)	
Total cost of plant and machinery	10	
Less: Used for Scientific Research [WN-1]	1	
Cost eligible for normal depreciation	9	
Normal depreciation at 15% of 7 crores (since put to use for not less than 180 days)	1.05	
Normal depreciation at 7.5% of 2 crores (since put to use for less than 180 days)	0.15	1.20
Additional Depreciation :		
Cost of plant and machinery	10	
Less: Second hand plant and machinery [WN-2]	1	
Less: Plant and machinery used for scientific research [WN-2]	1	
Cost eligible for additional depreciation	8	
Additional Depreciation at 20% of actual cost of 6 crores (put to use not less than 180 days)	1.2	
Additional Depreciation at 10% of actual cost of ₹ 2 crores (put to use for less than 180 days)	0.2	1.40



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Depreciation allowable for AY 2026-27 under section 32		2.60
Depreciated value of plant and machinery [9 crores-2.6 crores]		6.40

Computation of depreciation allowable for the assessment year 2027-28 to GP Ltd. (crores):

Depreciated value of Plant and machinery as on 01-04-2026		6.40
Normal depreciation at 15% of ₹ 6.4 crores	0.96	
Additional Depreciation: Cost of plant and machinery [2 crores × 10%] [WN 3]	0.20	1.16
Depreciated value of plant and machinery [6.4 crores - 1.16 crores]		5.24

Working Notes:

- (1) As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since the entire expenditure is deductible under section 35.
- (2) No additional depreciation will be allowed on second hand plant and machinery as well as plant and machinery used for scientific research.
- (3) Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business for a period of less than 180 days in that previous year, and the additional depreciation in respect of such asset is restricted to 10% of the actual cost for that previous year, then, the deduction for the balance additional depreciation i.e. 10% of the actual cost of such asset shall be allowed in the immediately succeeding previous year in respect of such asset.

ILLUSTRATION 65

Balancing charge and terminal depreciation in case of power generating undertakings:
Determine the tax consequences in following cases for assessment year 2026-27

- (a) XYZ Co., an undertaking established in 2010 for generation and distribution of power, has opted for SLM method of depreciation. The written down value of its machinery as on 1-4-2025 was 6,60,000. The machinery is sold for 4,60,000 on 1-5-2025
- (b) ABC Co., a power-generating unit (opted for SLM), has purchased machinery on 1-5-2025 for 10,00,000 which is destroyed by fire on 15-10-2025 and an insurance claim of ₹ 8,80,000 is received on 31-1-2026.
- (c) X A Co., an undertaking established in 2020 for generation of power, has opted for SLM method of depreciation. The company purchased a machinery for 5,00,000. The written down value of its machinery as on 1-4-2025 is 3,50,000. The machinery is sold for 7,65,000 on 1-12-2025

SOLUTION

The tax consequences in aforesaid cases shall be as follows

- (a) Here, monies payable is less than WDV, hence there shall be allowed deduction for terminal depreciation. Therefore, terminal Depreciation u/s 32(1)(iii) = 6,60,000 - 4,60,000 = ₹ 2,00,000.
- (b) Here, since machine is destroyed in the same previous year in which it is first put to use, hence there is no terminal depreciation. The amount of loss, to the extent not reimbursed by insurance company, shall be treated as Short- Term Capital Loss. Therefore, STCL = 10,00,000 - 8,80,000 = ₹1,20,000.
- (c) Here, monies payable is greater than



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WDV. Therefore, Balancing Charge u/s 41(2)= [(Lower of 5,00,000 or 7,65,000) 3,50,000]= 1,50,000;and
Short-Term Capital Gains = 7,65,000 - 5,00,000 = 2,65,000.

ILLUSTRATION 66

Expenditure on Scientific research: Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31-3-2026

- Payments made to K Research Ltd. = ₹ 20
- Payment made to LMN College = ₹ 15
- Payment made to OPQ College = ₹ 10

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

- Payment made to National Laboratory = ₹ 8
- Machinery purchased for in-house scientific research = ₹25
- Salaries to research staff engaged in in-house scientific research = ₹ 12

Compute the amount of deduction available under section 35 if

- he is paying tax under default tax regime under section 115BAC
- he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

SOLUTION

Computation of deduction under section 35 of the Act -

(i) If Mr. Praveen Kumar is paying tax under default tax regime under section 115BAC:

Particulars	Section	(₹)	% of Weight	Deduction (₹)
(i) Payments made to K Research Ltd. (approved company)	35(1)(iia)	20,00,000	Not allowable	Nil
(ii) Payment made to LMN College approved institution	35(1)(ii)	15,00,000	Not allowable	Nil
(iii) Payment made to OPQ College	-	-	-	-
(iv) Payment to National Laboratory	35(2AA)	8,00,000	Not allowable	Nil
(v) Machinery purchased for in-house scientific research	35(1)(iv)	25,00,000	100%	25,00,000
(vi) Salaries to research staff engaged in in-house scientific research	35(1)(i)	12,00,000	100%	12,00,000
Total Deduction				37,00,000

(ii) If Mr. Praveen Kumar has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Particulars	Section	(₹)	% of Weight	Deduction (₹)
(i) Payments made to K Research Ltd. (approved company) [WN-1]	35(1)(iia)	20,00,000	100%	20,00,000

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(ii) Payment made to LMN College approved institution	35(1)(ii)	15,00,000	100%	15,00,000
(iii) Payment made to OPQ College [WN-2]	-	-	-	-
(iv) Payment to National Laboratory [WN-3]	35(2AA)	8,00,000	Not allowable	8,00,000
(v) Machinery purchased for in-house scientific research [WN-4]	35(1)(iv)	25,00,000	100%	25,00,000
(vi) Salaries to research staff engaged in in-house scientific research	35(1)(i)	12,00,000	100%	12,00,000
Total Deduction				80,00,000

Working Notes:

- (1) Payments made to K research Ltd. an Indian company shall be eligible for deduction of 100% u/s 35 (1) (iia).
- (2) Since in the question it has been specifically provided that K Research Ltd. and LMN College are approved, hence it can be concluded that OPQ college is not an approved research institution. Therefore payment made to OPQ college shall not be eligible for deduction.
- (3) Payment to National Laboratory is eligible for deduction under section 35(2AA) @ 100% of the sum so paid.
- (4) Mr. Praveen Kumar is an individual shall not be eligible for deduction of 100% for in house research under section 35(2AB) since the same is available only to a company assessee.
- (5) Salaries to research staff engaged in in-house scientific research is not eligible for deduction under section 35(2AB) as the said deduction is available only to a company assessee.

ILLUSTRATION 67

Deduction of expenditure on Specified Business u/s 35AD: Win Limited commenced the business of operating a three star hotel in Tirupati on 1-4-2025.

- (i) Cost of land (acquired in June 2023) = ₹ 60 lakhs
- (ii) Cost of construction of hotel building:
Financial year 2024-25 = ₹ 30 lakh
Financial year 2025-26 = ₹ 150 lakhs
[Out of expenditure of 150 lakhs, 1,50,000 is paid in cash to contractor on 10-09-2025 and 50,000 is paid in cash of 15-01-2026 and balance through account payee cheque]
- (iii) Plant and Machinery (all new) acquired during financial year 2025-26 = ₹ 30 lakhs
[All the above expenditures were capitalized in the books of the company]
Net profit before depreciation for the financial year 2025-26 = ₹ 80 lakhs
Determine the amount eligible for deduction u/s 35AD of the Income tax Act for AY 2026-27.
(4 Marks, PCC May 2011)

SOLUTION

Computation of amount eligible for deduction u/s 35AD: As per Section 35AD in case an assessee is engaged in the business of operating a hotel of 2-star or above category (i.e., 3-star category) on or after 1-4-2010, it is eligible for deduction under section 35AD. Since Win Ltd. is engaged in the business of operating a hotel of 3-star category, hence, it is eligible for deduction under section 35AD. Deduction shall be allowed in respect of the capital expenditure incurred in the



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earlier years (i.e. years earlier than the previous year 2025-26, as the expenditure has been capitalized in the books of accounts in the current financial year; and the expenditure incurred in the previous year.

Any expenditure of capital nature shall not include any expenditure in respect of which the payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as maybe prescribed, exceeds 10,000 or any expenditure incurred on the acquisition of any land or goodwill or financial instrument.

The relevant computations are (₹ in lakhs) -

Particulars	₹	₹
Net profit before depreciation for the financial year 2025-26		80
Less: Deduction u/s 35AD		
Cost of construction of hotel building (148+30) (1.5 and 0.5 lakhs shall not be eligible for deduction since the same is paid in cash)	-178	
Plant and Machinery (all new) acquired during financial year 2025-26	-30	-208
Loss to be carried forward u/s 73A for indefinite period (to be set-off only against business specified in section 35AD)		-128

ILLUSTRATION 68

Amortisation of preliminary expenses: Jardine Ltd., is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit

(amounts in ₹)

Particulars	₹
Preparation of project report	4,00,000
Market Survey	5,00,000
Legal and other charges for issue of additional capital required for the new unit	2,00,000
Total	11,00,000
The following further data is given:	
Cost of project	30,00,000
Capital employed in the new unit	40,00,000

What is the deduction admissible to the company under section 35D? What will be your answer if the above facts relate to Mr. Jardine, a resident in India? (May 2000)

SOLUTION

In case of Jardine Ltd.: In case of an Indian company, the preliminary expenditure qualifying for deduction cannot exceed higher of the following two limits,

(i) 5% of cost of project i.e. 5% of 30,00,000 i.e. 1,50,000, or

(ii) 5% of capital employed i.e. 5% of 40,00,000 i.e. 2,00,000.

Therefore, the qualifying amount for deduction = ₹ 2,00,000, which shall be allowed in five equal annual instalments of ₹40,000 each beginning with previous year in which new industrial unit is set up.

In case of Mr. Jardine: It must be noted that the option of 5% of capital employed is available only in case of Indian company. Therefore, in case of Mr. Jardine, the qualifying amount of

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deduction = 5% of 30,00,000 i.e. 1,50,000, which shall be allowed in five equal annual installments of ₹ 30,000 each.

ILLUSTRATION 69

Deductibility of various expenses : State with reasons, the allowability of the following expenses incurred by MN Limited, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing Profit & Gains from business or profession for the Assessment Year 2026-27.

- Construction of school building in compliance with CSR activities amounting to 5,60,000.
- Purchase of building for setting up a warehousing facility for storage of food grains amounting to ₹ 4,50,000
- Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted.
- Commodity transaction tax paid 20,000 on sale of bullion.

SOLUTION

- According to Explanation 2 to Section 37(1), Any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession. Hence, expenditure incurred on construction of school building in compliance with CSR activities amounting to 5,60,000 will not be allowed as deduction.
- 100% of the expenditure incurred on purchase of building for setting up a warehousing facility for storage of food grains is eligible for deduction under Section 35AD. Hence, the company will be eligible for deduction of 100% of ₹4,50,000 in accordance with the provisions of Section 35AD.
- According to Section 40(a)(ia) - 30% of any sum payable to a resident on which tax is deductible at source and such tax has not been deducted; or after such deduction, has not been paid on or before the due date of furnishing return of income specified under section 139(1) shall not be allowed as deduction. Hence, 30% of 50,000 = 15,000 shall not be allowed as deduction while computing Profits and Gains of Business or Profession.
- According to Section 36(1)(xvi), Commodities transaction tax paid by the assessee in respect of the taxable commodities transactions entered into in the course of his business during the previous year, if the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession" shall be allowed as deduction. Hence, commodity transaction tax paid 20,000 on sale of bullion shall be admissible as deduction.

ILLUSTRATION 70

Payments to relatives w/s 40A(2) and Cash payments u/s 40A(3): M/s. XYZ, a firm constituting partners X, Y and Z, is engaged in wholesale business of electronics and made following payments towards some purchases on 01-12-2025:

Party	Mode of payment	Amount(₹)	Fair Value (₹)
Raj Ltd.	Cash	80,000	10,000
POR and Co.	Account payee Cheque	65,000	65,000
Mr. Bansal (Bill No. 100)	Crossed cheque	15,000	8,000
Mr. Bansal (Bill No. 101)	Cash	5,000	8,000
Freight paid to Shiv Transporters	Cash	30,000	30,000

X holds 25% equity shares of Raj Ltd. Y's son Ram is 60% partner in PQR and Co. Mr. Bansal is father of Z. What amount will be disallowed as per Income-tax Act, 1961?



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SOLUTION

Here, X and Y have substantial interest in Raj Ltd. and PQR and Co. respectively; and Mr. Bansal is a relative of Z. Thus, all the three parties are specified persons as per Section 40A(2). So, firstly, disallowance will be made as per Section 40A(2); and Section 40A(3) will apply to amount available after disallowance under section 40A(2).

The amount of disallowance will be computed as follows (amounts in -

Purchases from -	Disallowance u/s 40A(2) [Expenditure - Fair Value]	Disallowance u/s 40A(3) for cash payment exceeding 10,000
Raj Ltd.	₹ 70,000 [80,000 - 10,000]	Nil [WN-1]
PQR and Co.	Nil	NIL [Since payment is made through account payee cheque]
Mr. Bansal	7,000 [15,000 - 8,000, for 1 st purchase] Nil [for 2nd purchase, as FMV is higher]	₹ 13,000 [WN-2]
Shiv Transporters	Nil	Nil [WN-3]
Total	₹ 77,000	₹ 13,000

Working Notes:

- (1) Since after disallowance under section 40A (2) of 70,000, remaining allowable expenditure is 10,000 since, the amount does not exceed 10,000 i.e. within the prescribed limit of Section 40A(3), disallowance under section 40A (3) is not attracted.
- (2) While individual bills do not exceed 10,000, but since cash payment made to Mr. Bansal on the day exceeds 10,000, hence, it will be disallowed.
- (3) Payment to goods transport agency in cash shall be allowed as deduction since maximum limit for cash payment in such case is ₹ 35,000.

ILLUSTRATION 71

Deduction on payment basis: X Ltd. follows mercantile system of accounting. After negotiations with the bank, interest of 4 lakhs (including interest of ₹ 1.2 lakhs) pertaining to year ended 31-03-2025 has been converted into loan. Can the interest of 1.2 lakhs so capitalized be claimed as business expenditure? (2 Marks, PCE Nov. 2007)

SOLUTION

No, the said interest of 1.2 lakhs cannot be claimed as expenditure, since Section 43B specifically disallows the interest converted into loan, as it is not actually paid.

ILLUSTRATION 72

Section 43CA: Find out "full value of consideration" for the purpose of Section 43CA in the cases given below-

Different cases	Stamp duty value (date of agreement)	Stamp duty value (date of registration)	Amount of consideration as per agreement	Date when first payment is received by seller by account-payee

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						cheque/ draft, etc.
Case 1	26,40,000	15-07-2025	35,00,000	30-07-2025	24,00,000	10-07-2025
Case 2	27,00,000	10-07-2025	35,00,000	30-07-2025	24,00,000	10-07-2025
Case 3	25,00,000	15-07-2025	35,00,000	30-08-2025	24,00,000	10-08-2025
Case 4	30,00,000	10-08-2025	35,00,000	30-08-2025	30,00,000	10-08-2025

SOLUTION

Computation of Full value of consideration (amount in ₹)

Different cases	Amount of consideration as per agreement	Stamp duty value relevant for Section 43CA		110% of amount of consideration as per agreement	Full value of consideration u/s 43CA [if Column 4 is more than Column 5, Column 4 value will be taken, otherwise section 43CA is not applicable]
		Date of agreement/ registration	Stamp duty value		
(1)	(2)	(3)	(4)	(5)	(6)
Case 1	24,00,000	Date of agreement	26,40,000	26,40,000	24,00,000
Case 2	24,00,000	Date of agreement	27,00,000	26,40,000	27,00,000
Case 3	24,00,000	Date of registration	35,00,000	26,40,000	35,00,000
Case 4	30,00,000	Date of registration	31,50,000	33,00,000	30,00,000

ILLUSTRATION 73

Section 44ADA: A partnership firm consisting of three partners X, Y, and Z is engaged in the profession of accountancy. Gross Receipts of the profession for the year ended 31 March, 2026 amounts to 48 lakh. Bad debts written off in the books are 75,000. Interest at 12% p.a. is provided to partner, Z on his capital of ₹ 6 lakh as authorized by the partnership deed. The firm had business loss of 50,000 and unabsorbed depreciation of 1,50,000 carried forward from assessment year 2025-26. The firm opts for presumptive taxation under section 44ADA for assessment year 2026-27. Compute the Total income of the firm for assessment year 2026-27.

SOLUTION

Computation of income of the firm chargeable under the head "Profits and Gains of business or profession" (amount in ₹)



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Particulars		₹
Presumptive income under section 44ADA (50% of 48 lakh)	[WN-1]	24,00,000
Less: Interest @ 12% to Z (12% of 6 lakh)	[WN-2]	Nil
Less: Brought forward loss under section 72	[WN-3]	50,000
PGBP/Total Income		23,50,000

Working Notes:

- (1) A partnership firm falls within the definition of "eligible assessee" under section 44ADA. In this case, since the gross receipts of the profession of the firm does not exceed 50 lakhs, and therefore, the firm is eligible to opt for presumptive taxation under section 44ADA. Hence, 50% of the gross receipts would be deemed to be the Profits and Gains of Business or Profession of the firm.
- (2) As per Section 44ADA(2), all deductions allowable under sections 30 to 38 shall be deemed to have been allowed. Accordingly, no deduction shall be allowed for bad debts since the same is deductible under section 36(1)(vii) and unabsorbed depreciation since the same is deductible under section 32(2). No deduction shall be allowed for interest on capital paid to partners.
- (3) Further, business loss of P.Y. 2024-25 can be set-off against current year professional income as per Section 72.

ILLUSTRATION 74 [Repeated]

ILLUSTRATION 75

Computation of Business and agricultural Income: Mr. Anil earned 5,00,000 from sale of Coffee grown and cured (processed) by him. He claims the entire income as agricultural income, hence exempt from tax. Is he correct? (2 Marks, PCC May 2010)

SOLUTION

No. Out of the total income of 5,00,000
 Agricultural income = 75% of 5,00,000 = ₹ 3,75,000;
 Business income = 25% of 5,00,000 = ₹ 1,25,000.

ILLUSTRATION 76

Computation of depreciation and additional depreciation: Power Ltd. is engaged in the business of generation of power. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2026-27:

		(₹ in lakhs)
(i)	Opening WDV of block (15% rate)	14
(ii)	New machinery purchased on 18-11-2025	18
(iii)	Machinery imported from California on 21-5-2025. This machine had been used only in California earlier and the assessee is the first user in India.	12
(iv)	New computer installed in power generation unit on 15-7-2025	6

SOLUTION

Computation of depreciation u/s 32 for A.Y. 2026-27:

Particulars	₹	₹



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Normal Depreciation		
Depreciation @ 15% on ₹ 61,00,000, being machinery (put to use for more than 180 days) [Opening WDV of ₹ 49,00,000 + Purchase cost of imported machinery of ₹ 12,00,000]	9,15,000	
Depreciation @ 7.5% on 18,00,000, being new machinery put to use for less than 180 days	1,35,000	
	10,50,000	
Depreciation @ 40% on computers purchased 6,00,000	2,40,000	12,90,000
Additional depreciation (Refer Note below)		
Additional depreciation @ 10% of ₹ 18,00,000 [being actual cost of new machinery purchased on 18-11-2025]	1,80,000	
Additional depreciation @ 20% on new computer installed in power generation unit [20% of ₹6,00,000]	3,00,000	3,00,000
Total Depreciation		15,90,000

Working Note: The benefit of additional depreciation is available to new plant and machinery acquired and installed by undertaking engaged in generation, transmission or distribution of power. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee @ 20% of the actual cost of such machinery or plant. Therefore, new computer installed in power generation unit is eligible for additional depreciation @ 20%.

Since the new machinery was purchased only on 18-11-2025, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2026-27. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in California, before its installation by Power Ltd.

ILLUSTRATION 77

Depreciation in case of power generating undertakings: PG Ltd. of Rajasthan, engaged in the business of generation of power, furnishes the following particulars pertaining to previous year 2025-26. Compute the depreciation allowable under section 32 for assessment year 2026-27, while computing its income under the head "Profits and gains of business or profession". The company has opted for the depreciation allowance on the basis of written down value.

	Particulars	₹
(1)	Opening Written down value of Plant and Machinery (15% block) as on 01-04-2025 (Purchase value ₹ 8,00,000)	11,56,000
(2)	Purchase of second-hand machinery (15% block) on 30-11-2025 for business purpose	4,00,000
(3)	Machinery B (15% block) purchased and installed on 10-07-2025 for the purpose of power generation	16,00,000
(4)	Acquired and installed for use a new air pollution control equipment on 30-07-2025	5,00,000
(5)	New air conditioner purchased and installed in officer premises on 09-09-2025	6,00,000

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(6)	New machinery C (15% block) acquired and installed on 25-11-2025 or the purpose of generation of power	6,50,000
(7)	Sale value of an old machinery X, sold during the year (Purchase value ₹ 9,60,000, WDV as on 01-04-2025 ₹6,00,000)	6,20,000

SOLUTION

Computation of depreciation allowance u/s 32 for the A.Y. 2026-27-

Particulars	Plant and Machinery (15%)	Plant and Machinery (40%)
Opening WDV as on 01-04-2025	11,56,000	
Add: Plant and Machinery acquired during the year		
• Second hand machinery 4,00,000		
• Machinery B 16,00,000		
• Air conditioner for office 6,00,000		
• Machinery C 6,50,000	32,50,000	
• Air pollution control equipment	-	5,00,000
	44,06,000	5,00,000
Less: Asset sold during the year	6,20,000	Nil
Written down value before charging depreciation	37,86,000	5,00,000
Normal depreciation:		
40% on air pollution control equipment	-	2,00,000
Depreciation on plant and machinery put to use for less than 180 days @7.5% (i.e. 50% of 15%)		
• Second hand machinery (4,00,000 × 7.5%) 30,000		
• Machinery C (6,50,000 × 7.5%) 48,750		
	78,750	
15% on the balance WDV being put to use for more than 180 days (27,36,000 × 15%)	4,10,400	
Additional depreciation :		
• Air pollution control equipment (5,00,000 × 20%) 1,00,000		1,00,000
• Machinery B (16,00,000 × 20%) 3,20,000		
• Machinery C (6,50,000 × 10%) 65,000	3,85,000	
Total depreciation	8,74,150	3,00,000

Working Notes:

- (1) Power generation equipments qualify for claiming additional depreciation in respect of new plant and machinery.
- (2) Additional depreciation is not allowed in respect of second hand machinery.
- (3) No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.
- (4) In respect of Machinery "C", balance additional depreciation amounting 65,000 will be allowed in the immediately succeeding previous year.



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ILLUSTRATION 78

Sale of scientific research asset: Daisy Ltd. purchased a machinery for scientific research for 15 lakhs in the previous year 2024-25 and whole of it was allowed as deduction under section 35 under the Income-tax Act, 1961. In the previous year 2025-26, the research project was over. It proposes to sell the machinery for 14 lakhs. It is considering whether -

- (I) To sell machinery without using it in business; or
- (II) To sell the machinery after using it in business for 2 months. The profit before current year depreciation is 38 lakhs. Written down value of the machinery on 1st April 2025 is 18 lakhs. Advise Daisy Ltd. Applicable tax rate 25%.

SOLUTION

The relevant computation is as under -

Option-I: If machine is sold without having been used for business :

Particulars	₹
Net Profit before current year depreciation	38,00,000
Less: Depreciation u/s 32 (15% of ₹ 18,00,000)	2,70,000
Profit after depreciation	35,30,000
Add: Profits chargeable to tax u/s 41(3) [₹14,00,000+ ₹15,00,000- ₹15,00,000]	14,00,000
Income under the head 'Profits and Gains of Business or Profession'	49,30,000
Short-term Capital Loss of 1,00,000 (₹14,00,000 - ₹15,00,000) on sale of scientific research will be carried forward, since loss under the heads capital gains can be set-off only from income under the same head.	-
Total Income	49,30,000
Tax on Total Income (including HEC @ 4%) @ 26%	12,81,800

Option-II: If machine is sold after having been used for business :

Particulars	₹
Profit before current year depreciation	38,00,000
Less: Current year depreciation [WN]	60,000
Profits and Gains of Business or Profession/Total Income	37,40,000
Tax on Total Income (including HEC @ 4%) @ 26%	9,72,400

Working Note: Computation of depreciation -

Particulars	₹
Written down value of the machinery on 1st April 2025	18,00,000
Add: Actual cost of scientific research after having been used for business [Explanation 1 to Section 43(1)]	Nil
Less: Sale proceeds of such scientific research asset	14,00,000
WDV	4,00,000
Depreciation @ 15%	60,000

Advice: The company should opt for Option II, as current tax outflow is lower in that case.

ILLUSTRATION 79

Income from plying goods carriages: On 1st April, 2025, Mr. X owns 7 goods carriages (gross vehicle weight of each being 1285 kg.). On 5th July, 2025, he purchases 2 heavy goods carriages

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(Gross vehicle weight of each being 25,000 kg.). Compute income of Mr. X for assessment year 2026-27 in accordance with the provisions of Section 44AE of the Act.

SOLUTION

Income of Mr. X under section 44AE will be calculated as follows

Particulars	₹
Income from 7 light goods carriages ($\text{₹ } 7,500 \times 12 \times 7$)	6,30,000
Income from 2 heavy goods carriages-	
($\text{₹ } 1,000 \times 25 \text{ ton} \times 9 \times 2$)	4,50,000
Income u/s 44AE	10,80,000

ILLUSTRATION 80

Computation of Business Income: Mr. X, a retail trader of Cochin gives the following Trading & Profit and Loss A/c for the year ended 31-3-2026:

Particulars	₹	Particulars	₹
To Opening Stock	90,000	By Sales	12,11,500
To Purchases	10,04,000	By Income from UTI	2,400
To Gross Profits	3,06,000	By Other Business receipts	6,100
		By Closing Stock	1,80,000
	14,00,000		14,00,000
To Salary	60,000	Gross Profit B/d	3,06,000
To Rent and Rates	36,000		
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing and Stationery	13,200		
To Postage and Telegram	1,640		
To Loss on Sale of Shares (short-term)	8,100		
To Other General Expenses	7,060		
To Net Profit	60,000		
	3,06,000		3,06,000

Additional Information :

- It was found, some stocks were omitted to be included in both the Opening and Closing stock, the values of which were: Opening stock - 9,000, and Closing stock - 18,000.
- Salary includes 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
- The whole amount of Printing and Stationery was paid in cash.
- The Depreciation provided in Profit & Loss A/c 1,05,000 was based on following information: The WDV of Plant & Machinery is 4,20,000. A new Plant falling under same Block of depreciation of 15% was bought on 1-7-2025 for ₹70,000. Two old plants were sold on 1-10-2025 for ₹50,000.
- Rent and Rates includes Goods and Services Tax liability of 3,400 paid on 7-4-2026.
- Other Business receipts include 2,200 received as refund of Goods and Services Tax relating to 2024-25.
- Other General Expenses include 2,000 paid as Donation to a Public Charitable Trust.



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(h) Sale proceeds are received through account payee cheque.
Advise Mr. X whether he can offer his business income u/s 44AD i.e. presumptive taxation. (May 2003)

SOLUTION

(A) Business income if Mr. X does not opt for presumptive income scheme -

Particulars	₹	₹
Net profit as per Profit and Loss account		60,000
Add:		
(a) Closing stock not included	18,000	
(b) Excess salary paid to brother [WN-1]	2,000	
(c) Whole of printing and stationery expenses paid in cash [WN-2]	13,200	
(d) Depreciation	1,05,000	
(e) Donations	2,000	
(f) Loss on shares	8,100	1,48,300
		2,08,300
Less:		
(a) Opening stock not included	9,000	
(b) Allowable depreciation [WN-3]	66,000	
(c) Income from UTI [WN-4]	2,400	77,400
Income from business		1,30,900

Working Note:

- (1) Salary paid to his brother, which is unreasonable to the extent of ₹2,000 shall not be allowed as deduction in accordance with Section 40A(2).
- (2) Since the whole amount of Printing and Stationery was paid in cash whole of such expenditure shall be disallowed in accordance with Section 40A(3).

(3) Computation of allowable depreciation :

Particulars	₹
Opening WDV of plant and machinery	4,20,000
Add: Actual cost of plant acquired on 01-07-2025	70,000
Less: Sale proceeds of plant	-50,000
WDV as on 31-03-2026	4,40,000
Depreciation @ 15%	66,000

- (4) Income from units of UTI is taxable in hands of unit holder under the head Income from other sources.
- (5) Goods and Services Tax refund is taxable, as it would have been allowed as deduction earlier.

(B) Business income if he opts for presumptive income scheme u/s 44AD: Deemed income as per 9190 Section 44AD = 6% of Turnover (since sale proceeds are received through account payee cheque) i.e. 6% of 12,11,500 = ₹72,690

Conclusion: Since income as per Section 44AD works out to be lower than income as per normal provisions, the assessee should opt for presumptive taxation under Section 44AD.

ILLUSTRATION 81



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Computation of depreciation: Mr. Prem has following assets as on 01-04-2025:

- A machinery costing 4 lakh, which was used for scientific research related to business and deduction u/s 35 was allowed 40,000.
- A laptop received as a gift from his friend costing 60,000. It was purchased on 1-4-2024 by his friend.
- A temporary wooden structure costing 70,000 erected in December 2025 which was used for business purposes.

Compute the depreciation allowed on these assets for F.Y. 2025-26. (6 Marks, Jan. 2025)

SOLUTION

Computation of Depreciation to Mr. Prem for P.Y. 2025-26:

Particulars	₹
Depreciation on machinery used for scientific research @ 15% on ₹3,60,000 [4,00,000, being actual cost-₹40,000 being deduction allowed u/s 351]	54,000
Depreciation on laptop received as a gift @ 40% on ₹ 36,000 [60,000, being actual cost to previous owner - 24,000, being depreciation for P.Y. 2024-25 allowable to assessee if it was the only asset]	14,400
Depreciation on temporary wooden structure @ 40% * 50% on ₹70,000 [Since it is put to use for less than 180 days]	14,000
	82,400

ILLUSTRATION 82 [Repeated]

ILLUSTRATION 83 [Repeated]

ILLUSTRATION 84

Section 43A & Section 32: M/s. Y Industries Ltd. purchased a plant worth USD 8lakh on 1-4-2023 on which date the rate of exchange was 50. The consideration towards the plant was payable in 3 instalments of USD 3 lakh, 2.6 lakh and 2.4 lakh respectively on 1-1-2024, 1-7-2024 and 1-1-2025; the rate of exchange being 52, 48 and 51 respectively. Compute the amount of depreciation allowable on the plant for the two assessment years, assuming the rate of depreciation to be 15%.

SOLUTION

Computation of depreciation on the plant, assuming it to be the only asset in the block (amount in ₹)

Particulars	₹
Actual cost on the date of acquisition [8 lakh × 50]	4,00,00,000
Add: Forex diff. arising out of increase in liability u/s 43A on 1-1-2024 [3 lakh × (52-50)]	6,00,000
Actual cost for the purposes of section 43(1)/WDV as on 31-3-2024	4,06,00,000
Less: Depreciation @ 35% (Normal @ 15% + Additional @ 20%) - Depreciation will be allowed for the whole of the year, as the asset has been put to use for more than 180 days during the previous year; the date of increase in liability u/s 43A shall not affect depreciation.	1,42,10,000



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WDV as on 1-4-2024	2,63,90,000
Less: Forex diff. arising out of decrease in liability u/s 43A on 1-7-2024 [2.6 lakh × (50 - 48)]	5,20,000
Add: Forex diff. arising out of increase in liability u/s 43A on 1-1-2025 [2.4 lakh × (51 - 50)]	2,40,000
WDV as on 31-3-2025	2,61,10,000
Less: Depreciation @ 15%	39,16,500
WDV as on 1-4-2025	2,21,93,500

ILLUSTRATION 85 [Repeated]

ILLUSTRATION 86 [Repeated]

ILLUSTRATION 87 [Repeated]

ILLUSTRATION 88

Expenditure on Scientific research: Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31-3-2025

- Payments made to K Research Ltd. = ₹ 20
- Payment made to LMN College = ₹ 15
- Payment made to OPQ College = ₹ 10

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

- Payment made to National Laboratory = ₹ 8
- Machinery purchased for in-house scientific research = ₹ 25
- Salaries to research staff engaged in in-house scientific research = ₹ 12

Compute the amount of deduction available under section 35 he has exercised shifting out of the default tax regime .
(4 Marks, IPCC May 2011)

SOLUTION

Computation of deduction under section 35 of the Act (amount in ₹)-

Particulars	Section	Qualifying Sum	Deduction
i) Payments made to K Research Ltd. (approved company) [WN-1]	35(1)(ia)		20,00,000
ii) Payment made to LMN College approved institution	35(1)(ii)	15,00,000	15,00,000
iii) Payment made to OPQ College [WN-2]	-	-	-
iv) Payment to National Laboratory [WN-3]	35(2AA)	8,00,000	8,00,000
v) Machinery purchased for in-house scientific research	35(1)(iv)	25,00,000	25,00,000



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[WN-4]			
vi) Salaries to research staff engaged in in-house scientific research [WN-5]	35(1)(i)	12,00,000	12,00,000
Total Deduction			80,00,000

Working Notes:

1. Payments made to K research Ltd. an Indian company shall be eligible for deduction of 100% u/s 35 (1) (iia).
2. Since in the question it has been specifically provided that K Research Ltd. and LMN College are approved, hence it can be concluded that OPQ college is not an approved research institution. Therefore payment made to OPQ college shall not be eligible for deduction.
3. Payment to National Laboratory is eligible for deduction under section 35(2AA) @ 100% of the sum so paid.
4. Mr. Praveen Kumar is an individual shall not be eligible for deduction of 100% for in house research under section 35(2AB) since the same is available only to a company assessee.
5. Salaries to research staff engaged in in-house scientific research is not eligible for deduction under section 35(2AB) as the said deduction is available only to a company assessee.

ILLUSTRATION 89 [Repeated]

ILLUSTRATION 90 [Repeated]

ILLUSTRATION 91 [Repeated]

ILLUSTRATION 92 [Repeated]

ILLUSTRATION 93 [Repeated]

ILLUSTRATION 94 [Repeated]

ILLUSTRATION 95 [Repeated]

ILLUSTRATION 96 [Repeated]

ILLUSTRATION 97 [Repeated]

ILLUSTRATION 98 [Repeated]

ADDITIONAL QUESTIONS

ILLUSTRATION 99

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended



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31.3.2026, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

	particulars	₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23	85,000
(iii)	Unabsorbed depreciation of A.Y. 2017-18	52,000
(iv)	Current year depreciation under section 32	4,70,000
(v)	Brought forward business loss of A.Y. 2021-22	49,000
(vi)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the book profit and remuneration allowable in the hands of AB Light LLP for A.Y. 2026-27. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Answer

Computation of book profit of AB Light LLP for the A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% × 2)	3,60,000	
- Current year revenue expenditure on scientific research under section 35(1)(i)	2,40,000	
- Current year depreciation under section 32(1)	4,70,000	
- Current year capital expenditure on scientific research under section 35(1)(iv)	3,45,000	
- Unabsorbed depreciation of A.Y. 2017-18 under section 32(2)	52,000	
- Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23 under section 35(4)	85,000	15,52,000
Book Profit		10,34,000

Note: Brought forward business loss of A.Y. 2021-22 is not allowed to be set off while computing book profit.



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Remuneration actually paid or payable to working partners = [₹ 50,000 × 12 + ₹ 40,000 × 12] = ₹ 10,80,000

Partners' remuneration allowable under section 40(b)

On the first ₹ 6,00,000 of book profit [₹ 6,00,000 × 90%]	5,40,000
On the balance ₹ 4,34,000 [₹ 4,34,000 × 60%]	2,60,400
	8,00,400

Hence, allowable working partners salary in the hands of AB Light LLP for the A.Y. 2026-27 is ₹ 8,00,400

Remuneration taxable in the hands of Mr. Anand as business income = ₹ 8,00,400 × 6,00,000/10,80,000 = ₹ 4,44,667
Remuneration taxable in the hands of Mr. Bheem as business income = ₹ 8,00,400 × 4,80,000/10,80,000 = ₹ 3,55,733

ILLUSTRATION 100

Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2025. The depreciation on these machines is charged @15%. The written down value of these machines as on 1st April, 2025 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2025 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2025.

Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2026:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satyawati College	17

Compute the following for Assessment Year 2026-27

- Claim of depreciation
- Deduction available under section 35 if he has shifted out of the default tax regime

Answer

(i) Computation of depreciation for A.Y.2026-27

Particulars	₹
W.D.V. of the block as on 1.4.2025	7,70,000
Add: Purchase of second hand plant during the year [in December, 2025]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2025]	10,00,000
W.D.V of the block as on 31.03.2026	3,80,000

CHAPTER - 5

PROFITS AND GAINS OF BUSINESS OR PROFESSION



CA VARDHAMAN DAGA

Depreciation @ 15% but restricted to 50% thereon. [Since the value of the block as on 31.3.2026 represents part of actual cost of second hand plant purchased in December, 2025, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to $7\frac{1}{2}\%$. Therefore, the depreciation allowable for the year is ₹ 28,500 being $7\frac{1}{2}\%$ of ₹ 3,80,000]	28,500

(ii) Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
UV University, an approved University	15	35(1)(ii)	100%	15
Satyawati College [Since it is not mentioned as an approved University]	17	-	NIL	NIL
Deduction allowable under section 35				15





CHAPTER - 6

CAPITAL GAINS

STUDY MATERIAL

ILLUSTRATION 1

How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

SOLUTION

- (1) **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- (2) **Bonus shares** - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
- (3) **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note - Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi). Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

ILLUSTRATION 2

A is the owner of a car. On 1-4-2025, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

SOLUTION

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

ILLUSTRATION 3

X converts his capital asset (acquired on June 10, 2006 for ₹ 60,000) into stock-in-trade on March 10, 2025. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2025. Discuss the year of chargeability of capital gain and business income.

SOLUTION





Since the capital asset is converted into stock-in-trade during the previous year 2024-25 relevant to the A.Y. 2025-26, it will be a transfer u/s 2(47) during the P.Y. 2024-25. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2026-27, since the stock-in-trade has been sold only on June 10, 2025. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2025) will be the full value of consideration for computation of capital gains. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y. 2026-27. Thus, both capital gains and business income would be chargeable to tax in the A.Y. 2026-27.

ILLUSTRATION 4

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2026. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

SOLUTION

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

ILLUSTRATION 5

In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2025-26, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2025-26 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2025 by the company.

SOLUTION

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), gift of a capital asset is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

ILLUSTRATION 6

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek





did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

SOLUTION

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain. Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

ILLUSTRATION 7

Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.
- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be longterm capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

SOLUTION

- (i) False
- (ii) True
- (iii) True

ILLUSTRATION 8

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock in trade in the month of November, 2024. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock in trade was sold for an amount of ₹ 6,50,000 in the month of September, 2025. What will be the tax treatment?

SOLUTION

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2024-25) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2025-26). Profits from business will also be taxable in the year of sale of the stock-in trade (P.Y. 2025-26).

The LTCG and business income for the A.Y.2026-27 are calculated as under:

Particulars	₹
Profits and Gains from Business or Profession	2,00,000
Long term capital gains	4,00,000



Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered. However, since capital asset is converted on or after 23.07.2024, no indexation benefit is allowed.

ILLUSTRATION 9

Singhanian & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2024-25 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2025 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2025. You are required to:

- determine the claim of depreciation for Assessment Year 2026-27.
- compute the capital gains liable to tax for Assessment Year 2026-27.
- If Singhanian & Co. had sold the three machines in June, 2025 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

SOLUTION

(i) Computation of depreciation for A.Y. 2026-27

Particulars	₹
W.D.V of the block as on 31.03.2026	6,00,000

Since the value of the block as on 31.3.2026 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to $7\frac{1}{2}\%$. Therefore, the depreciation allowable for the year is ₹ 45,000, being $7\frac{1}{2}\%$ of ₹ 6,00,000.

- The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:
 - When one or some of the assets in the block are sold for consideration more than the value of the block.
 - When all the assets are transferred for a consideration more than the value of the block.
 - When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- If the three machines are sold in June, 2025 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Short term capital gains		4,00,000

ILLUSTRATION 10

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2025 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of capital assets



of unit 1 on 1.4.2025 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2023 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2026-27.

SOLUTION

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Long-term capital gain	17,21,375

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹
Net worth	12,50,625

2. Written down value of patents as on 1.4.2025

Value of patents:	₹
Balance as on 1.4.2025	28,125

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

ILLUSTRATION 11

Mr. Cee purchased a residential house on July 20, 2023 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2023. He sold the house property in April 2024 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2025.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2026-27?

SOLUTION

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	₹
Short-term capital gains	8,00,000





Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

ILLUSTRATION 12

Long term capital gain of ₹ 75 lakh arising from transfer of building on 1.5.2025 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

SOLUTION

False

ILLUSTRATION 13

Calculate the income-tax liability for the assessment year 2026-27 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Non-Resident	Non-resident	Resident	Non-resident
Total income other than long term capital gain	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

- If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
- If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

SOLUTION

- If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Computation of income-tax liability for the A.Y.2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Total tax liability	11,050	₹ 520	Nil	₹ 4,160

Note: Since Mr. A and Mr. C are residents whose total income does not exceed ₹ 12 lakhs, they are eligible for rebate of ₹ 60,000 or the actual tax payable, whichever is lower, under section 87A.

- If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

Computation of income-tax liability for the A.Y.2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)



Residential Status	Non-Resident	Non-resident	Resident	Non-resident
Total tax liability	11,050	₹ 8,320	18,720	₹ 11,960

Notes:

1. Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.

TEST YOUR KNOWLEDGE

ILLUSTRATION 14

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2024. He has also received dividend of ₹ 10 per share on 01.05.2025. He has sold all the shares on 01.10.2025 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%. Compute his total income and tax liability for A.Y. 2026-27 if Mr. Mithun pays tax under normal provision, assuming that he is having other income of 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

SOLUTION

Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 1)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Good money Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Other income	8,00,000
Total Income	13,94,000





Tax Liability	
Tax on dividend (since it is lower than the basic exemption limit)	Nil
Tax on STCG u/s 11A	
20% of ₹ 3,96,000	79,200
Tax on LTCG u/s 112A	
12.5% of (₹ 1,96,000 - ₹ 1,25,000) since, it is transferred on or after 23.07.2024	8,875
Tax on total income of 8,20,000	72,900
Add: Health and education cess @4%	6,439
Tax liability	1,67,414
Tax liability (rounded off)	1,67,410

Notes:

- (1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - lower of
 - Fair market value of such asset i.e., ₹ 2,000 per share and
 - Full value of consideration i.e., ₹ 4,000 per share.
 Therefore, the cost of acquisition of original share is ₹ 2,000 per share.
- (2) Securities transaction tax is not allowable as deduction.

ILLUSTRATION 15

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2025. The fair market value as on 31.3.2025 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2026.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2024-25: 363, F.Y 2025-26: 376

SOLUTION

Computation of taxable income of Mr. Aarav for A.Y.2026-27

Particulars	₹
Profits and gains from business or profession	25,000
Long term capital gains	2,20,000
Taxable Income	2,45,000

ILLUSTRATION 16

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2026. She sold 10 flats at ₹ 30 lakhs per flat in March, 2026. The remaining 5 flats were held in stock as on 31st March, 2026.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2026 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2026.



Compute the amount of chargeable capital gain and business income in the Hands of Mrs. Harshita arising from the above transactions for A.Y. 2026-27 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2025-26: 376].

SOLUTION

Computation of capital gains and business income of Harshita for A.Y. 2026-27

Particulars	₹
Capital gains chargeable to tax for A.Y.2026-27	18,14,159
Business income chargeable to tax for A.Y.2026-27	60,00,000

ILLUSTRATION 17

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which incurred in December 2025.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2025 (i.e., WDV as on 31.3.2025 after providing depreciation for P.Y. 2024-25) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000. Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock	₹ 4,80,000
(ii) Towards damage of machinery	₹ 6,00,000
(iii) Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

SOLUTION

(i) **Compensation towards loss of stock:** Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

(ii) **Compensation towards damage to machinery:** Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

(iii) **Compensation towards loss of gold chain and diamond ring:** since the gold chain and diamond ring has been destroyed during fire fighting operation (the immediate cause thereof being the fire). The capital gain has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of 1,80,000

ILLUSTRATION 18

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2025 for ₹ 1,50,00,000.

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

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

Mr. Jaikumar was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority



(a) on 16.08.2025 was ₹ 1,70,00,000;

(b) on 15.12.2025 was ₹ 1,71,00,000; and

(c) on 14.01.2026 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 24.3.2026 and another in Delhi for ₹ 35,00,000 on 28.5.2026.

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; 2025-26 - 376

SOLUTION

Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2026-27

Particulars	₹
Long term capital gains chargeable to tax	85,00,000

ILLUSTRATION 19

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-7-2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2026 and 15.5.2026
- Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2026.
- Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2025 and for ₹ 40 lakhs on 9-1-2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2026-27.

The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 - 117; F.Y. 2007-08 - 129; F.Y. 2025-26 - 376.

SOLUTION

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2026-27

Particulars	₹ (in lakhs)	₹ (in lakhs)
Long term capital gains chargeable to tax		433.90

ILLUSTRATION 20



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, 2025, 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, 2026. 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, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2026-27. 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

SOLUTION

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Long term capital gain		25,20,500

Notes: (1) Computation of indexed cost of acquisition

Particulars	Amount (₹)	Amount (₹)
On LTCG of 25,20,500 * 12.5%		3,15,063
Add: HEC @4%		12,603
		3,27,666
On LTCG with indexation benefit		
Net sale consideration	38,69,500	
Less: ICOA (9,59,000*376/100)	36,05,840	
Less: ICOI (3,90,000*376/254)	5,57,323	
LTCL	(3,13,363)	

PAST EXAM QUESTIONS

ILLUSTRATION 21

Computation of capital gains: Mr. Malik owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and land appurtenant thereto were sold during the year. The following details are available (amt ₹)



Particulars	(₹)
Building completed in September, 2004 for	10,00,000
Land appurtenant thereto purchased in April, 2003	11,00,000
Advance received from a prospective buyer for land in May, 2004, forfeited in favour of assessee, as negotiations failed	50,000
WDV of the building block as on 1-4-2025	8,74,800
Sale value of factory building in November, 2025	8,00,000
Sale value of appurtenant land	40,00,000

The assessee is ready to invest in long-term specified assets under section 54EC within specified time.

Compute the amount of taxable capital gain for the assessment year 2026-27 and the amount to be invested under section 54EC for availing the maximum exemption. (10 Marks, Nov. 2006)

Cost inflation index for various financial year are as under: 2003-04: 109, 2004-05: 113 and 2025-26: 376

SOLUTION

Computation of Capital Gain (amount in ₹)

Particulars	(₹)
Sale consideration of the block	8,00,000
Less: Cost of acquisition i.e. WDV of block	8,74,800
Short-term capital loss	-74,800
Full value of consideration of land	40,00,000
Less: cost of land	10,50,000
Long-term capital gains	29,50,000
Taxable long-term capital gains (after set-off of short-term capital loss)	28,75,200

Working Note: ₹ 50,000 advance forfeited by Mr. Malik shall be deducted from cost of acquisition Exemption u/s 54EC: The aforesaid amount of taxable net long-term capital gains 28,75,200 should be invested within 6 months u/s 54EC for availing the maximum exemption.

ILLUSTRATION 22

Computation of total income: Mr. Y submits the following information pertaining to the year ended 31st March, 2025:

- (1) On 30-11-2025, when he attained the age of 60, his friends in India gave a flat at Surat as a gift, each contributing a sum of 20,000 in cash. The cost of flat purchased using various gifts was ₹ 3.4 lakhs.
- (2) His close friend abroad sent him a cash gift of 75,000 through his relative, for the above occasion.
- (3) Mr. Y sold the above flat on 30-1-2026 for 3.6 lakhs. The Registrar's valuation for stamp duty purposes was 4 lakhs. Neither Mr. Y nor the buyer, questioned the value fixed by the Registrar.
- (4) He had purchased some equity shares in X Pvt. Ltd. on 5-2-2025 for 3.5 lakhs. These shares were sold on 15-3-2026 for 2.8 lakhs.

You are requested to calculate the total income of Mr. Y for the assessment year 2026-27.

(6 Marks, May 2005)



SOLUTION

Computation of total income of Mr. Y

Particulars	Flat*	Equity shares
Full value of consideration [Since stamp duty value exceeds 110% of actual consideration]	4,00,000	2,80,000
Less: Cost of acquisition	3,40,000	3,50,000
Short-term capital gains/loss	60,000	-70,000
Short term capital Loss to be carried forward		-10,000
Income from other sources (cash gift of 75,000+ Flat of 3.4 lakh)		4,15,000
Total Income		4,15,000

Working Notes:

- (1) Gift of flat in excess of 50,000 is taxable under section 56(2)(x). The cost of such gifted asset will be ₹ 3,40,000, being the fair market value taken for the purpose of taxability under section 56(2)(x).
- (2) Cash gift exceeding 50,000 from an unrelated person is taxable as Income from other sources.
- (3) Equity shares of unlisted company held for more than 24 months from the date of purchase are long-term capital asset. Hence, the same shall be regarded as short term capital asset.

ILLUSTRATION 23

Computation of Capital gains and Tax liability: Mukesh (aged 55 years) owned a residential house at Nagpur. It was acquired by Mukesh on 10-10-2004 for 14,50,000. It was sold for 55,00,000 on 04-11-2025. The State stamp valuation authority fixed the value of the property at 85,00,000. The assessee paid 2% of the sale consideration as brokerage for the sale of said property. Mukesh acquired a residential house at Chennai on 10-12-2025 for 10,00,000 and deposited 10,00,000 on 10-04-2026 in the capital gain bond of Rural Electrification Corporation Ltd (REC). He deposited 5,00,000 on 06-07-2026 in the Capital Gain Deposit Scheme in a nationalised bank for construction of additional floor on the residential house property acquired at Chennai. Compute the capital gain chargeable to tax in the hands of Mr. Mukesh he has shifted out of default tax regime.

Calculate the income-tax payable on the assumption that he has no other income chargeable to tax. (7 Marks, PCC Nov. 2010)

Cost inflation index for various financial year are as under: 2004-05: 113 and 2025-26: 376

SOLUTION

Computation of capital gains and tax thereon in the hands of Mukesh -

Computation of capital gain

Particulars	(₹)
Full value of consideration [WN-1]	85,00,000
Less: Brokerage @ 2% of actual sale consideration of ₹ 55,00,000	1,10,000
Net sale consideration	83,90,000
Less: cost of acquisition	14,50,000
Capital Gains	69,40,000
Less: Exemption under section 54 [WN-2]	15,00,000
Exemption under section 54EC [WN-3]	10,00,000



Income by way of Long-term capital gain	44,40,000

Computation of tax liability

Option (1) - in case he avail benefit of indexation

Particulars	(₹)
Full value of consideration [WN-1]	85,00,000
Less: Brokerage @ 2% of actual sale consideration of ₹ 55,00,000	1,10,000
Net sale consideration	83,90,000
Less: Indexed cost of acquisition $(14,50,000 \times 376 \div 113)$	48,24,779
Capital Gains	35,65,221
Less: Exemption under section 54 [WN-2]	15,00,000
Exemption under section 54EC [WN-3]	10,00,000
Income by way of Long-term capital gain	10,65,221
Less: Basic Exemption Limit of 2,50,000 [WN-4]	2,50,000
Income Tax @ 20%	1,63,044
Add: Health & Education cess @ 4%	6,522
Total Tax (rounded off)	1,69,570

Option (2) - in case he do not avail benefit of indexation

Particulars	(₹)
Full value of consideration [WN-1]	85,00,000
Less: Brokerage @ 2% of actual sale consideration of ₹ 55,00,000	1,10,000
Net sale consideration	83,90,000
Less: cost of acquisition	14,50,000
Capital Gains	69,40,000
Less: Exemption under section 54 [WN-2]	15,00,000
Exemption under section 54EC [WN-3]	10,00,000
Income by way of Long-term capital gain	44,40,000
Less: Basic Exemption Limit of 2,50,000 [WN-4]	2,50,000
Income Tax @ 12.5%	5,23,750
Add: Health & Education cess @ 4%	20,950
Total Tax (rounded off)	5,44,700

Working Notes:

- (1) As per the provisions of Section 50C, in this case the value assessed by the stamp valuation authority exceed 110% of the consideration received therefore, the stamp duty value shall be deemed as the full value of consideration.
- (2) Exemption under section 54 = Cost of residential house acquired at Chennai on 10-12-2023 + amount deposited in Capital Gains Accounts Scheme on 6-7-2024 (before the due date of filing of return of income) for construction of additional floor on residential house property acquired at Chennai = 10 lakhs + 5 lakhs = 15 lakhs.
- (3) Exemption under section 54EC = amount deposited in RECL bonds on 10-04-2024 (within 6 months from the date of transfer)=10 lakhs.
- (4) Since Mukesh is a resident individual having no other income, hence, he will be entitled to basic exemption limit in respect of the income from LTCG - Section 112.





ILLUSTRATION 24

Computation of Tax liability: The total income of Mrs. Z is ₹3,50,000, which includes the following:

Particulars	₹
Long-term capital gains	30,000
Winnings from lotteries	20,000
Short-term capital gains covered by Section 111A	10,000
	60,000

Agricultural income earned by her was 50,000. Compute the tax payable by Mrs. Z. if she shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the act. (6 Marks, May 2006)

SOLUTION

Computation of tax payable by Mrs. Z (amounts in ₹)-

Particulars	₹
Tax on incomes taxable at special rates:	
Tax on STCG u/s 111A @20% [10,000 × 20%]	2,000
Tax on LTCG u/s 112 @ 12.5% [30,000 × 12.5%]	3,750
Tax on Lottery income @30% [20,000 × 30%]	6,000
Tax on balance income: Balance income including agricultural income (50,000 + 2,90,000)	4,500
Less: Tax on agricultural income + basic exemption (2,50,000 + 50,000)	-2,500
Tax payable	13,750
Less: Tax rebate u/s 87A [100% of tax or 12,500 which ever is less]	12,500
Balance tax	1,250
Add: Health & Education cess @ 4%	50
Tax payable by Mrs. Z (rounded off)	1300

ILLUSTRATION 25

Computation of Capital gains and tax liability: Mr. C inherited from his father 8 plots of land in 1980. His father had purchased the plots in 1960 for 5 lakhs. The fair market value of the plots as on 1-4-2001 was 8 lakhs. (1 lakh for each plot)

On 1st June 2001, C started a business of dealer in plots and converted the 8 plots as stock-in-trade of his business. He recorded the plots in his books at 45 lakhs being the fair market value on that date. In June 2005, C sold the 8 plots for 50 lakhs.

In the same year, he acquired a residential house property for 45 lakhs. He invested an amount of 5 lakhs in construction of one more floor in his house in June 2006. The house was sold by him in June 2025 for 90,00,000.

The valuation adopted by the registration authorities for charge of stamp duty was 1,70,50,000. As per the assessee's request, the Assessing Officer made a reference to a Valuation Officer. The value determined by the Valuation Officer was 1,70,00,000.

Brokerage of 1% of sale consideration was paid by C. Give the tax computation for the relevant assessment years with reasoning if he has shifted out of the default tax regime.

(Modified 8 Marks: Nov. 2012 & Similar Nov. 2016)



Cost inflation index for various financial year are as under: 2005-06: 117, 2006-07: 122 and 2025-26: 376

SOLUTION

Computation of total income and tax liability of Mr. C (amount in ₹):

Particulars	₹	₹
Capital Gains on sale of residential house property		
Full value of consideration [WN-1]		1,70,00,000
Less: Brokerage @ 1% of sale consideration (1% of 90,00,000)		90,000
Net consideration		1,69,10,000
Less: cost of acquisition	45,00,000	
Less: cost of improvement	5,00,000	50,00,000
Long-term capital gains (Total Income) (rounded off)		1,19,10,000

Option I - Computation of tax-liability without indexation:

Particulars	₹
Income by way of Long-term capital gain	1,19,10,000
Less: Basic Exemption Limit of ₹ 4,00,000	4,00,000
LTCG on which tax imposable	1,15,10,000
Income Tax @ 12.5%	14,38,750
Add: Surcharge @15%	2,15,813
Tax including surcharge	16,54,563
Add: Health & Education cess @ 4%	66,183
	17,20,750

Option (II) - Computation of tax liability in case he avails benefit of indexation :

Particulars	₹
Full Value of Consideration (i.e. Stamp Duty Value) [WN-1]	1,70,00,000
Less: Brokerage @ 1% of sale consideration (1% of ₹ 90,00,000)	90,000
Net consideration	1,69,10,000
Less: Cost being: Indexed Cost of Acquisition (45,00,000 × 376 ÷ 117)	1,44,61,538
Less: Cost being: Indexed Cost of Improvement (5,00,000 × 376 ÷ 122)	15,40,984
Long Term Capital Gains	9,07,478
Total Income (rounded off)	9,07,480
Tax on long-term capital gains [20% of (9,07,480 - ₹4,00,000)] [WN-4]	1,01,496
Add: HEC @ 4%	4,060
Tax payable (round off)	1,05,560

Working Notes:

- (1) As per the provisions of Section 50C, in this case the value assessed by the stamp valuation authority exceed 110% of the consideration received therefore, the stamp duty value shall be deemed as the full value of consideration.
- (2) As per Section 112, the unexhausted basic exemption limit can be exhausted against the long-term capital gains. Since Mr. C does not have any other income in the current year, the whole of the basic exemption limit of 2,50,000 is exhausted against the long-term capital gains of 11,49,160 and the balance long-term capital gains shall be taxable @ 20%. It is assumed that Mr. C is a resident individual below the age of 60 years

ILLUSTRATION 26

Computation of Capital gain: Ms. Neelima had purchased 500 equity shares in A Ltd. at a cost of ₹30 per share (brokerage 1%) in February 1995. She got 50 bonus shares in September 1999. She



again got 550 bonus shares by virtue of her holding on March, 2005. Fair market value of the shares of A Ltd. on April, 2001 is 45. In January 2025, she transferred all her shares @ 280 per share (brokerage 2%). The FMV of shares as on 31-01-2018 is 150 per share. Compute the capital gains taxable in the hands of Ms. Neelima assuming

- A Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
- A Ltd. is a listed company and the shares are sold in a recognised stock exchange and securities transaction tax was paid at the time of purchase and sale.

SOLUTION

(i) Computation of capital gains [unlisted shares] (amount in ₹)

Particulars	Original shares [A]	1st Bonus shares [B]	2nd Bonus shares [C]
No. of shares	500	50	50
Full value of consideration (@280 per share)	1,40,000	1,40,000	1,54,000
Less: Brokerage paid	2,800	2,80	3,080
Net sale consideration	1,37,200	13,720	1,50,920
Less: cost of acquisition	22,500	2,250	Nil
Long term capital gain	1,14,700	11,470	1,50,920
Long term capital gains [A+B+C]			2,77,090

Notes: Cost of acquisition of bonus shares shall be NIL.

(ii) Computation of capital gains [Listed shares] (amount in ₹)

Particulars	Original shares [A]	1st Bonus shares [B]	2nd Bonus shares [C]
No. of shares	500	50	550
Full value of consideration (@280 per share)	1,40,000	14,000	1,54,000
Less: Brokerage paid	2,800	280	3,080
Net sale consideration	1,37,200	13,720	1,50,920
Less: Cost of acquisition	75,000	7,500	82,500
Long term capital gain	62,200	6,220	68,420
Long term capital gains [A+B+C]			1,36,840

ILLUSTRATION 27

Computation of Capital Gains and Tax Liability: Mr. Roy, aged 55 years owned a Residential House in Ghaziabad. It was acquired by Mr. Roy on 10-10-1986 for 6,00,000. The fair market value as on 01-04-2001 was 18,00,000. He sold it for 53,00,000 on 4-11-2024. The stamp valuation authority of the state fixed value of the property at 98,00,000. The Assessee paid 2% of the sale consideration as brokerage on the sale of the said property.

Mr. Roy Acquired a Residential House property at Kolkata on 10-12-2024 for 10,00,000 and deposited ₹ 7,00,000 on 10-04-2025 and 5,00,000 on 15-06-2025 in the capital gains bonds of Rural Electrification Corporation Ltd. He deposited 4,00,000 on 06-07-2025 and 3,00,000 on 01-11-2025 the capital gain deposit scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the Capital Gain chargeable to Tax for the Assessment Year 2025-26 and Income Tax chargeable thereon assuming Mr. Roy has no other income and he has shifted out of the default tax regime
(8 Marks, May 2014) (Similar: 8 Marks, May 2017)



SOLUTION

Computation of Capital Gains (amounts in -

Particulars	₹
Full Value of Consideration (i.e. Stamp Duty Value) [WN-1]	98,00,000
Less: Expenses on transfer (2% expenses on transfer of 53,00,000)	1,06,000
Net consideration	96,94,000
Less: Cost being: Cost of Acquisition	18,00,000
Long Term Capital Gains	78,94,000
Less: Exemption u/s 54 (10,00,000 + 4,00,000) [WN-2]	14,00,000
Exemption u/s 54EC in respect of bonds of REC [WN-3]	7,00,000
Taxable Long Term Capital Gains	57,94,000
Total Income (rounded off)	6,60,000
Tax on long-term capital gains [WN-4]	82,000
Add: HEC@4%	3,280
Tax payable (rounded off)	85,280

Option I - Computation of tax-liability without indexation:

Particulars	₹
Income by way of Long-term capital gain	57,94,000
Less: Basic Exemption Limit of ₹ 2,50,000 [WN-4]	2,50,000
LTCG on which tax imposable	55,44,000
Income Tax @ 12.5%	6,93,000
Add: Surcharge @ 10% (since Total income exceeds ₹ 50,00,000)	69,300
Tax including surcharge	7,62,300
Add: Health & Education cess @ 4%	30,492
Total tax (round-off)	7,92,790

Option (II) - Computation of tax liability in case he avails benefit of indexation :

Particulars	₹
Full Value of Consideration (i.e. Stamp Duty Value) [WN-1]	98,00,000
Less: Expenses on transfer (2% expenses on transfer of ₹ 53,00,000)	1,06,000
Net consideration	96,94,000
Less: Cost being: Indexed Cost of Acquisition (18,00,000 × 363 ÷ 100)	67,68,000
Long Term Capital Gains	29,26,000
Less: Exemption u/s 54 (10,00,000 + ₹4,00,000) [WN-2]	14,00,000
Exemption u/s 54EC in respect of bonds of REC [WN-3]	7,00,000
Taxable Long Term Capital Gains	8,26,000
Total Income (rounded off)	8,26,000
Tax on long-term capital gains 20% [8,26,000 - ₹ 2,50,000) [WN-4]	1,15,200
Add: HEC @ 4%	4,608
Total tax (round-off)	1,19,810





Working Notes:

- (1) In case the stamp duty value fixed by the stamp valuation authority exceeds 110% of actual sale consideration, the stamp duty value shall be deemed as the full value of consideration.
- (2) Exemption u/s 54 is available if one/two new residential house(s) is/are purchased within 1 year before or 2 years after the date of transfer. Here the new house is purchased within the said time limit, further the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt u/s 54. Besides this the amount deposited in capital gains account scheme on or before the due date of furnishing the return of income shall also qualify for deduction even if it is deposited for construction of additional floor of the house.
- (3) Exemption under section 54EC is available in respect of investment in bonds of Rural Electrification corporation only if the investment is made within a period of 6 months after the date of such transfer. In this case the investment made after 6 months amounting 5,00,000 shall not qualify for exemption under section 54EC.
- (4) Tax on LTCG = 20% of (6,60,000 - basic exemption limit of ₹ 2,50,000 (assuming that the assessee is resident in India) 20% of 4,10,000 = 82,000.
- (5) The tax liability on LTCG after indexation @20% will be lower than tax computed @12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation for computing LTCG on transfer of residential house.
- (6) Since the total income of Mr Roy exceeds 5,00,000, he is not entitled for tax rebate under Section 87A.

ILLUSTRATION 28

Computation of capital gains and tax liability: Mr. Martin sold his residential house property on 08-09-2025 for ₹ 70 lakhs which was purchased by him for ₹ 20 lakhs on 05-05-2006.

- (1) He paid 50,000 as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was 99 lakhs.
- (2) He bought another house property on 25-12-2025 for 11 lakhs.
- (3) He deposited 10 lakhs on 10-11-2025 in the capital gain bond of National Highway Authority of India (NHAI).
- (4) He deposited another ₹ 10 lakhs on 10-07-2026 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income under the head "Capital Gains" for A.Y. 2026-27 as per Income-tax Act, 1961 and also Income tax payable on the assumption that he has no other income chargeable to tax.

(8 Marks, Nov. 2015)

Cost inflation index for various financial year are as under: 2006-07: 122 and 2024-25: 376

SOLUTION

Computation of capital gains and tax thereon in the hands of Mr. Martin (amounts in ₹) -

Particulars	₹
Full value of consideration [WN-1]	99,00,000
Less: Brokerage	50,000
Net sale consideration	98,50,000
Less: cost of acquisition	20,00,000
Capital Gains	78,50,000
Less: Exemption under section 54 [WN-2]	21,00,000



Exemption under section 54EC	[WN-3]	10,00,000
Income by way of Long-term capital gain/ Total Income (rounded off)		47,50,000

Option (1) - in case he avail benefit of indexation

Particulars		₹
Full value of consideration	[WN-1]	99,00,000
Less: Brokerage		50,000
Net sale consideration		98,50,000
Less: Indexed cost of acquisition (20,00,000 × 376/122)		61,63,934
Capital Gains		36,86,066
Less: Exemption under section 54	[WN-2]	21,00,000
Exemption under section 54EC	[WN-3]	10,00,000
Income by way of Long-term capital gain/ Total Income (rounded off)		5,86,070
Less: Basic Exemption Limit of ₹ 2,50,000	[WN-4]	2,50,000
LTCG on which tax imposable		3,36,070
Income Tax @ 20%		67,214
Less: Tax rebate u/s 87A [100% of tax or 12,500 whichever is less]		-
Balance Income tax		67,214
Add: Health & Education cess @ 4%		2,689
Total Tax (rounded off)		69,900

Option (2) - in case he do not avail benefit of indexation

Particulars		₹
Full value of consideration	[WN-1]	99,00,000
Less: Brokerage		50,000
Net sale consideration		98,50,000
Less: cost of acquisition		20,00,000
Capital Gains		78,50,000
Less: Exemption under section 54	[WN-2]	21,00,000
Exemption under section 54EC	[WN-3]	10,00,000
Income by way of Long-term capital gain/ Total Income (rounded off)		47,50,000
Less: Basic Exemption Limit of ₹ 2,50,000	[WN-4]	2,50,000
LTCG on which tax imposable		41,00,000
Income Tax @ 20%		5,62,500
Less: Tax rebate u/s 87A [100% of tax or 12,500 whichever is less]		Nil
Balance Income tax		5,12,500
Add: Health & Education cess @ 4%		22,500
Total Tax (rounded off)		5,85,000

Working Notes:

- (1) Value assessed by the stamp valuation authority exceeds 110% of the consideration received, so the stamp duty value will be deemed as FVC=97 lakhs.





- (2) Exemption under section 54 = Cost of residential house acquired on 25-12-2025 + amount deposited in Capital Gains Accounts Scheme on 10-7-2026 (before the due date of filing of return of income) for construction of additional floor on residential house property = 11 lakhs + 10 lakhs = 21 lakhs.
- (3) Exemption under section 54EC = amount deposited in NHAI bonds on 10-11-2025 (within 6 months from the date of transfer) = 10 lakhs.
- (4) Since Mr. Martin is a resident individual having no other income, hence, he will be entitled to basic exemption limit in respect of the income from LTCG - Section 112.

ILLUSTRATION 29

Capital gains in case of Reverse Mortgage and Tax liability: Mrs. Mahalakshmi an individual, aged 68 years, mortgaged her Residential Property, purchased for 3 lakhs on 01-10-2002, with a bank, under a notified reverse mortgage scheme and was sanctioned a loan of 20 lakhs. As per the said scheme she was receiving the loan amount in equal monthly installments of 30,000 per month from the bank. Mrs. Mahalakshmi was not able to repay the loan on maturity and in lieu of settlement of the loan surrenders the residential property to the bank. Bank sold the property for 25 lakhs on 22-02-2026. She had no other income during the year.

Discuss the Tax consequences and compute tax he has shifted out of the default tax regime for the Assessment Year 2026-27. Cost Inflation Index: 2002-03 = 105 and 2023-24 = 376.

(5 Marks, May 2018)

SOLUTION

The tax consequences in hands of Mrs. Mahalakshmi are as under:

(1) At the time of mortgage:

- ♦ As per section 47(xvi), any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government will not be regarded as a transfer. Therefore, capital gains tax liability is not attracted.
- ♦ Section 10(43) provides that the amount received by a senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the amount received by Mrs. Mahalakshmi in a transaction of reverse mortgage of her residential building is exempt under section 10(43).

- (2) **At the time of alienation of house property:** When the bank alienates the property for the purpose of recovery of the loan on non-payment of the loan, then the same will constitute 'transfer' and the capital gains so computed will be taxed accordingly. Thus, Capital Gains in hands of Mrs. Mahalakshmi is as under:

Particulars	₹
Full value of consideration	25,00,000
Less: cost of acquisition	3,00,000
Long-term capital gains/ Gross Total Income	22,00,000
Less: Deduction under Chapter VI-A	Nil
Total Income (rounded off)	22,00,000
Tax on long-term capital gains	
Option 1 [Tax on LTCG = 12.5% of (₹22,00,000 (without indexation benefit) - Basic exemption limit of ₹3,00,000 (assuming that the assessee is resident in India)] or	2,37,500
	2,25,142



Option 2 [Tax on LTCG = 20% of (14,25,710 (after indexation benefit) - Basic exemption limit of ₹3,00,000 (assuming that the assessee is resident in India)] or Lower of Option (1) and (2)	2,25,142
Less: Tax rebate u/s 87A (Nil, since her Total Income exceeds 5,00,000)	Nil
Balance tax	2,25,142
Add: HEC @ 4%	9,006
Tax payable (rounded off)	2,34,150
Computation of LTCG with indexation	
Full value of consideration	25,00,000
Less: Indexed Cost of acquisition	10,74,286
Long-term Capital gains (after indexation benefit)	14,25,710

ILLUSTRATION 30

Computation of Capital Gains and tax liability: Examine the taxability of Capital gains in the following scenarios for the Assessment Year 2026-27, determine the taxable amount and rate of tax applicable:

- On 28th February, 2026 10,000 shares of XY Ltd., a listed company are sold by Mr. B @ 550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th April, 2017 @395 per share by paying STT at the time of purchase. On 31 January, 2018, the shares of XY Ltd. were traded on a recognized stock exchange at the Fair Market Value of 390 per Share.
- Mr. A is the owner of residential house which was purchased on 1 September, 2016 for 9,00,000. He sold the said house on 4th June 2025 for 19,00,000. Valuation as per stamp valuation authorities was 45,00,000. He invested 19,00,000 in NHAI Bonds on 21 March, 2026.

Cost Inflation Index: F.Y. 2016-2017: 264 and F.Y. 2025-2026 -376

(2 × 2 = 4 Marks, July 2021)

SOLUTION

(i) Long-term capital gain on transfer of 10,000 shares of XY Ltd. [taxable u/s 112A @ 12.5% on amount exceeding ₹ 1,25,000]:

Particulars	₹
Full value of consideration [10,000 × 550]	55,00,000
Less: Cost of acquisition	
Higher of -	
Cost of acquisition [10,000 × 395]	39,50,000
Lower of fair market value per share as on 31-1-2018 i.e., 390 per share and sale consideration i.e., 550 per share [10,000 × 390]	39,00,000
	15,50,000
Long term capital gain taxable u/s 112	
A Long-term capital gain exceeding 1 lakh i.e., ₹ 14,25,000 would be taxable @ 12.5%	

(ii) Sale of residential house [long-term capital asset, since held for more than 24 months]:

Particulars	₹



Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
Less: cost of acquisition	9,00,000
	36,00,000
Less: Deduction u/s 54EC [No deduction u/s 54EC would be allowed on investment of 19,00,000 in NHAI bonds, since such investment is made on 21st March 2025 i.e., after six months from the date of transfer i.e., 4th September, 2024]	Nil
Long-term capital gain taxable u/s 112 @ 12.5%	36,00,000
Tax liability	4,50,000
Full value of consideration [Stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
Less: Indexed Cost of acquisition $[9,00,000 \times 376 \div 264]$	12,81,818
Long term Capital Gains	32,18,182
Less: Deduction u/s 54EC [No deduction u/s 54EC would be allowed on investment of 19,00,000 in NHAI bonds, since such investment is made on 21st March 2026 i.e., after six months from the date of transfer i.e., 4th June, 2025]	Nil
Taxable Long-term capital gain taxable u/s 112 @ 20% (with benefit of indexation)	32,18,182
Tax liability @20% (II)	6,43,640
Tax liability being lower of (I) or (II)	4,50,000

ILLUSTRATION 31

Computation of Capital Gains: A owns a capital asset which was purchased by him on 1-5-1999 for 4,00,000. The market value of the said asset as on 1-4-2001 was 3,00,000. The said asset was sold for 18,00,000 on 15-04-2025. Expense incurred on transfer amounted to 5,000. Compute the capital gain for the A.Y. 2026-27.

SOLUTION

Computation of capital gains chargeable to tax (amount in ₹) -

Particulars	₹
Full value of consideration	18,00,000
Less: Expenses on transfer	5,000
Net Consideration	17,95,000
Less: Indexed cost of acquisition	4,00,000
Long term capital gain	13,95,000

ILLUSTRATION 32

Computation of Capital Gains - Long Term: A owns a commercial property which was purchased by him on 15-10-2016 for 8,00,000. The said asset was sold for 15,75,000 on 30-01-2025. Expense incurred on transfer amounted to 5,000. Compute the capital gain for the assessment year 2025-26. (Cost inflation index for F.Y. 2016-17= 264 and 2023-24= 363)

SOLUTION

Computation of capital gains chargeable to tax (amount in ₹)

Particulars	₹



Full value of consideration	15,75,000
Less: Expenses on transfer	5,000
Net Consideration	15,70,000
Less: Cost of acquisition [WN]	8,00,000
Long-term Capital Gains	7,70,000

Working Note: Since the commercial property is held for more than 24 months immediately preceding the date of transfer the said capital asset is long term capital asset

ILLUSTRATION 33

Computation of Capital gains: Ram purchases a house property for ₹ 15,00,000 on 30th June, 1994. The following expenses were incurred by him for making addition/ alteration to the house property:

Particulars	₹
Cost of construction of first floor in 1995-1996	5,00,000
Cost of construction of second floor in 2002-03	7,50,000
Alteration/reconstruction of the property in 2006-07	6,25,000
Fair market value of the property on 1 April, 2001	21,00,000
Stamp duty value of the property as on 1 April, 2001	20,00,000

The house property is sold by him on 15th June, 2025 for 1,25,00,000 (expenses incurred on transfer ₹ 1,15,000).

Compute the amount of capital gains chargeable to tax for the assessment year 2026-27.

Cost inflation indices: FY 2001-02: 100; FY 2002-03: 105; FY 2006-07: 122 and 2024-25: 363.

SOLUTION

Computation of capital gains/loss chargeable to tax (amount in ₹)

Particulars	₹
Full value of consideration	1,25,00,000
Less: Expenses on transfer	1,15,000
Net Consideration	1,23,85,000
Less: Indexed cost of acquisition [Stamp duty value will be considered as cost of acquisition since it is less than the fair market value of the property]	20,00,000
Less: Indexed cost of improvement (second floor)	7,50,000
Less: Indexed cost of improvement	6,25,000
Long-term Capital Gains	90,00,000

Note: A resident individual or HUF, while computing tax on LTCG on transfer of land or building or both, has the option to take the benefit of indexation under section 112 in respect of long-term capital gains arising on transfer of land or building or both which is acquired before 23.7.2024 and transferred on or after 23.7.2024. Accordingly, LTCG on transfer of such land or building or both are subject to lower of tax @12.5% (on LTCG computed without indexation benefit) or @20% (on LTCG computed with indexation benefit).

ILLUSTRATION 34





Perquisite and Capital gains of ESOP: AB Co. Ltd. allotted 1,000 sweat equity shares to Sri Chand in June 2025. The shares were allotted at 200 per share as against the fair market value of 300 per share on the date of exercise of option by the allottee viz., Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- (i) What is the perquisite value of sweat equity shares allotted to Sri Chand?
- (ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares ?

SOLUTION

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

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

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2) (vi). Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

ILLUSTRATION 35

Conversion of stock in trade into Capital Asset: Mr. X, a trader in gold and silver jewellery furnishes you with the following information

- (1) On 14th May, 2024, X purchases 100 grams of gold bullion the rate of 30,000 per 10 gram as his stock-in-trade
- (2) This stock-in-trade is not sold till 31 March, 2025. FMV of gold bullion on 31 March, 2025 is ₹31,500 per 10 grams.
- (3) The above inventory of 100 grams gold bullion is converted into capital asset on 10th July, 2025. FMV of Gold bullion on 10th July, 2025 is ₹31,750 per ten grams.
- (4) X transfers 50 grams of gold bullion on 25th March, 2026 at the rate of 32,500 per 10 gram.

Find out tax consequences of these transactions (assume that X has not undertaken any other transaction during the previous years 2024-25 and 2025-26).

SOLUTION

- (1) For the previous year 2024-25, business income from the above transaction will be determined as Follows

Particulars	₹	₹
Opening stock on 1st April, 2024	Nil	
Purchase of inventory during 2024-25 [30,000 ÷ 10 × 100]	3,00,000	
Sales during 2024-25		Nil
Closing value of inventory (cost or market price, whichever is lower)		3,00,000



Net profit	Nil	
Total	3,00,000	3,00,000

(2) Business income of X for the previous year 2025-26 will be computed as follows (amount in ₹)

Particulars	₹	₹
Opening stock on 1st April, 2025	3,00,000	
Purchase of inventory during 2025-26	Nil	
Sales during 2025-26		Nil
Fair market value on the date of conversion as per Section 28(via) [$31,750 \div 10 \times 100$]		3,17,500
Closing value of inventory		Nil
Net profit	17,500	
Total	3,17,500	3,17,500

(3) Income under the head "Capital gains" will be as follows (amount in -

Particulars	₹
Full value of consideration ($32,500 \times 50/10$)	1,62,500
Less: Cost of acquisition (being fair market value on the date of conversion) ($31,750 \times 50/10$) [WN]	1,58,750
Short-term capital gain	3,750

Working Note: Where the capital gain arises from the transfer of a capital asset referred to in Section 28(via) i.e. inventory converted into capital asset, the cost of acquisition of such asset shall be deemed to be the fair market value which has been taken into account for the purposes of Section 28(via) and the period of holding of such capital asset shall be reckoned from the date of conversion or treatment.

ILLUSTRATION 36

Compensation by Interim order: Mr. X purchased an urban land on 25-04-2006 for 6,00,000. His property was acquired in land acquisition proceedings on 15-07-2012 and award of 15,00,000 was determined and the same was paid on 18-07-2012. The assessee filed an appeal against the award so determined. The land acquisition court, by order dated 01-05-2013, enhanced the compensation amount by 10,00,000, which was not paid to the assessee on account of the contest by the State through an appeal. The High Court by interim order allowed the assessee to withdraw 50% of the enhanced compensation on 15-07-2025 and the assessee received the amount in the relevant financial year. The court by final order dated 01-10-2026 held the enhancement of compensation as valid and assessee received the balance award on 17-12-2026. Discuss the taxability of the said compensation.

SOLUTION

The original compensation will be taxable in the year of receipt. However, the amount of compensation received in pursuance of an interim order of the court, Tribunal or other authority shall be deemed to be income chargeable under the head 'Capital gains' in the previous year in which the final order of such court, Tribunal or other authority is made. Hence, the relevant computation will be as under: Computation of long term capital gains on receipt of original compensation (amount in ₹)



Particulars	₹
Full value of consideration	15,00,000
Less: Indexed cost of acquisition (6,00,000 × 200/122)	9,83,607
Long term capital gains taxable in AY 2013-14	5,16,393

Computation of long term capital gains on receipt of enhanced compensation (amount in ₹):

Particulars	₹
Full value of consideration	10,00,000
Less: Indexed cost of acquisition	NIL
Long term capital gains taxable in AY 2027-28	10,00,000

Note: The interim compensation of 5,00,000 will not be taxable in AY 2026-27 but will be taxable when the final award is received i.e. AY 2027-28.

ILLUSTRATION 37

Computation of capital gains in case of slump sale: Mr. Patel is a proprietor of Star Stores since 20-05-2022. He has transferred his shop by way of slump sale for a total consideration of 40 lakh. The fair market value of capital assets on 31-03-2026 is 38 lacs. The professional fees & brokerage paid for this sale are 80,000. His balance sheet as on 31-03-2026 is as under:

Liabilities	₹	Assets	₹
Own Capital	10,50,000	Building	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000
Trade Creditors	2,50,000	Debtors	2,00,000
Unsecured Loan	2,00,000	Other Assets	8,00,000
Total	20,00,000	Total	20,00,000

Other Information:

- (1) No individual value of any asset is considered in the transfer deed.
- (2) Other assets include trademarks valuing 2,00,000 as on 01-04-2025 on which no depreciation has been provided.
- (3) Furniture of 1,50,000 purchased on 05-11-2025 on which no depreciation has been provided.
- (4) Unsecured loan includes 50,000 as advance received from his wife, which she has agreed to waive off. Compute the capital gain for A.Y. 2026-27. **(4 Marks, July 2021)**

SOLUTION

Computation of capital gains on slump sale of shop (amount in ₹)

Particulars	₹
Full Value of consideration [Higher of FMV of capital assets transferred or FMV of monetary consideration received]	40,00,000
Less: Expenses on sale [professional fees & brokerage]	80,000
Net sale consideration	39,20,000
Less: Net worth (See Working Note below)	10,42,500
Short-term capital gain [Since shop is held for not more than 36 months immediately preceding the date of transfer]	28,77,500

Working Note: Computation of net worth of shop (amount in ₹)

Particulars	₹	₹
Building		5,00,000



Furniture	5,00,000	
Less: Deprecation on 1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year	(7500)	4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Deprecation on 2,00,000, being intangible asset @ 25%	50,000	7,50,000
Total assets		19,42,500
Less: Bank loan.	5,00,000	
Trade creditors	2,50,000	
Unsecured loan 2,00,000 less 50,000, being the amount waived off by his wife	1,50,000	9,00,000
Net worth		10,42,500

ILLUSTRATION 38

Capital gains on Land - Stamp Value to be full value of consideration Section 50C: Mr. Ramesh purchased a building on 10-04-2001 for a sum of 35 lakh. The said building was sold by him to Mahesh, for 90 lakh on 1-1-2026, when the stamp duty value was 185 lakh. The agreement was entered on the same day and the property was registered on the same day. Discuss tax implications in hands of Ramesh.

What would be your answer if the agreement was entered into on 1-8-2025 when the stamp duty value was 130 lakh. Mr. Ramesh had received a down payment of 15 lakh by cheque from Mahesh on the date of agreement. Will your answer change if the said sum of 15 lakhs has been received by cash instead of Cheque

SOLUTION

(1) The tax implications in hands of Ramesh shall be as under-

CASE I: In case the agreement has been entered on the date of sale and property has been registered on the same day: Full Value of Consideration = Value fixed by stamp valuation authority, as per the provisions of Section 50C i.e. 1,85,00,000 on the date of registration will be taken as full value of consideration since the stamp duty value exceeds 110% of the actual consideration and capital gains shall be computed as under:

Particulars	₹
Full value of consideration [Section 50C]	1,85,00,000
Less: Indexed cost of acquisition	35,00,000
Long-term capital gains	1,50,00,000

CASE II: In case the agreement has been entered on 1-8-2025: In this case the stamp duty value on the date of agreement will be considered to compute capital gains since on the date of agreement, sum of 15 lakh has been received by an account payee cheque and the value adopted or assessed or assessable by the stamp valuation authority exceed 110% of the consideration received as a result of transfer of capital asset. The capital gains shall be computed as under:

Particulars	₹
Full value of consideration [Section 50C]	1,30,00,000
Less: Indexed cost of acquisition	35,00,000
Long-term capital gains	95,00,000





(2) Yes, the answer will change in case if on the date of agreement cash has been received instead of an account payee cheque. In such case stamp duty value on the date of agreement shall not be considered but the stamp duty value on the date of registration of property shall be considered and capital gains shall be 1,50,00,000.

ILLUSTRATION 39

Capital gains on Land- Stamp Value to be full value of consideration: Bala sold his vacant site on 30-09-2025 for 12,00,000. It was acquired by him on 01-10-1998 for 1,50,000. The fair market value on 01-04-2001 is 2,00,000 and the stamp duty value as on 01-04-2001 is 1,80,000. The State stamp valuation authority fixed the value of the site at the time of transfer at 12,60,000. Compute income under the head capital gains in the hands of Bala and give your reasons for computation.

Solution: Computation of capital gains of Bala (amounts in -

Particulars		₹
Full value of consideration	[WN-1]	12,00,000
Less: cost of acquisition	[WN-2]	1,80,000
Long-term capital gains		10,20,000

Working Note:

1. Since the value adopted or assessed or assessable by the stamp valuation authority i.e. 12,60,000 does not exceed 110% of the consideration received i.e. 12,00,000, the consideration so received or accruing as a result of the transfer shall be deemed to be the full value of the consideration.
2. In case of a capital asset, being land or building or both, the fair market value of such asset on 01-04-2001 shall not exceed the stamp duty value, wherever available, of such asset as on 01-04-2001. Hence, in this case the SDV as on 01-04-2001 i.e. 1,80,000 shall be taken as cost of acquisition.

ILLUSTRATION 40

Computation of Capital gains - Implications of Section 50C: Mr. Vaibhav sold a house, held as a capital asset, to his friend Mr. Dhanush on 1st December, 2025 for a consideration of ₹ 25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty valuation based on State Government guidelines was 45,00,000. Mr. Vaibhav preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as 35,00,000 (22,00,000 for land and the balance for building portion). The differential stamp duty was paid, accepting the said value determined. Mr. Vaibhav had purchased the land on 1st June, 2007 for ₹ 6,10,000 and completed the construction of the house on 21st December, 2024 for ₹ 14,00,000.

Briefly discuss the tax implications in the hands of Mr. Vaibhav and compute the capital gains chargeable to tax.
(4 Marks, Nov. 2013)

SOLUTION

Computation of capital gains chargeable to tax of Mr. Vaibhav:

Particulars	Land	Building
Full value of consideration (Section 50C) [WN2]	22,00,000	13,00,000
Less: cost of acquisition	6,10,000	14,00,000
Long-term capital gain	15,90,000	
Short-term capital gain/loss	-	-1,00,000



Taxable Capital Gains

14,90,000

Working Notes:

- (1) In case, a land is held by the assessee for more than 24 months but the building constructed over it is held for not more than 24 months, then there will be long-term capital gains on sale of the land and short-term capital gains on sale of building - CIT v. Citibank N.A. [2003] 261 ITR 570 (Bom.). Hence, the capital gains have been computed accordingly.
- (2) As per provisions of Section 50C, if the stamp duty value adopted by stamp valuation authority is disputed in appeal and the same is reduced by the appellate authority, the reduced value shall be taken to be full value of consideration for computing the capital gains chargeable to tax. Since the value adopted or assessed or assessable by the stamp valuation authority as revised by Revenue Divisional Officer i.e. 35,00,000 exceed 110% of the consideration received i.e. 25,00,000, Value fixed by stamp valuation authority, as per the provisions of Section 50C shall be deemed to be the full value of the consideration i.e. 35,00,000.
- (3) Short term capital loss can be set off from long term capital gains in accordance with provisions of Section 74 of the Income-tax Act, 1961.
- (4) The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation while computing tax liability on LTCG on transfer of land.

ILLUSTRATION 41

Computation of Capital gains - Implications of Section 50C: Mr. T inherited a house in Jaipur under will of his father in May, 2002. The house was purchased by his father in January, 1980 for 2,50,000. He invested an amount of 7,00,000 in construction of one more floor in this house in June, 2006. The house was sold by him in June, 2025 for 37,50,000. The valuation adopted by the registration authorities for charge of stamp duty was 47,25,000 which was not contested by the buyer, but as per assessee's request, the Assessing Officer made a reference to Valuation Officer. The value determined by Valuation Officer was 47,50,000. Brokerage @ 1% of sale consideration was paid by Mr. T to Mr. S. The market value of house as on 1-4-2001 was 2,70,000. Compute the capital gain chargeable to tax. **(9 Marks, PCE Nov. 2007)**

Solution: Computation of capital gains chargeable to tax of Mr. T:

Particulars		₹	₹
Full value of consideration	[WN-1]	47,25,000	
Less: Expenses of transfer i.e. brokerage @ 1% of ₹ 37,50,000		37,500	
Net sale consideration			46,87,500
Less: Indexed cost of acquisition	[WN-2]	2,70,000	
Indexed cost of improvement		7,00,000	9,70,000
Long-term capital gains			37,17,500

Working Notes:

- (1) As per Section 50C, where the value adopted or assessed or assessable by the stamp valuation authority exceeds 105% of the consideration received, the stamp duty value shall be deemed to be the full value of the consideration. Hence, in the given case - Sales consideration = 37,50,000, 110% of Sale Consideration=41,25,000, Stamp duty value = 47,25,000, Valuation made by Valuation officer = 47,50,000, Therefore, full value of consideration = Higher of 41,25,000 and 47,50,000; subject to maximum of 47,25,000 = 47,25,000.



- (2) Since the house has been obtained under inheritance i.e. one of the modes specified under section 49(1), therefore, its cost shall be the cost to the previous owner (father) i.e. FMV as on 1-4-2001 i.e. 2,70,000. The CII of acquisition will be of 2001-02 since his father has acquired the property prior to 01-04-2001.
- (3) The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation while computing tax liability on LTCG on transfer of house property.

ILLUSTRATION 42

Advance money received-forfeited by the assessee: Mr. Rakesh purchased a house property on 14th April, 1999 for 9,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 2002 and received an advance of 25,000. However, since Mr. B did not remit the balance amount, Mr. Rakesh forfeited the advance. Later on, he gifted the house property to his brother Mr. A on 15th June, 2006.

Following renovations were carried out by Mr. Rakesh and Mr. A to the house property:

Particulars	Amounts ₹
By Mr. Rakesh during FY 1999-2000	10,000
By Mr. Rakesh during FY 2003-04	50,000
By Mr. A during FY 2007-08	1,90,000

The fair market value of the property as on 01-04-2001 is ₹11,00,000.

Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 2012 and received an advance of ₹ 80,000. The said amount was forfeited by Mr. A, since Mr. C could not fulfil the terms of the agreement. Finally, the house was sold by Mr. A to Mr. Sanjay on 2nd June, 2025 for a consideration of 52,00,000.

Compute the capital gains chargeable to tax in the hands of Mr. A for the assessment year 2026-27. Cost inflation indices are as under:

Financial Year	Cost inflation index
2001-02	100
2003-04	109
2006-07	122
2007-08	129
2025-26	376

SOLUTION

Computation of capital gains taxable in the hands of Mr. A: Here, the house property so transferred shall be the long term capital asset for Mr. A as he has acquired the property from Mr. Rakesh by way of gift [one of the modes specified in Section 49(1)], hence, his period of holding = 14-4-1999 to 2-1-2026 i.e. more than 3 years. (amount in ₹)

Particulars	₹
Full value of consideration	52,00,000
Less: Indexed cost of acquisition [WN-1]	10,20,000
Less: Indexed cost of improvement by Mr. Rakesh [WN-2]	50,000
Less: Indexed cost of improvement by Mr. A	1,90,000



Long-term Capital Gains

39,40,000

Working Notes

- (1) Cost of acquisition = FMV as on 01-04-2001 Less Advance forfeited by Mr. A = 11,00,000 - 80,000 = 10,20,000. Forfeiture made by Mr. Rakesh (previous owner) shall be ignored.
- (2) Cost of improvement by Mr. Rakesh shall not include the improvements made before 1-04-2001.
- (3) The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation while computing tax liability on LTCG on transfer of house property.

ILLUSTRATION 43

Exemption under section 54: Mr. Surinder furnishes the following particulars for the previous year ending 31-3-2026, and requests you to compute the taxable capital gain:

- (i) He had a residential house inherited from father in 2006, the fair market value of which as on 1-4-2001 is 5 lakhs.
- (ii) In the year 2007-08, further construction and improvements costed 6 lakhs.
- (iii) On 10-5-2025, the house was sold for 90 lakhs. Expenditure in connection with transfer = ₹ 50,000.
- (iv) On 20-12-2025, he purchased a residential house for ₹ 10 lakhs. (May 2002)

SOLUTION

Computation of Capital gains (amounts in ₹)

Particulars		₹	₹
Full value of consideration			90,00,000
Less: Expenditure in connection with transfer			50,000
Net Sale Consideration			89,50,000
Less: Cost of Acquisition	[WN 1]	5,00,000	
Less: Cost of Improvement		6,00,000	11,00,000
Long Term Capital Gains			78,50,000
Less: Exemption u/s 54	[WN 2]		10,00,000
Taxable Long Term Capital Gains			68,50,000

Working Note:

- 1) In this question it is assumed that his father has acquired the property before 01-04-2001. Hence, cost inflation index of the year 2001-02 is taken for determining indexed cost of acquisition.
- 2) Exemption under section 54 shall be the cost of new house acquired i.e. 10,00,000 as the amount of capital gain is more than the cost of new house.
- 3) The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation while computing tax liability on LTCG on transfer of house property.

ILLUSTRATION 44

Section 50C and Exemption u/s 54: Mr. Sunil entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16-08-2025 for 80,00,000. The sale proceeds was 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 of the property.

Mr. Dhaval was handed over the possession of the property on 15-12-2025 and the registration process was completed on 14-01-2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16-08-2025 was 1,10,00,000 whereas, on 14-01-2026 it was 1,11,50,000.

Mr. Sunil had acquired the property on 01-04-2001 for 20,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property for 32,00,000.

Compute the income under the head "Capital Gains" for the Assessment Year 2026-27.

Cost Inflation Index for Financial Year(s): 2001-02-100; 2002-03-105 and 2025-26-376.

(5 Marks, Nov. 2017)

SOLUTION

Computation of taxable capital gains (amount in ₹) :

Particulars		₹
Full value of consideration [Section 50C]	[WN-1]	1,10,00,000
Less: Indexed cost of acquisition	[WN-2]	20,00,000
Long-term capital gains		90,00,000
Less: Exemption u/s 54	[WN-3]	32,00,000
Taxable long-term capital gains		58,00,000

Working Notes:

- 1) As per provisions of section 50C, since the value adopted or assessed or assessable by the stamp valuation authority i.e. 1,10,00,000 exceeds 110% of the consideration received i.e. 80,00,000, stamp duty value will be taken as full value of consideration. In this case the stamp duty value on the date of agreement will be considered to compute capital gains since on the date of agreement, 20% of sales consideration i.e. 16 lakh has been received by an account payee bank draft.
- 2) Since the residential house property was held by Mr. Sunil for more than 24 months immediately preceding the date of its transfer, the resultant capital gains will be long term capital gains.
- 3) Exemption under section 54 shall be available in respect of one/two new house(s) purchased within 2 years from the date of transfer of existing residential house.
- 4) For computing the tax liability, he can claim benefit of indexation and pay tax @ 20% since the same will be lower than the tax liability without indexation @ 12.5%.

ILLUSTRATION 45

Exemption u/s 54: The following information is given by X and Y for the previous year 2025-26:

Particulars	₹	₹
Sales consideration of a residential house property situated in Mumbai sold on 15-06-2025	2,30,00,000	9,80,00,000
Stamp duty value on the date of transfer	2,55,00,000	10,00,00,000
Cost of acquisition in 1996-97	8,00,000	1,60,00,000
Fair market value on 1 April, 2001	9,00,000	7,10,00,000
Cost of improvement incurred in 2002-03	40,000	70,00,000
Expenditure on transfer borne by transferor	40,000	50,000

CHAPTER - 6

CAPITAL GAINS



CA VARDHAMAN DAGA

Purchase of residential house property in Cochin on 1st December, 2025	60,70,000	20,10,000
Purchase of another residential house property in Mumbai on 10 th July 2026	2,02,00,000	1,20,00,000

Determine taxable capital gains for assessment year 2026-27.

SOLUTION

Computation of capital gains-

Particulars	₹	₹
Full value of consideration (In case of Mr. X stamp duty value is taken as it exceeds 110% of sale consideration)	2,55,00,000	9,80,00,000
Less: Expenses on transfer	40,000	50,000
Net Consideration	2,54,60,000	9,79,50,000
Less: cost of acquisition:		
- In the case of X	9,00,000	-
- In the case of Y	-	7,10,00,000
cost of improvement:		
- In the case of X	40,000	-
- In the case of Y	-	70,00,000
Long-term capital gain before exemption	2,45,20,000	1,99,50,000
Less: Exemption u/s 54		
- In the case of X (as long-term capital gain exceeds 2 crore, X can avail section 54 exemption only for investment in one residential house property)	2,02,00,000	-
- In the case of Y (as long-term capital gain does not exceed 2 crore, Y can claim section 54 exemption for investment in two residential house properties) 20,10,000 +1,20,00,000)	-	1,40,10,000
Income under the head "Capital gains"	43,20,000	59,40,000

ILLUSTRATION 46

Exemption u/s 54: Mr. Roy owned a residential house in Noida. It was acquired on 09-09-2009 for 30,00,000. He sold it for 1,57,00,000 on 07-01-2022.

Mr. Roy 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 31-05-2025 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02-03-2026. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the A.Y. 2022-23 and 2026-27. All workings should form part of your answer. (6 Marks, May 2019-NS)

SOLUTION

1) Computation of capital gains for A.Y. 2022-23:

Particulars	₹
Sale of Residential House in Noida	
Full value of consideration	1,57,00,000





Less: Indexed Cost of Acquisition (30,00,000 x 317/148)	64,25,676
Long-term capital gains	92,74,324
Less: Exemption u/s 54 (Since investment in new residential house in Panchkula exceeds the capital gains, entire capital gains shall be exempt from tax)	92,74,324
Taxable Long-term capital gains	Nil

2) Computation of capital gains for A.Y. 2026-27

Particulars	₹	₹
Sale of Residential House in Panchkula Full value of consideration		3,25,00,000
Less: Indexed cost of acquisition Cost of Acquisition	2,05,00,000	
Less: Exemption claimed u/s 54 [See Note]	92,74,324	1,12,25,676
Long term capital gains		2,12,74,324
Less: Exemption u/s 54 (on purchase of new house at Delhi)		2,12,74,324
Taxable Long-term capital gains		Nil

Note: The house purchased in Panchkula has been transferred before **3 years** from the date of its acquisition, hence cost of the asset will be reduced by capital gains exempted earlier for computing capital gains.

ILLUSTRATION 47

Exemption under Section 54EC: X transfers the following long-term capital assets

Capital asset	Date of transfer	Full Value of Consideration	Indexed cost of acquisition	Investment in NHAI/REC bonds (date of investment)
Land	03-04-2025	₹ 95 lakhs	₹ 40 lakhs	₹ 40 lakh (01-09-2025)
Commercial House	05-11-2025	₹ 65 lakhs	₹ 20 lakhs	₹ 20 lakhs (1-04-2026)

Find out exemption under section 54EC and taxable capital gain for AY 2026-27.

SOLUTION

Computation of Taxable Capital Gains Assessment year 2026-27 (₹ lakh):

Particulars	₹
Long-term capital gain on transfer of Land and Commercial House (55 lakh + ₹ 45 lakh)	100
Less: Exemption u/s 54EC (Investment in NHAI/REC bonds: 40 lakh + 40 lakh, limited to 50 lakh)	50
Long-term capital gain chargeable to tax	50

ILLUSTRATION 48

Exemption under section 54 and its withdrawal: Mr. Selvan acquired a residential house in January, 2002 for 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of 2,00,000 in October, 2004. He sold the house property in October, 2025 for 75,00,000. The value of property was adopted as 88,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2025 for 25,00,000. He deposited 20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June, 2026.

Compute the capital gain chargeable to tax for the A.Y. 2026-27.



What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2025 is sold for 40,00,000 in December, 2026? (8 Marks, IPCC Nov. 2011)

SOLUTION

(1) Computation of Capital Gains (amounts in ₹)

Particulars			₹
Full Value of Consideration (i.e. Stamp Duty Value)	[WN-1]		88,00,000
Less: Cost being: Indexed Cost of Acquisition		10,00,000	
Indexed Cost of Improvement		2,00,000	12,00,000
Long Term Capital Gains			76,00,000
Less: Exemption u/s 54	[WN-2]		25,00,000
Exemption u/s 54EC in respect of bonds of NHAI	[WN-3]		NIL
Taxable Long Term Capital Gains			51,00,000

Working Notes:

- As per the provisions of Section 50C, in this case the value assessed by the stamp valuation authority exceed 110% of the consideration received therefore, the stamp duty value shall be deemed as the full value of consideration.
- Exemption under section 54 is available if a one/two residential house(s) is/are purchased within 1 year before or 2 years after the date of transfer. Here the new house is purchased within the said time limit, further the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt under section 54.
- Exemption under section 54EC is available in respect of investment in bonds of National Highways Authority of India only if the investment is made within a period of 6 months after the date of such transfer. In this case, since the investment is made after 6 months, exemption under section 54EC would not be available.
- The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation for computing LTCG on transfer of residential house property.
- Short Term capital gains for the A.Y. 2027-28 sale of house = Full value of consideration - Cost of acquisition = 40,00,000 - NIL = ₹ 40,00,000.
Since exemption was claimed under section 54 in respect of the house and the same has been sold within 3 years from the date of its acquisition, therefore, the exemption will be withdrawn. Accordingly, cost of acquisition of house = Original Cost of purchase - Exemption claimed under section 54 = 25 lakhs-25 lakhs = NIL.

ILLUSTRATION 49

Section 50C and Investment to be made in bonds of NHAI/REC: Mr. A who transfers land and building on 02-01-2025, furnishes the following information:

- Net consideration received 16 lakhs.
- Value adopted by stamp valuation authority, which was not contested by Mr. A ₹ 21 lakhs.
- Value ascertained by Valuation Officer on reference by the Assessing Officer 25 lakhs.
- This land was distributed to Mr. A on the partial partition of his HUF on 1-4-2001. Fair market value of the land as on 1-4-2001 was 1,00,000.
- A residential building was constructed on the above land by Mr. A at a cost of 3,00,000 (construction completed on 1-12-2004) during the financial year 2004-05.
- Short-term capital loss incurred on sale of shares during the financial year 2018-19 ₹ 2,05,000





Mr. A seeks your advice as to the amount to be invested in NHAI bonds so as to be exempt from clutches of capital gain tax. (8 Marks, Modified May 2006) (8 Marks, IPCC May 2012)
Cost inflation index for various financial year are as under: 2004-05: 113 and 2025-26: 376

SOLUTION

Computation of Capital Gains of Mr. A -

Particulars	₹	₹
Full value of consideration [WN-1]		21,00,000
Less: cost of land [WN-2]	1,00,000	
cost of building	3,00,000	4,00,000
Long-term capital gains		17,00,000
Less: Brought forward short-term capital loss set off		2,05,000
Amount to be invested in NHAI/REC bonds to claim exemption u/s 54EC		14,95,000

Working Notes:

- (1) As per Section 50C, where the value assessed by the stamp valuation authority exceeds 110% of the consideration received then the stamp duty value shall be deemed to be the full value of the consideration. Hence, in the given case - Sales consideration = 16,00,000, 110% of Sale Consideration = 17,60,000, Stamp duty value = 21,00,000. Valuation made by Valuation officer 25,00,000. Therefore, full value of consideration = Higher of 16,00,000 and 25,00,000; subject to maximum of 21,00,000.
- (2) Since acquisition of capital asset on partition of HUF is one of the modes specified in Section 49(1), hence, cost thereof shall be the cost to the previous owner. Hence, FMV as on 1-4-2001 shall be the cost of acquisition and shall be eligible for indexation.

ILLUSTRATION 50

Exemption w/s 54 and 54F: Mr. X owns a residential house, which is self-occupied, and also a plot of land (he owns no other house). He sells the house on January 2, 2025 and the plot on July 11, 2025 for 18,00,000 and 12,00,000 respectively. The house was purchased on June, 2001 for 4,50,000 and the plot on March 31, 2002 for ₹ 3,00,000. X has purchased a new residential house on April 25, 2026 for 15,00,000 and claims exemption in respect of such house. On 1-1-2027, he transfers the said residential house for 8,25,000 and purchases a new house on 31-3-2027. for 12,00,000. Compute the capital gains for relevant years.

SOLUTION

X can claim exemption under section 54 in respect of capital gains on sale of residential house and exemption under section 54F in respect of capital gains on sale of plot. Since the exemption under section 54 is available on investment of capital gains, therefore, first of all, exemption under section 54 will be claimed. Thereafter, exemption under section 54F, which is available on investment of net consideration, shall be claimed. The exemption under section 54F will be available only in respect of balance cost of new house i.e. Original cost of new house - Exemption u/s 54.

Computation of Capital Gains for assessment year 2026-27 (amounts in ₹)-

Particulars	Residential house	Plot
Full Value of consideration	18,00,000	12,00,000
Less: cost of acquisition	4,50,000	3,00,000
Long term capital gains	13,50,000	9,00,000



Less: Exemption u/s 54	13,50,000	
Exemption u/s 54F [WN]		1,12,500
Taxable long term capital gains	Nil	7,87,500

Working Note: Exemption under section 54F-

$$\text{Capital gains} \times (\text{cost of new house} - \text{exemption u/s 54}) = \frac{900000 \times (15,00,000 - 13,50,000)}{12,00,000} = ₹ 1,12,500$$

Computation of capital gains on sale of residential house for assessment year 2027-28

Particulars	₹
Sale price of the residential house (acquired on 25-4-2026)	8,25,000
Less: Cost of Acquisition (15,00,000 - 13,50,000 i.e. exemption claimed u/s 54)	1,50,000
Short-term capital gains for assessment year 2027-28	6,75,000
Long-term capital gains (Exemption claimed u/s 54F shall be chargeable as long-term capital gains of the year in which the house is transferred i.e. assessment year 2027-28)	1,12,500

Note: No exemption u/s 54 or 54F will be available in respect of second new house acquired on 31-3-2027 since the house transferred on 1-1-2027 is a short-term capital asset.

ILLUSTRATION 51

Computation of LTCG on sale of Equity shares: From the following information determine taxable capital gains. Mr. X has acquired 1,000 equity shares on 1-04-2017 for 15,25,000 (STT paid @ 0.1%). The fair market value of shares as on 31-01-2018 was 15,00,000. He sold the shares on 25-08-2025 for 14,75,000 (STT paid @ 0.1%). Brokerage Expenses incurred on transfer: 0.5% of the Sales consideration.

SOLUTION

Computation of taxable capital gains (amount in ₹)

Particulars	₹
Full value of consideration	14,75,000
Less: Expenses on transfer (0.5% of the gross consideration)	7,375
Net consideration	14,67,625
Less: Cost of acquisition [WN]	15,25,000
Long-term capital loss	-57,375

Working Note: The cost of acquisition of equity shares shall be determined as under

- ♣ Step 1: Cost of acquisition of such equity shares i.e., ₹ 15,25,000
- ♣ Step 2: Lower of (a) the fair market value of such asset as on 31-01-2018 i.e. 15,00,000; or (b) the full value of consideration received or accruing as a result of the transfer of the capital asset i.e. 14,75,000 = 14,75,000.
- ♣ Step 3: Cost of acquisition shall be deemed to the amount computed at Step 1 or Step 2 whichever is higher i.e. ₹ 15,25,000

ILLUSTRATION 52

Computation of LTCG on sale of Equity shares: From the following information determine taxable capital gains. Mr. X has acquired 1,000 equity shares on 1-04-2017 for 15,25,000 (STT

paid @ 0.1%). The fair market value of shares as on 31-01-2018 was ₹ 16,50,000. He sold the shares on 25-08-2025 for 16,00,000 (STT paid @ 0.1%).

SOLUTION

Computation of taxable capital gains (amount in ₹)

Particulars	₹
Full value of consideration	16,00,000
Less: Expenses on transfer	Nil
Net consideration	16,00,000
Less: Cost of acquisition [WN]	16,00,000
Long-term capital gains	Nil

Working Note: The cost of acquisition of equity shares shall be determined as under

- ♣ Tax on long-term capital gain u/s 112A [10% of (long-term capital Step 2: Lower of (a) the fair market value of such asset as on 31-01-2018 i.e. 16,50,000; or (b) the full value of consideration received or accruing as a result of the transfer of the capital asset i.e. 16,00,000 = 16,00,000.
- ♣ Step 3: Cost of acquisition shall be deemed to the amount computed at Step 1 or Step 2 whichever is higher i.e. 16,00,000.

ILLUSTRATION 53

Computation of tax liability: Mr. X (64 years) is a resident individual. For the A.Y. 2026-27, he has following income

Long-term capital gain on transfer of equity shares as computed as per provisions of section 112A)
= ₹ 1,80,000

Other income = ₹ 3,75,000

Compute his tax liability for A.Y. 2026-27 if he has opted for the provisions of Section 115BAC

SOLUTION

Computation of tax liability

Particulars	₹
Tax on long-term capital gain u/s 112A [12.5% of (1,80,000 - 125000) - 25000 shortfall in other income]	3,750
Add: Health and education cess @ 4%	150
Tax liability	3,900

Working Note: In this case, the other income falls short of maximum amount not chargeable to tax by 25,000 [4,00,000 - 3,75,000], hence long term capital gains will be reduced by such shortfall. Taxable LTCG under Section 112A 55,000. No rebate under Section 87A shall be admissible from tax on long term capital gains computed as per the provisions of Section 112A of the Income tax Act, 1961.

ILLUSTRATION 54

Computation of Capital Gains and Tax liability: Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2025-26:



- (i) **Sold 10000 shares of A Ltd. on 05-08-2025 @ 650 per share:** A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2017 @ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of A Ltd were traded on a recognized stock exchange as under:
 Highest price-300 per share
 Average price-290 per share
 Lowest price-280 per share
- (ii) **Sold 1000 units of B Mutual Fund on 20-08-2025 @50 per unit:** B Mutual Fund is an equity oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was 55 per unit.
- (iii) **Sold 100 shares of C Ltd. on 25-04-2025 @ 250 per share :** C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was 50 per share.
 Calculate the amount chargeable to tax under the head Capital Gains and also calculate tax on such gains for assessment year 2026-27 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (ignore surcharge and cess).

(6 Marks, Nov. 2019)

SOLUTION

Computation of taxable capital gains and tax thereon (amount in ₹):

Particulars		₹	₹
Long term Capital gains on sale of Shares of A Ltd. (listed in RSE)			
Full value of consideration		65,00,000	
Less: Expenses on transfer		Nil	
Net consideration		65,00,000	
Less: Cost of acquisition (No benefit of indexation is available)	[WN-1]	30,00,000	35,00,000
Long term Capital gains on sale of units of B Mutual Fund			
Full value of consideration		50,000	
Less: Expenses on transfer		Nil	
Net consideration		50,000	
Less: Cost of acquisition (No benefit of indexation is available)	[WN-2]	50,000	Nil
Long term Capital gains on sale of Shares of C Ltd. (unlisted company)			
Full value of consideration		25,000	
Less: Expenses on transfer		Nil	
Net consideration		25,000	
Less: Cost of acquisition		5,000	20,000
Total Taxable LTCG			35,20,000



Computation of tax on Capital gains			4,21,875
Tax on long term capital gains on sale of Shares of A Ltd. (listed in RSE) taxable u/s 112A @12.5% in excess of 1,25,000			
Tax on long term capital gains on sale of Shares of C Ltd. (unlisted company) @ 20%			2,500

Working Notes:

- (1) The cost of acquisition of equity shares shall be determined as under

Step 1: Cost of acquisition of such equity shares (100 × 10,000) i.e. 10,00,000

Step 2: Lower of (a) the fair market value of such asset as on 31-01-2018 (being highest price i.e. 300 per shares) i.e. 300 × 10,000; or (b) the full value of consideration received or accruing as a result of the transfer of the capital asset i.e. 65,00,000 = 30,00,000.

Step 3: Cost of acquisition shall be deemed to the amount computed at Step 1 or Step 2 whichever is higher i.e. 30,00,000.

- (2) The cost of acquisition of mutual fund units shall be determined as under

Step 1: Cost of acquisition of such units (10 × 1,000) i.e. 10,000

Step 2: Lower of (a) the fair market value of such asset as on 31-01-2018 (55 per unit) i.e. 55 × 1,000; or (b) the full value of consideration received or accruing as a result of the transfer of the capital asset i.e. 50,000 = 50,000

Step 3: Cost of acquisition shall be deemed to the amount computed at Step 1 or Step 2 whichever is higher i.e. ₹ 50,000.

ILLUSTRATION 55

Computation of capital gains in case of conversion of a capital asset into stock-in-trade: Mr. Govind purchased 600 shares of "Y" limited at 130 per share on 26-02-1979. "Y" limited issued him, 1,200 bonus shares on 20-02-1984. The fair market value of these share at Mumbai Stock Exchange as on 01-04-2001 was 900 per share and 2,000 per share as on 31-01-2018. On 31-01-2025 he converted 1000 shares as his stock in trade. The shares was traded at Mumbai Stock Exchange on that date at a high of 2,200 per share and closed for the day at 2,100 per share. On 07-07-2025 Mr. Govind sold all 1800 shares @ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute total income of Mr. Govind for the A.Y. 2026-27.

(5 Marks, Nov. 2020)

SOLUTION

Computation of total income of Mr. Govind for the A.Y. 2026-27

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares × 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (2,100 × 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains:		
	In respect of 800 shares held as capital asset up-to the date of sale -		
	Full value of consideration [800 shares × 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares 2,000] (See Working Note below)	16,00,000	3,20,000



In respect of 1,000 shares converted into stock in trade on 31-12-2024 (Capital gains is taxable in the P.Y. 2025-26, when the stock in trade is sold) Full value of consideration [1000 shares x 2,100, being FMV on the date of conversion]	21,00,000	
Less: Cost of acquisition [1000 shares 2,000] (See Working Note below)	20,00,000	1,00,000
Total Income		7,20,000

Working Note: Cost of acquisition (per share) (amount in ₹)

Higher of (i) and (ii), below	2,000	
i) ₹ 900 per share, being - In case of shares purchased - Original cost of acquisition (130) or FMV as on 1-4-2001 (900), at the option of the assessee In case of bonus shares - FMV as on 1-4-2001 (Nil or 900, at the option of the assessee)		
ii) ₹ 2,000 per share, being the lower of FMV as on 31-1-2018 - ₹ 2,000 per share Sale consideration - ₹ 2,400 per share		

Working Note: Explanation to section 55(2)(ac) defines "fair market value" as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31-1-2018 for computing cost of acquisition of shares.

However, the question states two prices on 31-1-2025, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of "fair market value" as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31-1-2025.

ILLUSTRATION 56

Capital gains on compulsory acquisition under any law: A piece of land owned by Mr. Mishra located on Jaipur-Delhi highway was acquired by NHAI in the Financial Year 2010-11, but the award ordered in financial year 2011-12 was paid in the financial year 2025-26. This land was purchased by him on 2-4-1997 for 1,000. The fair market value of the land as on 1-4-2001 was ₹900. Compensation paid was ₹ 5 lacs.

Other piece of land located in Chennai purchased in April, 2008 for ₹ 25 lacs was also sold by him in February, 2026 for ₹65 lacs, but sale deed there of could not be executed by 31-3-2026. The value for the purpose of stamp duty applied by the stamp valuation authority was ₹ 85 lacs.

Compute the income chargeable to tax arising as a result of these transactions in the A.Y. 2026-27.

The CILs for the F.Y. 2008-09: 137, 2010-11: 167 and 2025-26: 376 respectively.

SOLUTION

Computation of taxable income of Mr. Mishra -

Particulars	₹
Capital Gains:	



Long-term capital gain derived from transfer of land on Jaipur-Delhi highway acquired by NHAI in F.Y. 2010-11 for which award was paid in F.Y. 2025-26 is chargeable to tax in A.Y. 2026-27 [WN-1]	
Sale consideration Le compensation paid	5,00,000
Less: Indexed cost of acquisition ($\text{₹ } 1,000 \times 167$)/100 [WN-2]	1,670
	4,98,330
Sale of land at Chennai in February 2025 [WN-3]	
Full value of consideration as per Section 50C [WN-4]	85,00,000
Less: Cost of acquisition	25,00,000
	60,00,000
Long-term capital gains	64,98,330

Working Notes:

- (1) The capital gains arising on compulsory acquisition shall be charged to tax in the year in which the compensation is first received.
- (2) The option of fair market value as on 01-04-2001 is not exercised by the assessee since the fair market value is lower than the cost.
- (3) The execution of sale deed is not compulsory for the purpose of charge of capital gain because the transfer of right enabling enjoyment of immovable property gives rise to charge of capital gains as held by the Kerala High Court in the case of **CIT v. C.F. Thomas [2006] 284 ITR 557 (Ker.)**
- (4) As per Section 50C, the value applied by the stamp valuation authority is deemed to be the full value of consideration received or accruing as a result of such transfer, since such value is higher than 110% of the sale consideration.

ILLUSTRATION 57

Exemption u/s 54: Hari has acquired a residential house property in Delhi on 1 April, 2001 for ₹10,00,000 and decided to sell the same on 3rd May, 2003 to Ms. Pari and an advance of ₹25,000 was taken from her. The balance money was not paid by Ms. Pari and Hari has forfeited the entire advance sum. On 3rd June, 2025, he has sold this house to Mr. Suri for ₹ 55,00,000. In the meantime on 4th April, 2025, he had purchased a residential house in Delhi for ₹ 8,00,000, where he was staying with his family on rent for the last 5 years and paid the full amount as per the purchase agreement. However, Hari does not possess any legal title till 31 March, 2026, as such transfer was not registered with the registration authority

Hari has purchased another old house in Chennai on 14th October, 2025, from Mr. X, an Indian resident by paying ₹ 5,00,000 and purchase was registered with the appropriate authority.

Determine the taxable capital gain arising from above transactions in the hands of Hari.

Cost inflation Index: 2001-02: 100; 2003-04: 109.

SOLUTION

Computation of taxable capital gain in the hands of Mr. Hari:

Particulars	₹
Sale proceeds	55,00,000
Less: cost of acquisition [WN-1]	9,75,000
Long Term Capital Gain	45,25,000





Less: Exemption u/s 54 in respect of investment in house at Delhi and Chennai [WN-2]	13,00,000
Taxable Long-Term capital gain	32,25,000

Working Notes:

(1) Computation of indexed cost of acquisition:

Particulars	₹
Cost of acquisition	10,00,000
Less: Advance taken and forfeited	25,000
Cost for the purpose of Indexation	9,75,000

(2) In order to avail exemption of capital gains under section 54, new residential house should be purchased within 1 year before or 2 years after the date of transfer or constructed within a period of 3 years after the date of transfer.

In this case, Hari has purchased the residential house in Delhi within 1 year before the date of transfer and paid the full amount as per the purchase agreement, though he does not possess any legal title till 31-3-2026 since the transfer was not registered with the registration authority. However, for the purpose of claiming exemption under section 54, holding of legal title is not necessary. If the taxpayer pays the full consideration in terms of the purchase agreement within the stipulated period, the exemption under section 54 would be available. It was so held in **Balraj v CIT [2002] 254 ITR 22 (Del)** and **CIT v. Shahzada Begum [1988] 1731/R397 (A.R)**

Hari has purchased the Chennai house within 2 years after the date of transfer. Since the amount of capital gains does not exceed 2 crores he will be entitled exemption in respect of second house also.

ILLUSTRATION 58

Section 50C and Exemption u/s 54F: Mr. X sold a plot of land to Mr. Y for ₹ 50,00,000 on 15 July 2025. The said plot of land was acquired on 15th March 2000 for a sum of ₹ 1,01,000. The fair market value of plot of land as on 1 April 2001 was ₹ 1,00,000. Mr. Y paid stamp duty ₹ 6,20,000 @ 10% of stamp value Mr. X did not object the stamp duty value of the plot of land. Mr. X invested ₹ 54,00,000 (₹4,00,000 was invested out of agricultural income) on 31-03-2026 for construction of new residential house for claiming exemption under section 54F. The Assessing Officer allowed exemption under section 54F, taking into consideration investment in construction of residential house, to the extent of actual net consideration of ₹ 50 lakhs. He had not considered the balance amount of ₹ 4 lakhs, invested in the construction of residential house, out of agricultural income, for computation of exemption under section 54F

Discuss whether the contention of assessing officer is correct in law. Also compute taxable capital gains in hands of Mr. X and tax implications in hands of Mr. Y for Assessment Year 2026-27.

SOLUTION

The facts of the case are similar to the decision of **Gouli Mahadevappa v. ITO [2013] 356 ITR 90 (Kar.)** The High Court held that when capital gain is assessed on notional basis as per the provisions of section 50C and the higher value i.e., the stamp duty value of ₹ 62 lakhs under section 50C has been adopted as the full value of consideration, then the entire amount of ₹ 54 lakhs reinvested in the residential house within the prescribed period should be considered for the



purpose of exemption under section 54F irrespective of the source of funds for such reinvestment.

The capital gains in hands of Mr. X will be computed as under

Particulars	₹
Full Value of consideration (Stamp duty value since it is more than 110% of actual consideration)	62,00,000
Less: Cost of acquisition	1,01,000
Capital Gains	60,99,000
Less: Exemption under Section 54F ($\text{₹ } 60,99,000 \times 54,00,000 / \text{₹ } 62,00,000$)	53,12,032
Taxable Capital Gains	7,86,968

Tax implications in hands of Mr. Y: Immovable property acquired for inadequate considerations taxable as 56(2x) if the difference between the stamp duty value and consideration exceeds higher of 10% of consideration or ₹ 50,000 whichever is higher. Hence, income of ₹ 12,00,000 will be chargeable to as in hands of Mr. Y under Income from other sources

ILLUSTRATION 59

First Proviso to Section 48: Rakshit, a non-resident, remits US \$ 80,00,000 to India on 16th September, 2001. The amount is partly utilised on 3rd October, 2001 for purchasing 10,000 shares in Amrit Ltd., an Indian company, at the rate of ₹ 12 per share. These shares are sold for ₹ 48.40 per share on 28th February, 2026. Compute the capital gains chargeable to tax on the assumption that telegraphic transfer buying and selling rate of US dollars adopted by the State Bank of India is as follows :

	Telegraphic Transfer Rate	
	Buy a US \$ (₹)	Sell a US \$ (₹)
16 th September, 2001	18	20
3 rd October, 2001	19	21
28 th February, 2026	79	81

SOLUTION

Computation of capital gains chargeable to tax -

Particulars	US \$
Full value of consideration ($\text{₹ } 48.40 \times 10,000 \div \text{₹ } 80$) (Avg. exchange rate on date of transfer i.e. 28-2-2025)	6,050.00
Less: Cost of acquisition ($\text{₹ } 12 \times 10,000 \div \text{₹ } 20$) (Avg. exchange rate on date of purchase i.e. 03-10-2001)	6,000.00
Capital Gains	50.00
Capital Gains (in ₹) = Gains in US \$ $\times$ ₹ 79 (TT buying rate on date of transfer i.e. 28-2-2025)	₹ 3,950

ILLUSTRATION 60

Computation of total income and tax liability : X (52 years) acquires 5,000 shares in XYZ Ltd. on 5th February, 2018 (through a transaction in NSE) at the rate of ₹ 150 per share. Fair market



value on 31st January, 2018 as per highest quotation in NSE is ₹ 140 per share. He transfers 4,000 shares in XYZ Ltd. on 1st March, 2026 at the rate of ₹ 530 per share (shares are transferred through National Stock Exchange).

His income from other sources is ₹ 1,10,00,000 for the previous year 2025-26. Y has brought forward long-term capital loss of ₹ 4,00,000 (assessment year 2021-22). X is eligible for a deduction of ₹ 2,00,000 under section 80CCD.

Compute his tax liability if he shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

SOLUTION

Computation of total income and tax liability :

Particulars	₹
Full value of consideration (₹ 530 × 4,000 shares)	21,20,000
Less: Cost of acquisition (₹ 150 × 4,000 shares)	6,00,000
Long-term capital gain	15,20,000
Less: Brought forward long-term capital loss	4,00,000
Long-term capital gain	11,20,000
Income from other sources	1,10,00,000
Gross total income	1,21,20,000
Less: Deduction u/s 80CCD	2,00,000
Net income	1,19,20,000
Computation of tax :	
Income-tax on long-term capital gain u/s 112A [12.5% (₹ 11,20,000 - ₹ 1,25,000 being exemption limit)]	1,24,375
Income-tax on other income of ₹ 1,08,00,000	30,52,500
Income-tax	31,76,875
Add: Surcharge @ 15%	4,76,531
Income-tax and surcharge	36,53,406
Add: Health and education cess @ 4%	1,46,136
Tax liability (rounded off)	37,99,540

ILLUSTRATION 61

Computation of total income and tax liability : Mr. X (52 years) purchased 1,000 shares in PQR Ltd.. on 10-07-2012 from a friend at the rate of ₹ 158 per share (though shares in PQR Ltd.. are quoted in Bombay Stock Exchange, securities transaction tax is not paid as transaction is made outside the stock exchange). Highest market quotation on 31st January, 2018 is ₹ 298 per share. He transfers 1000 shares in PQR Ltd.. on 15th June, 2025 at the rate of ₹ 389 per share (securities transaction tax is paid at the time of transfer). Income of X from other sources for the previous year 2025-26 is ₹ 18,00,000.

Determine his tax liability if he shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

SOLUTION



Shares were purchased outside stock exchange. Securities transaction tax was not paid at the time of acquisition hence tax will be computed under section 112 as follows-

Particulars	₹
Full value of consideration (₹ 389 × 1000 shares)	3,89,000
Less: cost of acquisition	1,58,000
Long-term capital gain	2,31,000
Income from other sources	18,00,000
Net income	20,31,000
Computation of tax :	
Income-tax on long-term capital gain u/s 112 @12.5%	28,875
Tax on other income	1,60,000
Income-tax	1,88,875
Add: Health and education @ 4%	7,555
Tax liability (rounded off)	1,96,430

ILLUSTRATION 62

Computation of total income and tax liability : Mr. X (61 years) acquires 5,000 equity shares in PQR Ltd. on 16th March, 2006. He gets 5,000 bonus shares on 11th March, 2012. He transferred original shares in the previous year 2019-20. He transfers 5,000 bonus shares on 10th July 2025, at the rate of ₹ 880 per share. Fair market value of shares in PQR Ltd. as per Bombay Stock Exchange quotation is ₹ 280 on 31st January, 2018. Income of X for the previous year 2025-26 from other sources is ₹ 25,00,000. He has a brought forward short-term capital loss of ₹ 3,00,000 pertaining to the assessment year 2021-22. Determine his tax liability if he has not shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

SOLUTION

Computation of total income and tax liability :

Particulars	₹
Full value of consideration (₹ 880 × 5,000 shares)	44,00,000
Less: Cost of acquisition [₹ 280 × 5,000 shares]	14,00,000
Long-term capital gain	30,00,000
Less: Brought forward capital loss	3,00,000
Long-term capital gain	27,00,000
Other income	25,00,000
Net income	52,00,000
Computation of tax :	
Income-tax on long-term capital gain u/s 112A [12.5% of [₹ 27,00,000 - ₹ 1,25,000]]	3,21,875
Income-tax on other income of ₹ 25,00,000	3,30,000
Income-tax	6,51,875
Add: Surcharge @ 10%	65,188



Income-tax and surcharge	7,17,063
Add: HEC @ 4%	28,683
Tax liability (rounded off)	7,45,750

ILLUSTRATION 63

Taxability of capital gains : Ms. Smriti purchased 40 capital indexed bonds issued by Government listed in RSE for ₹ 10,000 each on 01-04-2008. She sold all the bonds @ ₹ 40,500 per bond on 28th June 2024. She invested ₹ 80,000 in bonds of NABARD on 01-11-2024 and ₹ 70,000 in the bonds National Highway Authority of India on 31-03-2025. Compute the tax liability of Ms. Smriti assuming that she has no other income chargeable to tax and if she shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

SOLUTION

Computation of tax liability of Ms. Smriti :

Particulars	₹
Full value of consideration (₹ 40,500 × 40)	16,20,000
Less: Indexed Cost of acquisition (40 × ₹ 10,000 × 363 ÷ 137)	10,59,854
Long-term capital gains	5,60,146
Less: Exemption u/s 54EC [WN-1]	Nil
Taxable long-term capital gains	5,60,146
Total Income (rounded off)	5,60,150
Tax on LTCG (No rebate u/s 87A is admissible since, total income exceeds ₹ 5,00,000) [WN-2]	62,030
Add: Health & Education cess @ 4%	2,481
Tax Liability (rounded off to nearest ₹ 10)	64,511

Working Notes :

- (1) Benefit of Section 54EC is not available on LTCG arising from transfer of bonds.
- (2) Tax on LTCG shall be lower of the following :
 - (a) 20% of (LTCG - basic exemption limit of ₹ 2,50,000) = 20% of (₹ 6,03,940 - ₹ 2,50,000) = ₹ 70788
 - (b) 10% of LTCG without indexation & basic exemption = 10% of [(₹ 40,500 - ₹ 10,000) × 40] = ₹ 122000.

ILLUSTRATION 64

Exemption u/s 54 : Mr. Surinder furnishes the following particulars for the previous year ending 31-03-2026. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01-04-2001 is ₹ 13 lakhs. In the year 2013-14, further construction and improvements costing of ₹ 10 lakhs. The House was originally purchased by his father on 01-03-2000 for ₹ 10 lakhs. On 10-05-2025, the House was sold for ₹ 80 lakhs. Expenditure in connection with transfer is ₹ 50,000. On 20-12-2025, he purchased a Residential House for ₹ 12 lakhs and he does not own any other house. Compute the taxable Capital Gain for the assessment year 2026-27

(4 Marks, May 2024)



SOLUTION

Computation of Taxable Capital Gains for A.Y. 2026-27

Particulars	₹
Full Value of consideration	80,00,000
Less: Expenditure in connection with transfer	50,000
Net Sales Consideration	79,50,000
Less: Indexed cost of acquisition [₹ 13,00,000 (higher of actual cost to the previous owner of ₹ 10 lakhs and Fair market value as on 1.4.2001 of ₹ 13 lakhs)]	13,00,000
Less: cost of improvements	10,00,000
Long term capital gain	56,50,000
Less: Exemption u/s 54 - in respect of residential house purchased on 20.12.2025	12,00,000
Taxable Long Term Capital Gains	44,50,000

Note: The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation while computing tax liability on LTCG on transfer of house property.

ILLUSTRATION 65

Capital gains - Basics: Compute the capital gains for A.Y. 2026-27 in following independent cases

- Mr. Ramesh, a property dealer, sells a commercial plot of land on 1-3-2026 for ₹ 100 lakhs which was acquired by him on 1-8-2018 for 25,00,000 for selling of offices constructed therein. He had incurred land development charges of 10,00,000 on 1-10-2025. He incurred 50,000 for selling the plot of land.
- Mr. Roy sells his personal motorcar on 11-4-2025 for 2,55,000, which was acquired on 31-1-2024 for 6,50,000. The expenses on transfer are 2% of selling price.
- Mr. Pawan sells his personal residential house on 1-4-2026 for 86,70,000, which was acquired by him on 1-10-2008 for 30,00,000. The expenses on transfer were 70,000.
- Mr. Yash sells an agricultural land situated in rural area on 1-1-2026 for 10,50,000. The population of municipality under which the village is covered is 9,800. The land was acquired on 1-3-2002 for 1,00,000.
- Mrs. Priya sells her gold bracelet on 1-5-2025 for 5,00,000, which was acquired for 40,000 on 1-3-2005. A diamond was fitted onto that bracelet on 1-4-2007 for 10,000.
- Mr. Kalicharan, a businessman, had acquired a sculpture for ₹ 8,36,600 and a drawing for 20,000 in the year 2004-05. He sold the sculpture for 9,00,000 to a university and the drawing for 15,000 to a National Museum on 25-12-2025.

SOLUTION

Capital gains for A.Y. 2026-27 in respect of above cases shall be computed as follows,

- Commercial plot of land acquired by property dealer 'Ramesh' for his business purpose is in the nature of stock-in-trade for him. Therefore, it is not a capital asset and hence, no capital gains will arise.
- Personal motorcar sold by Mr. Roy is a personal effect. Therefore, it is not a capital asset and hence, no capital gains will arise.
- The transfer of the residential house by Mr. Pawan was effected on 01-04-2026, which doesn't fall within the previous year 2025-26. Hence, this transaction is not liable to





capital gains in the assessment year 2026-27, but will be taxable in the assessment year 2027-28.

- (iv) In this case, agricultural land is situated in an area, the population of whose municipality is less than 10,000. Hence, the land is a rural agricultural land, thus not a capital asset.
- (v) Bracelet for personal use is 'jewellery' and is specifically excluded from the term personal effect. Therefore, it is a capital asset liable to capital gains tax, as follows:

Particulars	(₹)
Full value of consideration	5,00,000
Less: cost of acquisition	40,000
Less: cost of improvement being fitting of diamond	10,000
Long-term capital gains	4,50,000

- (vi) While sculpture/drawings are capital assets, but their transfer to a University/National Museum is exempt under section 47(ix). Hence, no capital gains shall arise.

ILLUSTRATION 66

Computation of capital gains when transferred asset acquired u/s 49(1) modes: Mrs. R sells a plot of land on 21-11-2025 for 50,00,000. She inherited the plot from her grandfather on 01-04-2012. Her grandfather had acquired the plot on 01-03-2001 for 5,00,000. Her grandfather incurred land development charges of 2,90,000 on 31-3-2001 and 6,60,000 on 01-05-2013. Mrs. R also incurred land development charges of 1,00,000 on 01-09-2015. The expenses incurred on transfer amounted to 1.5% of the sale price. The FMV of the plot as on 01-04-2001 was 8,00,000. Compute the capital gains.

SOLUTION

Here, the property (plot of land) was acquired by Mrs. R from her grandfather under inheritance i.e. Section 49(1) modes. Hence, the period of holding of Mrs. R's grandfather will be included, as a result of which, the plot of land becomes long-term capital asset for Mrs. R. Cost of acquisition for Mrs. R = Cost to the previous owner or FMV as on 1-4-2001, whichever is higher = 8,00,000. Cost of improvement incurred after 1-4-2001 by previous owner or the assessee is deductible.

Particulars	₹
Full value of consideration	50,00,000
Less: Expenses on transfer @ 1.5% of 50,00,000	75,000
Net consideration	49,25,000
Less: Indexed cost of acquisition	8,00,000
Less: Cost of improvement incurred after 1-4-2001 Mrs. R's grandfather (6,60,000 + 1,00,000)	7,60,000
Long-term capital gains	33,65,000

ILLUSTRATION 67

Computation of capital gains in case of self generated asset: Mr. Sunil sells the goodwill on 20-01-2026 for 38,00,000. It was self-generated by him on 02-01-2001 and he incurred cost of improvement thereof for ₹ 5,55,000 on 1-4-2015. Compute his taxable gains. Also compute the capital gains in case the goodwill was purchased by Mr. Sunil on 2-1-2001 for 5,46,000.



SOLUTION

Computation of capital gains of Mr. Sunil (amounts in ₹)-

Particulars	Self-Generated Goodwill	Purchased Goodwill
Full value of consideration	38,00,000	38,00,000
Less: Indexed cost of acquisition [WN-1]	Nil	5,46,000
Less: Indexed cost of improvement	Nil	Nil
Long-term capital gains	38,00,000	32,54,000

ILLUSTRATION 68

Capital gains in case of offer of rights: A is a shareholder of X & Co. Ltd., holding 1,000 shares of the face value of 10 each, allotted at the time of the company's incorporation in May, 2001. The company made a right issue in the ratio of 1:1 on 15-7-2025 at a premium of 40 per share. Instead of taking up the right, he renounced it in favour of 'B' at a price of 10 per share. What is the capital gain chargeable in the hands of 'A'? What will be the cost of the shares in the hands of B? (Nov. 1995, May 2000)

SOLUTION

Capital Gain chargeable in the hands of A:

- (1) Short-term capital gains in hands of A = Sale proceeds of the right entitlements - Cost thereof = $10 \times 1,000 - \text{Nil} = 10,000$
- (2) Cost of acquisition for B = Amount paid to A + Amount paid to X Ltd. = $1,000 (10+50)=60,000$.

ILLUSTRATION 69 [Repeated]

ILLUSTRATION 70

Computation of capital gains on distribution of assets by companies in liquidation: Mr. Raghu purchased 10,000 equity shares of AB Avenues Private Limited on 25-03-2005 for 1,20,000. The company went into liquidation on 31-05-2025. The following is the summarized financial position of the company as on 31-05-2025.

Liabilities	₹	Assets	₹
60,000 equity shares of 10 each of 10 each	6,00,000	Agricultural lands in urban area	22,00,000
General reserve	40,00,000	Cash at bank	32,22,212
Provision for taxation	8,22,212		
Total	54,22,212	Total	54,22,212

The assets remaining after discharging liability for income tax were distributed to the shareholders in the proportion of their shareholding. The market value of agricultural land as on 31-05-2025 is ₹ 60,00,000.

The agricultural land received as above was sold by Mr. Raghu on 28-02-2026 for 15,00,000. Discuss the tax implications in the hand of the company and Mr. Raghu. (Modified PCC May 2008, 8Marks)



SOLUTION:

1) Tax implications in the hands of the company:

- (i) According to Section 46(1) of the Act, distribution of capital assets amongst the shareholders on liquidation of the company is not regarded as "transfer" in the hands of the company. Consequently, there will be no capital gains in the hands of the company.
- (ii) According to Section 2(22)(c), any distribution made to the shareholders of a company on its liquidation, to the extent to which distribution is attributable to the accumulated profits of the company immediately before its liquidation would be deemed as dividend. Therefore, 40,00,000, being the amount of general reserves on the date of liquidation would be deemed as dividend.

The company will be liable to deduct tax at source under section 194 @ 10%.

2) Tax implications in the hands of Mr. Raghu (shareholder):

- (i) **On liquidation (31-05-2025):** Where a shareholder on the liquidation of a company receives any money or other assets from the company, he shall be chargeable to income-tax under the head "capital gains" in respect of the money so received or the market value of the other assets on the date of the distribution, as reduced by the amount assessed as dividend and the sum so arrived at shall be deemed to be the full value of consideration.

Particulars	₹
Mr. Raghu holds 1/6th of the shareholding of the company Market value of agricultural land received (60 lakhs x 1/6th) + Cash at bank [1/6th of (₹ 32,22,212 - ₹ 8,22,212)]	14,00,000
Less: Deemed dividend u/s 2(22)(c) i.e., 1/6th of 40,00,000	6,66,667
Full value of consideration	7,33,333
Less: Indexed cost of acquisition of Shares	1,20,000
Long term capital gains	6,13,333

- (ii) **On sale of agriculture land:** Hence, the short-term capital gains in the hands of Mr. Raghu (shareholder) at the time of sale of urban agricultural land should be computed as follows:

Particulars	₹
Full value of consideration	15,00,000
Less: Fair market value of the agricultural land on the date of distribution [WN]	10,00,000
Short term capital gain	5,00,000

Working Note: Where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation and the assessee has been assessed to capital gains in respect of that asset, the cost of acquisition means the fair market value of the asset on the date of distribution.

Dividend under section 2(22)(c) amounting to 6,66,667 will be taxable in hands of shareholder.

ILLUSTRATION 71

Computation of capital gain in case of depreciable Asset: The written down value of the block of assets of Rosy Ltd. as on 1st April, 2025 was 5 lakhs. An asset of the same block was acquired on 11th May, 2025 for ₹ 3 lakhs. There was a fire on 18th September, 2025 and the assets were



destroyed by fire and the assessee received a sum of 11 lakhs from the insurance company. Compute the capital gain assuming

- (i) All the assets were destroyed by fire; and
- (ii) Part of the block of assets was destroyed by fire.

What will be the answer if assessee received ₹ 6 lakhs from insurance company instead of 11 lakhs ?
(CS Dec. 2006)

SOLUTION

- (2) **If compensation is received for 11 lakhs :** Here, moneys payable exceeds WDV, thus there will be short-term capital gains which shall be computed as follows (amount in ₹)

Particulars	₹
Written down value of the block on 01-04-2025	5,00,000
Add: Asset acquired during the year	3,00,000
	8,00,000
Less: Sum received from the insurance company	11,00,000
Short term capital Gains	3,00,000

Note: In case (i) and (ii), both, i.e. whether the block is fully destroyed or partly destroyed by fire, there will be STCG of 3,00,000, since the sum received is more than the WDV of the block.

- (3) **If compensation is received for 6 lakhs :**

- (i) **If the block is fully destroyed:** Short-term capital loss = WDV - moneys payable = 8 lakhs - 6 lakhs = ₹ 2 lakhs.
- (ii) **If the block is partly destroyed:** There will be no capital gains. Since the block and WDV both exists, therefore, the balance WDV of 2 lakhs will be eligible for depreciation.

ILLUSTRATION 72 [Repeated]

ILLUSTRATION 73

Stamp value - Full value of consideration - Section 50C: From the following information compute taxable Capital gains in hands of X

- (1) X purchases a plot of land on 10th August, 2008 for 4,11,000.
- (2) He enters into an agreement with B to transfer the plot of land on 1 May, 2025 for 80,00,000 (stamp duty value being 86,00,000).
- (3) On 1 May, 2025, X gets an advance of 1,00,000 by an account-payee cheque.
- (4) Conveyance deed is registered on 5th June, 2025 (stamp duty value on the date of registration : 89,00,000).

What would your answer be in case ₹ 1,00,000 is received on 2nd May 2025, instead of 1st May, 2025.

SOLUTION

- (i) **When X has received an advance on the date of agreement:** In this case, stamp duty value on the date of agreement is different from stamp duty value on the date of registration. X has received an advance of 1,00,000 by an account-payee cheque on or before the date of agreement. Consequently, stamp duty value on the date of agreement will be taken into consideration. Capital gain will be calculated as follows-

Particulars	₹



Full value of consideration [110% of actual consideration of 80,00,000 is 88,00,000. Stamp duty value is 86,00,000. As stamp duty value does not exceed 110% of actual consideration, stamp duty value is not considered.]	80,00,000
Less: cost of acquisition	4,11,000
Long-term capital gain	75,89,000

(ii) **When X has received an advance after the date of agreement:** X has received an advance of 1,00,000 after the date of agreement. Consequently, stamp duty value on the date of registration will be taken into consideration. Capital gain will be calculated as follows-

Particulars	₹
Full value of consideration [110% of actual consideration of 80,00,000 is 88,00,000. Stamp duty value on date of registration is 89,00,000. As stamp duty value exceeds 110% of actual consideration, stamp duty value is taken as full value of consideration.]	89,00,000
Less: cost of acquisition	4,11,000
Long-term capital gain	84,89,000

ILLUSTRATION 74

Advance money - Forfeited: Mr. Paresh purchased a house property on 14th Nov., 2015 for ₹ 10,00,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 2025 and received an advance of 25,000. However, since Mr. B did not remit the balance amount, Mr. Paresh forfeited the advance. Finally, the house was sold by Mr. Paresh to Mr. Sanjay on 15-03-2026 for a consideration of 21,00,000. Discuss tax implications of such transaction in hands of Paresh.

SOLUTION

Section 56(2)(ix) provides for the taxability of any sum of money, received as an advance or otherwise on or after 01-04-2014 in the course of negotiations for transfer of a capital asset shall be chargeable to income-tax under the head 'income from other sources' if such sum is forfeited and the negotiations do not result in transfer of such capital asset. The sum so taxable will not be reduced from cost of acquisition to compute capital gains on transfer of such asset.

Hence, the sum of 25,000 received as advance as forfeited by Mr. Paresh shall be taxable as his Income from other Sources in assessment year 2026-27.

Since the house property is held for more than 24 months immediately preceding the date of transfer, it will be regarded as long term capital asset. The capital gains shall be computed as under:

Computation of capital gains of Mr. Paresh for AY 2026-27 (amounts in ₹)

Particulars	₹
Full value of consideration	21,00,000
Less: Cost of acquisition [WN]	10,00,000
Long-term capital gains	11,00,000





Working Note: The advance money forfeited by Paresh shall not be reduced since the same is taken into account while computing Income from other sources under Section 56(2)(ix).

ILLUSTRATION 75

Advance money received and Exemption u/s 54: Compute the net taxable capital gains of Smt. Megha on the basis of the following information: A house was purchased on 01-05-2007 for 4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2012 for 10,00,000 and had received an advance of 70,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The property was sold in April, 2025 for 18,00,000. The owner, from out of sale proceeds, invested 4 lakhs in a new residential house in India in January, 2026. What would your answer be if the new residential house property is purchased in Dubai instead of India. (6 Marks, IPCC Nov. 2009)

SOLUTION

(1) Computation of taxable capital gains in the hands of Megha-

Particulars	₹	₹
Full Value of consideration		18,00,000
Less: cost of acquisition	[WN-1]	3,80,000
Long-term capital gains		14,20,000
Less: Exemption u/s 54	[WN-2]	4,00,000
Taxable long-term capital gains		10,20,000

Working Notes:

- For computing cost of acquisition, advance money received and forfeited shall be deducted. Hence, cost of acquisition = 4,50,000 - 70,000 = 3,80,000. [Section 51]
- Exemption u/s 54 shall be available in respect of one/two new house(s) purchased within 2 years from the date of transfer of existing residential house.

(2) In case the **residential house property** is purchased in Dubai, the benefit of exemption u/s 54 shall not be available since the house property must be located in India for getting the exemption u/s 54. Hence, the taxable Capital Gains will be 8,24,961.

(3) The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation while computing tax liability on LTCG on transfer of house property.

ILLUSTRATION 76

Exemption under Section 54EC: Mr. Chandru transferred a vacant site on 28-10-2025 for 100 lakhs. The site was acquired for 9,99,300 on 30-6-2001. He deposited 40 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd. (REC) on 20-3-2026. Again, he deposited 30 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16-4-2026. Compute the chargeable capital gain in the hands of Chandru for the assessment year 2026-27.

SOLUTION

Computation of capital gains (amounts in ₹)-

Particulars	₹
Full value of consideration	1,00,00,000
Less: Indexed Cost of Acquisition	9,99,300
Long-term Capital Gains	90,00,700





Less: Exemption u/s 54EC [WN]	50,00,000
Taxable Capital Gains	40,00,700

Working Note: Exemption u/s 54EC = Investment in REC Bonds (acquired within 6 months from the date of transfer) + NHAI Bonds (acquired within 6 months from the date of transfer) = 40,00,000 + 30,00,000 = 70,00,000.

Section 54EC provides that the maximum limit of investment during the financial year in which asset is transferred and in subsequent financial year shall be 50 lakhs. Thus, the limit of 50 lakhs applies in aggregate for more than one financial year taken together. In this case, REC Bonds were acquired during the financial year 2025-26; while NHAI bonds were acquired during the financial year 2026-27. Hence, both the investments shall be eligible for exemption under section 54EC as the same have been made in different financial years but subject to maximum of 50 lakhs.

The tax liability on LTCG after benefit of indexation @ 20% will be lower than tax computed @ 12.5% on LTCG without benefit of indexation. Hence, he would take benefit of indexation for computing LTCG on transfer of vacant land.

ILLUSTRATION 77

Exemption u/s 54F: Mr. 'X' furnishes the following data for the previous year ending 31-3-2025:

- Equity Shares of AB Ltd., 10,000 in number were sold on 31-5-2024, at 550 for each share.
 - The above shares of 10,000, were acquired by 'X' in the following manner:
 - Received as gift from his father on 1-6-2000 (5,000 shares) the market price on 1-4-2001 ₹ 50 per share
 - Bonus shares received from AB Ltd. on 21-7-2004 (2,000 shares).
 - Purchased on 1-2-2013 at the price of 125 per share (3,000 shares)
 - Purchased one residential house at 25 lakhs, on 1-9-2025 from the sale proceeds of shares
 - 'X' is already owning a residential house, even before the purchase of above house. You are required to compute the taxable capital gain. He has no other source of income chargeable to tax.
- (6 Marks, Modified Nov. 2004)**

SOLUTION

Computation of taxable capital gains of Mr. 'X'

Particulars	₹	₹
Sale consideration @ 550 per share on 10,000 shares	[A]	55,00,000
Less: (1) Shares received as gift on 1-6-2000 (Indexed cost = $5,000 \times 50 \times 363 \div 100$)	[WN-1]	9,07,500
(2) Shares received as bonus on 21-7-2004	[WN-2]	Nil
(3) Shares purchased on 1-2-2013 (Indexed cost = $3,000 \times 125 \times 363 \div 200$)		6,80,625
Long Term Capital Gain	[B]	39,11,875
Exemption u/s 54F = $[39,11,875 \times 25,00,000 \div 55,00,000]$ [WN-3]	[C]	17,78,125
Taxable Long-term Capital Gains = B - C		21,33,750

Working Notes:

- Cost of shares gifted by the father would be FMV as on 1-4-2001 i.e. ₹ 50 per share.
- The cost of bonus shares allotted on or after 1-04-2001 is always taken as NIL





- (3) Mr. X is eligible for exemption under section 54F since he owns only one house at the time of the transfer of the shares and the purchase of the new house takes place within 2 years from the date of transfer of the shares.
- (4) It is assumed that Mr. X has complied with all the procedures like deposit of money under the capital gains account scheme by the due date, as may be applicable to him.

ILLUSTRATION 78

Reverse Mortgage : Mr. Abhik's father, who is a senior citizen, had pledged his residential house to a bank under a notified reverse mortgage scheme. He was getting loan from bank in monthly instalments. Mr. Abhik's father did not repay the loan on maturity and given possession of the house to the bank to discharge his loan. How will the treatment of the long-term capital gain be made on such reverse mortgage transaction? (3 Marks, PCC June, 2009)

SOLUTION

As per Section 47(xvi), mortgage of residential house under a notified reverse mortgage scheme doesn't constitute 'transfer'. Also, the loan received under such scheme is exempt under section 10(43). However, when the bank alienates the property for the purpose of recovery of the loan on non-payment of the loan, then the same will constitute 'transfer' and the capital gains so computed will be taxed accordingly.

ILLUSTRATION 79

Computation of LTCG on sale of Equity shares: From the following information determine taxable capital gains. Mr. X has acquired 1,000 equity shares on 01-04-2017 for 15,00,000 (STT paid @ 0.1%). The fair market value of shares as on 31-01-2018 was 15,25,000. He sold the shares on 25-08-2025 for 16,75,000 (STT paid @ 0.1%). Brokerage Expenses incurred on transfer: 0.5% of the Sales consideration.

SOLUTION

Computation of taxable capital gains (amount in):

Particulars	₹
Full value of consideration	16,75,000
Less: Expenses on transfer (0.5% of the gross consideration)	8,375
Net consideration	16,66,625
Less: Cost of acquisition [WN]	15,25,000
Long-term capital gains	1,41,625

Working Note: The cost of acquisition of equity shares shall be determined as under-

- ♣ **Step 1:** Cost of acquisition of such equity shares i.e., ₹ 15,00,000
- ♣ **Step 2:** Lower of (a) the fair market value of such asset as on 31-01-2018 i.e. 15,25,000; or (b) the full value of consideration received or accruing as a result of the transfer of the capital asset i.e. 16,75,000 = ₹ 15,25,000.
- ♣ **Step 3:** Cost of acquisition shall be deemed to the amount computed at Step 1 or Step 2 whichever is higher i.e. ₹ 15,25,000.

ILLUSTRATION 80



Capital gains - Unlisted shares listed after 31-01-2018: Mr. X acquired 1000 equity shares of unlisted company on 15-04-2001 for 5,00,000. The shares were listed in stock exchange on 01-04-2017. He sold all the shares for ₹30,00,000 on 10-07-2025. (STT paid @ 0.1% of sales consideration). Determine taxable capital gain for A.Y. 2026-27.

SOLUTION

Computation of taxable capital gains :

Particulars	₹
Full value of consideration	30,00,000
Less: Expenses on transfer	Nil
Net consideration	30,00,000
Less: Cost of acquisition [WN]	13,60,000
Long-term capital gains	16,40,000

Working Note: Cost of acquisition shall be computed as under-

Particulars		₹
Step 1: Actual Cost of acquisition	(a)	5,00,000
Step 2: Fair market value on 31st January, 2018 $[5,00,000 \times 272 \div 100]$	(b)	13,60,000
Selling price on 10-07-2025	(c)	30,00,000
[lower of (b) or (c)]	(d)	13,60,000
Cost of acquisition for the purpose of Section 112A [(a) or (d), whichever is higher]	(e)	13,60,000

ILLUSTRATION 81

Computation of capital gains in case of sub-division of shares: In April, 2001, S subscribed to the first issue of equity capital of a public limited company (face value of each share was ₹100) to the extent of 25,000. In 2005, the company converted the face value of its shares from 100 to 10 each. Half of the holdings of the shares held by S was sold by him in October, 2025 for ₹50,000. S had to pay a brokerage of 2% on sale. What is the nature of gains realised and compute the same. The shares are transferred otherwise than through recognized stock exchange. (May 1998)

SOLUTION

Computation of Capital Gain -

Particulars	₹
Full value of consideration [WN]	50,000
Less: Expenses on transfer i.e. brokerage @ 2%	1,000
Net consideration	49,000
Less: Cost of acquisition	12,500
Long-term capital gains	36,500



Working Note: No. of original shares = 250 shares of ₹ 100 each. On sub-division of share capital from face value of ₹ 100 to 10, the total number of shares = 2,500 shares of ₹ 10 each.

ILLUSTRATION 82 [Repeated]

SOLUTION

The taxability of the aforesaid items has been discussed herein below -

- (i) **Treatment of compensation in respect of stock-in-trade:** Stock-in-trade is not a capital asset, hence its loss is a trading loss which will be allowed as deduction in computing income under the head Profits and gains of business or profession.

The whole of the value of stock can be claimed as deduction; and the insurance compensation received can be assessed as taxable business receipt. Alternatively net loss of stock-in-trade = Value of stock - Insurance compensation received deduction. = ₹ 6,50,000 - ₹ 4,80,000 = ₹ 1,70,000 can be claimed as deduction.

- (ii) **Treatment of compensation in respect of machinery:** Since the machinery has been directly destroyed by fire, therefore, the compensation has been received under circumstances referred to in section 45(1A). Accordingly, the capital gains shall be computed as follows -

Particulars	Machinery (₹)
Full value of consideration (being insurance compensation received)	6,00,000
Less: Cost of acquisition being: WDV of the block of machinery	10,80,000
Short-term Capital Loss	-4,80,000

- (iii) **Treatment of compensation in respect of gold chain and ring:** Since the gold chain and diamond ring has been destroyed during fire fighting operation (the immediate cause thereof being the fire). Therefore, the compensation has been received under circumstances referred to in Section 45(1A). Accordingly, the capital gains shall be computed as follows -

Particulars	Gold Chain & Ring (₹)
Full value of consideration (being insurance compensation received)	4,00,000
Less: Cost of acquisition diamond ring and Gold chain	1,20,000
Long-term Capital Gains	2,80,000

Note: It is assumed that both the breaking out of the fire and receipt of insurance compensation took place during the previous year 2025-26 and whole of the insurance compensation has been received in cash.

ILLUSTRATION 83

Exemption u/s 54B: Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for ₹ 75,00,000 to Mr. Vipul on June 15, 2025 when the stamp duty value of agricultural land was 95 lakhs. However, the "agreement to sell" the agricultural land was entered on May 15, 2025 and Mr. Vipul gave 4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for 10.85 lakhs and it was being used for agricultural purposes by him since its purchase.



Mr. Raj purchased another agricultural land in rural area on January 1, 2026 for 40 lakhs and this land was sold by him on March 12, 2026 for 45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for assessment year 2026-27 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). **(4 Marks, Sept. 2024)**

SOLUTION

Computation of Capital Gains of Mr. Raj for A.Y. 2026-27 :

Particulars	₹
Capital gain on sale of urban agricultural land	
Actual sale consideration 75,00,000	
Stamp duty value as on date of agreement i.e., on 15.7.2025 [Since part consideration is received through IMPS on the date of agreement] 85,00,000	
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]	85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., ₹ 75 lakhs]	75,000
Net Sales Consideration	84,25,000
Less: cost of acquisition	10,85,000
	73,40,000
Less: Exemption u/s 54B - In respect of rural agricultural land purchased on 1.1.2025. Mr. Raj is eligible to claim exemption u/s 54B since he has used the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer.	40,00,000
Long term capital gain	33,40,000
Capital gain on sale of rural agricultural land As per section 54B, if the new agricultural land is transferred within 3 years from the date of its purchase, while computing the capital gains on transfer of such new agricultural land, the cost of acquisition of such land would be reduced by the amount of capital gain claimed as exempted. However, since rural agricultural is not a capital asset, no capital gain would arise on sale of such land even though it is transferred within 3 years from the date of its purchase.	

ILLUSTRATION 84

Exemption under section 54F: Mr. Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2025 for 10,00,000. The shares were bought on 01-08-2012 for a consideration of 2,00,000. Mr Aryan paid 2,000 as brokerage on sale of shares. Mr. Aryan deposited 5,00,000 in Capital Gain Account Scheme on 15-06-2025 (Before filing the return of income for the Assessment Year 2026-27).



On April 30, 2026 he withdraws 4,50,000 and purchases a residential house properly at Delhi on May 1, 2026 for 4,50,000.

Ascertain

(i) The amount of Capital Gain chargeable to tax for the A.Y. 2026-27.

(ii) Tax treatment (with mention of relevant assessment year) of the unutilized amount.

(4 Marks, Nov. 2023)

SOLUTION

(i) Computation of Capital Gains on sale of unlisted shares for A.Y. 2026-27:

Particulars	₹
Net Sales Consideration [₹10,00,000 - ₹ 2,000]	9,98,000
Less: cost of acquisition	2,00,000
	7,98,000
Less: Exemption u/s 54F	
Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset. Accordingly, exemption u/s 54F would be ₹ 3,99,800 [₹ 5,00,000 × ₹ 7,98,000 / ₹ 9,98,000]	3,99,800
Capital Gains chargeable to tax	3,98,200

(ii) Tax treatment of unutilized amount in Capital Gains Accounts Scheme

The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3 year period from 17-5-2025 expires on 16-5-2027. Consequently, the proportional capital gains on the unutilized amount will be taxable in the A.Y. 2029-30, relevant to the P.Y. 2028-29.

The amount of capital gains for A.Y. 2029-30 would be 39,980 [₹ 3,99,980 - ₹ 3,59,820 (₹ 4,50,000 × ₹ 7,98,000 / ₹ 9,98,000)].

ILLUSTRATION 85

Computation of capital gains in case of slump sale: Mr. Paras has a proprietary business since P.Y. 2015-16. He has transferred this business on 01-04-2025 by way of a slump sale for a total consideration of 40 Lakh. The fair market value of his capital assets as on 01-04-2025 is 35 Lakh. He has incurred expenses for this deal of 1,50,000. His Balance Sheet as on 31-03-2025 is given below:

Liabilities	₹	Assets	₹
Own Capital	20,00,000	Building	18,00,000
Bank Loan	5,00,000	Debtors	5,00,000
Unsecured Loans	2,50,000	Machinery	5,00,000
Creditors	4,10,000	Other assets	3,60,000
	31,60,000		31,60,000

Other information:

(1) Bank loan balance includes 2 lakh for personal purpose.

(2) Machinery costing 50,000 has been allowed 100% as deduction u/s 35AD



(3) Other assets include self-generated goodwill of 60,000.

(4) Unsecured loans include 1 lakh for amount payable for the purchase of the ornaments of his wife.

Compute the capital gain/loss for the A.Y. 2026-27. (6 Marks, Jan. 2025) (Similar 4 Marks, July 2021)

SOLUTION

Computation of capital gains on slump sale for A.Y. 2026-27:

Particulars	₹
Full value of consideration: Higher of -	
(i) FMV of capital assets on 1.4.2025; or 35,00,000	
(ii) FMV of Monetary consideration received 40,00,000	40,00,000
Less: Expenses for transfer	<u>1,50,000</u>
	38,50,000
Less: Net worth (See Note below)	<u>21,90,000</u>
Long-term capital gain, since the business is held for more than 36 months	16,60,000

Note: Computation of net worth

Particulars	₹
Building	18,00,000
Machinery [5,00,000-50,000, being the amount allowed as 100% as deduction u/s 35AD]	4,50,000
Debtors	5,00,000
Other assets (3,60,000-60,000, being the amount of self-generated goodwill)	3,00,000
Total assets	30,50,000
Less: Bank Loan (₹5,00,000 -2,00,000, being loan for personal purpose) 3,00,000	
Unsecured Loan (2,50,000 - 1,00,000, being the amount payable for purchase of ornaments of his wife) 1,50,000	
Creditors 4,10,000	8,60,000
Net worth	21,90,000

ILLUSTRATION 86 [Repeated]

ILLUSTRATION 87

Computation of capital gains when transferred asset acquired u/s 49(1) modes: Mrs. R sells a plot of land on 21-11-2024 for 50,00,000. She inherited the plot from her grandfather on 01-04-2012. Her grandfather had acquired the plot on 01-03-2001 for 5,00,000. Her grandfather incurred land development charges of 2,90,000 on 31-3-2001 and 6,60,000 on 01-05-2013. Mrs. R also incurred land development charges of 1,00,000 on 01-09-2015. The expenses incurred on transfer amounted to 1.5% of the sale price. The FMV of the plot as on 01-04-2001 was 8,00,000. Compute the capital gains.

Cost Inflation Index: FY 2001-02= 100; FY 2013-14 220; FY 2015-16 254 and FY 2024-25= 363.

SOLUTION



Here, the property (plot of land) was acquired by Mrs. R from her grandfather under inheritance i.e. Section 49(1) modes. Hence, the period of holding of Mrs. R's grandfather will be included, as a result of which, the plot of land becomes long-term capital asset for Mrs. R. Cost of acquisition for Mrs. R = Cost to the previous owner or FMV as on 1-4-2001, whichever is higher = 8,00,000. Cost of improvement incurred after 1-4-2001 by previous owner or the assessee is deductible.

Particulars	₹
Full value of consideration	50,00,000
Less: Expenses on transfer @ 1.5% of 50,00,000	75,000
Net consideration	49,25,000
Less: cost of acquisition	8,00,000
Less: Cost of improvement incurred after 1-4-2001 Mrs. R's grandfather (6,60,000 + 1,00,000)	7,60,000
Long-term capital gains	33,65,000

ILLUSTRATION 88 [Repeated]

ILLUSTRATION 89 [Repeated]

ILLUSTRATION 90 [Repeated]

ILLUSTRATION 91 [Repeated]

ILLUSTRATION 92

Capital Gains in case of slump sale: M/s. Sriram Enterprises, a proprietorship having 2 units. Unit 1 is transferred on 1-4-2024 by way of slump sale for a total consideration of 14 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were 38,000. Balance Sheet as on 31-3-2024 is as under:

Liabilities	Total ₹	Assets	Unit 1 (₹)	Unit 2(₹)	Total ₹
Own Capital	17,00,000	Building	13,00,000	3,00,000	16,00,000
Revaluation Reserve (for building of unit 1)	5,00,000	Machinery	4,00,000	2,00,000	6,00,000
Bank loan (70% for unit 1)	4,00,000	Debtors	2,00,000	1,40,000	3,40,000
Trade creditors (25% for unit 1)	3,50,000	Patents	2,50,000	1,60,000	4,10,000
Total	29,50,000	Total	21,50,000	8,00,000	29,50,000

Other information:

- (iii) Revaluation reserve is created by revising upward the value of the building of Unit 1. The stamp duty value on 1-4-2024 is 10 lakhs.
- (iv) No individual value of any asset is considered in the transfer deed.
- (v) Patents were acquired on 1-7-2022 on which no depreciation has been charged. Compute the capital gain for the assessment year 2024-25.

SOLUTION

Computation of capital gains on slump sale of Unit 1 (amount in ₹)

Particulars	₹

CHAPTER - 6

CAPITAL GAINS



CA VARDHAMAN DAGA

Full value of consideration [Fair market value on 1-4-2024]	14,82,500
Less: Expenses on sale	38,000
Net sale consideration	14,44,500
Less: Net worth [WN-1]	11,73,125
Long-term capital gain	2,71,375

Working Notes: Computation of Full value of consideration (amount in ₹)

Particulars	₹
Fair market value of the capital assets transferred by way of slump sale	
Building, being an immovable property [stamp duty value on 1-4-2024, being 2023, being the date of slump sale] [A]	10,00,000
Machinery [Book value as appearing in the books of accounts] [B]	4,00,000
Debtors [Book value as appearing in the books of accounts] [C]	2,00,000
Patents [Book value as appearing in the books of accounts] [D]	2,50,000
Less:	
Liabilities of Unit 1 29,50,000 - 1,20,000 - 2,62,500 [L] 25,67,500	
Excluding:	
(i) Own Capital 17,00,000	
(ii) Revaluation reserve 5,00,000	
22,00,000	3,67,500
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D-L] [FMV1]	14,82,500
Fair market value of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]	14,00,000
Full value of consideration [Higher of FMV1 or FMV2]	14,82,500

(2) Computation of net worth of Unit 1 of Simran Enterprises:

Particulars	₹	₹
Building (excluding 5 lakhs on account of revaluation)		8,00,000
Machinery		4,00,000
Debtors		2,00,000
Patents (See Note 3 below)		1,40,625
Total assets		1,40,625
Less: Creditors [3,50,000 × 25%]	87,500	
Bank Loan [4,00,000 × 70%]	2,80,000	3,67,500
Net worth		11,73,125

(3) Written down value of patents as on 1-4-2024:

Value of patents	₹
Cost as on 1-7-2022	2,50,000
Less: Depreciation @ 25% for Financial Year 2022-23	62,500
WDV as on 1-4-2023	1,87,500
Less: Depreciation for Financial Year 2023-24	46,875



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WDV as on 1-4-2024

1,40,625

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of 4 lakh and ₹ 8 lakh (13 lakh - ₹ 5 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

ILLUSTRATION 93 [Repeated]

ILLUSTRATION 94 [Repeated]

ILLUSTRATION 95 [Repeated]

ILLUSTRATION 96 [Repeated]

ILLUSTRATION 97

Exemption u/s 54F: Mr. 'X' furnishes the following data for the previous year ending 31-3-2025:

- Equity Shares of AB Ltd., 10,000 in number were sold on 31-5-2024, at 550 for each share.
- The above shares of 10,000, were acquired by 'X' in the following manner:
- Received as gift from his father on 1-6-2000 (5,000 shares) the market price on 1-4-2001 ₹ 50 per share
- Bonus shares received from AB Ltd. on 21-7-2004 (2,000 shares). (iii) Purchased on 1-2-2013 at the price of 125 per share (3,000 shares)
- Purchased one residential house at 25 lakhs, on 1-9-2025 from the sale proceeds of shares
- 'X' is already owning a residential house, even before the purchase of above house You are required to compute the taxable capital gain. He has no other source of income chargeable to tax. (6 Marks, Modified Nov. 2004)

SOLUTION

Computation of taxable capital gains of Mr. 'X'

Particulars	₹	₹
Sale consideration @ 550 per share on 10,000 shares	[A]	55,00,000
Less: (1) Shares received as gift on 1-6-2000 (Indexed cost = $5,000 \times 50 \times 363 \div 100$)	[WN-1]	9,07,500
(2) Shares received as bonus on 21-7-2004	[WN-2]	Nil
(3) Shares purchased on 1-2-2013 (Indexed cost = $3,000 \times 125 \times 363 \div 200$)		6,80,625
Long Term Capital Gain	[B]	39,11,875
Exemption u/s 54F = $[39,11,875 \times 25,00,000 \div 55,00,000]$ [WN-3]	[C]	17,78,125
Taxable Long-term Capital Gains = B-C		21,33,750

Working Notes:

- Cost of shares gifted by the father would be FMV as on 1-4-2001 i.e. ₹ 50 per share.
- The cost of bonus shares allotted on or after 1-04-2001 is always taken as NIL





- 3) Mr. X is eligible for exemption under section 54F since he owns only one house at the time of the transfer of the shares and the purchase of the new house takes places within 2 years from the date of transfer of the shares.
- 4) It is assumed that Mr. X has complied with all the procedures like deposit of money under the capital gains account scheme by the due date, as may be applicable to him.

ILLUSTRATION 98 [Repeated]

ILLUSTRATION 99 [Repeated]

ILLUSTRATION 100 [Repeated]

ADDITIONAL QUESTIONS

ILLUSTRATION 101

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the

A.Y.2026-27 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2025-26 in respect of these assesseees:

(i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2025 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows -

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

(ii) Mr. Raj purchased 200 units of equity-oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2025 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800



Answer

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

- (a) cost of acquisition of such asset, i.e., actual cost; and
- (b) lower of
 - (i) the fair market value of such asset as on 31.1.2018; and
 - (iii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

- (i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows: The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock

Exchange on 31.1.2018. The cost of

acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax @12.5% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @13% would be ₹ 3,250 ($₹ 25,000 \times 13\%$)

- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 ($₹ 900 - ₹ 750) \times 200$ units.

Since the long-term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.





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STUDY MATERIAL

ILLUSTRATION 1

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

SOLUTION

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

ILLUSTRATION 2

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2025-26 from his friend Mr. B,

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2025.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2025.



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(3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2025, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.

Further, on 1st November, 2025, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2026, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2026-27.

SOLUTION

Computation of "Income from other sources" of Mr. A for the A.Y. 2026-27

Particulars	₹
1) Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2) Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3) Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4) Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
(5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y. 2026-27

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note - The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.





ILLUSTRATION 3

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

SOLUTION

	Taxable/ Non taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

ILLUSTRATION 4

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2026, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from

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Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2024. Would your answer be different if Hari was a share broker instead of a property dealer?

SOLUTION

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker.



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such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains.

It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.

Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

ILLUSTRATION 5

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

SOLUTION

The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

ILLUSTRATION 6



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Interest on enhanced compensation received by Mr. G during the previous year 2025-26 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2026-27.

SOLUTION

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2025-26.

Particulars	₹
Interest chargeable under the head "Income from other sources"	2,50,000

TEST YOUR KNOWLEDGE

ILLUSTRATION 7

Examine under which heads the following incomes are taxable:

- Rental income in case property held as stock-in-trade for 3 years
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries received by a Member of Parliament
- Receipts without consideration
- In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- Rental income in case of a person engaged in the business of letting out of properties.

SOLUTION

Head under which following incomes are taxable:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in-trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources



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(viii)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

ILLUSTRATION 8

Examine whether the following are chargeable to tax and the amount liable to tax:

- A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- Interest on enhanced compensation of ₹ 96,000 received on 12-3-2026 for acquisition of urban land, of which 40% relates to P.Y.2024-25.

SOLUTION

Taxability of Receipts

S. No.	Taxable/ Not Taxable	Amount liable to tax (₹)
(i)	Taxable	1,20,000
(ii)	Taxable	48,000

ILLUSTRATION 9

On 10.10.2025, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2017-18.

Out of this interest, ₹ 1,50,000 relates to the financial year 2018-19; ₹ 1,65,000 to the financial year 2019-20; and ₹ 1,85,000 to the financial year 2020-21. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2026-27?

SOLUTION

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

ILLUSTRATION 10

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2026:

- Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shasthiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.



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- (iii) When she celebrated her daughter's wedding on 21.2.2026, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 51,000.

Compute the income, if any, assessable as "Income from other sources" (4 Marks, May 2011)

SOLUTION

Particulars	₹
Cash gift from friend on the occasion of a wedding function/anniversary [WN-1]	51,000
Diamond necklace received from sister [WN-2]	Not Taxable
Gift from friend on the occasion of marriage of her daughter [WN-3]	51,000
Income from Other Sources	1,02,000

Working Notes:

- (1) Any sum received by an individual on the occasion of the marriage of the individual is not liable to tax under section 56(2)(x). However, in this case, the gift is received on wedding anniversary or birthday of her husband, hence the same shall be taxable.
- (2) Gift from sister ie. 'relative' is not liable to tax under section 56(2)(x).
- (3) Gifts received on the occasion of the marriage of "the individual" ie. on the marriage of the recipient of the gift, is outside the scope of tax. In the given case, the gift has been received on the occasion of the marriage of "daughter", hence, the same is not exempt. Section 56(2)(x) refers to any sum of money, which includes fixed deposits.

ILLUSTRATION 11

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2025 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- (ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2025 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

SOLUTION

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.



As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares. The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

PAST EXAM QUESTION

ILLUSTRATION 12

Taxation of dividends received from domestic companies: Mr. X resident individual 45 years of age gives the following information pertaining to the assessment year 2026-27:

Particulars	₹
Business Income	16,00,000
Dividend from shares of Indian company (net)	9,00,000
Interest Expenses incurred on making investment in shares	2,50,000
Long term capital gains on sale of building (after indexation)	18,60,000

Determine the amount of Total Income and tax liability for the assessment year 2026-27 if he has not shifted out of default tax regime.

SOLUTION

Computation of amount of total income and tax liability for AY 2026-27 (amount in ₹):

Particulars	₹	₹
Business Income		16,00,000
Long term capital gains on sale of building		18,60,000
Income from other sources:		
Dividend from shares of Indian company [Gross Amount (9,00,000 × 100/90)]	10,00,000	
Interest Expenses incurred for making investment in shares (Subject to maximum of 20% of dividend income)	2,00,000	8,00,000
Total Income (rounded off)		42,60,000

Tax liability:

Particulars	₹
Long term capital gains taxable under Section 112 @ 12.5% (₹ 18,60,000 × 12.5%)	2,32,500
Balance Income taxable at normal rates (₹ 24,00,000)	3,00,000

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Total Tax	5,32,500
Add: HEC @ 4%	21,300
Total tax liability (rounded off)	5,53,800
Less: TDS u/s 194 on dividends	1,00,000
Tax payable	4,53,800

ILLUSTRATION 13

Taxability of deemed dividend u/s 2(22)(e): Rahul, holding 28% of equity shares in a company, took a loan of 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profits of 4,00,000. The company is engaged in some manufacturing activity.

- Is the amount of loan taxable as deemed dividend in the hands of Rahul, if the company is a company in which the public are substantially interested?
- What would be your answer, if the lending company is a private limited company (i.e.) a company in which the public are not substantially interested?

SOLUTION

- The provisions of section 2(22)(e) will not apply where the loan is given by a company in which public are substantially interested. In the given case, the loan would not be taxable as deemed dividend in the hands of Rahul as the company which has extended loan is a company in which public are substantially interested.
- If the loan is taken from a private limited company (i.e. a company in which the public are not Substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted.

Since Rahul is holding more than 10% of the equity shares in the company, thus loan granted by the company to him is treated as deemed dividend to the extent of accumulated profits. Hence, the loan of 5 lakhs shall be deemed to be dividend in the hands of Mr. Rahul only upto the extent of accumulated profits of ₹ 4 lakhs. Accordingly, 4 lakhs shall be taxable in the hands of Mr. Rahul under section 2(22)(e) as deemed dividend.

ILLUSTRATION 14

Examine with brief reasons, whether the following is chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961: During the previous year 2024-25, Mrs. Aishwarya, resident, received a sum of 8,50,000 as dividend from Indian companies and 4,00,000 as dividend from Indian equity oriented mutual fund units.

SOLUTION

Dividend from shares of Indian company and Dividend from units of Indian Equity oriented mutual fund is taxable in hands of Mrs. Aishwarya, Total amount received is ₹ 12,50,000. Gross amount taxable in hands of Ashwariys will be $(12,50,000 \div 90) \times 100 = 1,388,889$.

ILLUSTRATION 15

Taxability of gifts: Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income-tax Act, 1961 for A.Y. 2026-27:



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- i) ₹ 51,000 received from his sister living in US on 1-6-2025.
- ii) Received a car from his friend on payment of 2,50,000, the FMV of which was 5,50,000. Provisions of taxability or Non-taxability must be discussed.

SOLUTION

- i) **Not taxable** : Gift from sister i.e. 'relative' is not liable to tax under section 56(2)(x).
- ii) **Not taxable**: Car is not included in the definition of property for the purpose of Section 56(2)(x), therefore, the same shall not be taxable.

ILLUSTRATION 16

Taxability of the gifts: Mr. Sharma asks you to compute his taxable income from the following transactions which took place with his friends during January 2025

- i) Cash gifts received by him from Mr. A and Mr. Z: 32,000 each;
- ii) Two plot of lands gifted to him by Mr. B and Mr. C whose stamp values are 3,50,000 and 50,000 respectively;
- iii) He purchased a residential house at ₹ 6,00,000 from Mr. D, which was not registered, but the prevalent stamp value of which was 7,50,000;
- iv) A sculpture and jewellery worth 50,000 and 35,000 respectively were gifted by Mr. E and Mr. F;
- v) A silver coin purchased by him at 10 lakhs from Mr. G, when prevalent market value is 10.5 lakhs And shares purchased by him at 3 lakhs from Mr. H, when fair market value thereof was 3.3 lakhs.
- vi) A diamond ring purchased at 50 lakhs from M/s. Pearl Jewels (a jewellery shop of his close friend) when the fair market value was 55 lakhs for the purpose of Sharma Gem and Jewellery Mart (a jewellery shop owned by Mr. Sharma).

SOLUTION

Mr. Sharma has received cash and various items of property, which are covered by Section 56(2)(x). Hence, the taxability of these amounts in view of said section is as follows-

Particulars	₹
Cash gifts received from Mr. A and Mr. Z [WN-1]	64,000
Gift of plot of land from Mr. B (fully taxable, as stamp value exceeds ₹50,000)	3,50,000
Gift of plot of land from Mr. C (not taxable, as stamp value doesn't exceed ₹ 50,000)	Nil
Residential house acquired for inadequate consideration [WN-2]	1,50,000
Sculpture and jewellery gifted by Mr. E and Mr. F [WN-3]	85,000
Silver coin and shares purchased by him from Mr. G and Mr. H [WN-4]	80,000
Diamond ring purchased from M/s. Pearl Jewels [WN-5]	Nil
Total Income	7,29,000

Working Notes:

- (1) Aggregate of cash gifts received by Mr. Sharma = $32,000 \times 2 = 64,000$ i.e. exceeding 50,000, hence fully taxable.





- (2) Difference between the stamp duty value of 7,50,000 and the actual consideration of 6,00,000 paid is taxable under section 56(2)(x) since the difference exceeds 50,000 being, the higher of 50,000 and 10% of consideration i.e. 60,000.
- (3) Aggregate value of gift in form of movable properties = 50,000 + 35,000 = 85,000 i.e. exceeding 50,000, hence fully taxable.
- (4) Aggregate value of inadequate consideration of movable properties = (10.5 lakhs - 10 lakhs) + (3.3 lakhs - 3 lakhs) = 80,000 i.e. exceeding 50,000, hence, whole of the difference will be taxable.
- (5) Purchase of diamond ring for business purposes at less than fair market value cannot be treated as gift in hands of Mr. Sharma since the said ring is held as stock-in-trade by Mr. Sharma, hence cannot be regarded as property in the hands of Mr. Sharma, as the same is specifically excluded from the definition of capital asset. Accordingly, in adequacy of consideration is not taxable.

ILLUSTRATION 17 Repeated

ILLUSTRATION 18

Taxability of various receipts: Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- i) Mr. A received an advance of 50,000 on 1-9-2025 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of 50,000 was forfeited.
- ii) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is 10 lacs as per the registrar of stamp duty.
- iii) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving goods marks in CA Final exam. The fair market value of the car is 5,00,000.

SOLUTION

- i) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if such sum is forfeited and the negotiations do not result in transfer of such capital asset. Hence, amount of 50,000 received by Mr. A will be taxable as income from other sources.
- ii) Any property received without consideration by a HUF from its relative is not taxable u/s 56(2)(x) Since 'N' is a member of his father's HUF, he is a "relative" of the HUF. Therefore, if HUF receives any property (house, in this case) from its member, i.e., "N", without consideration, then, the stamp duty value of such property will not be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(x)
- iii) Car is not included in the definition of property for the purpose of section 56(2)(x) therefore, the same shall not be taxable.

ILLUSTRATION 19

Capital gains & Gift in case of inadequate consideration: Mr. Raj Kumar sold a house to his friend Mr. Dhruv on 1/6/2025 for a consideration of 25,00,000. The Sub-Registrar refused to



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register the document for the said value, as according to him, stamp duty had to be paid on ₹45,00,000, which was the Government guideline value. Mr. Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as 32,00,000 (22,00,000 for land; balance for building portion). The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is 32,00,000, what are the tax implications in the hands of Mr. Raj Kumar and Mr. Dhruv for the assessment year 2026-27?

Mr. Raj Kumar had purchased the land on 1/6/2006 for 5,19,000 and completed the construction of house on 1/12/2023 for 14,00,000.

(6 marks, May 2010)

SOLUTION

Computation of capital gains in the hands of Mr. Rajkumar: In case a land is held by the assessee for more than 24 months but the building constructed over it is held for not more than 24 months, then there will be long-term capital gains on sale of the land and short-term capital gains on sale of building. - CIT v. Citibank N.A. [2003] 261 ITR 570 (Bom.)

In the given case, the land was purchased on 1-6-2006 and sold on 1-06-2025, hence, it is a long-term capital asset, while the building thereon was constructed on 1-12-2023, hence it is a short-term capital asset.

As per provisions of Section 50C, if the stamp duty value adopted by stamp valuation authority is disputed in appeal and the same is reduced by the appellate authority, the reduced value shall be taken to be full value of consideration for computing the capital gains chargeable to tax since the difference between the stamp duty value (as reduced) and the actual consideration exceeds 10% of the actual consideration. Hence, in this case the full value of consideration for the purpose of computing capital gains shall be 32 lakhs (22 lakhs for the land and ₹ 10 lakhs).

The relevant computations are as follows (amounts in ₹):

Particulars	Land	Building
Full value of consideration	22,00,000	10,00,000
Less: Expenditure in connection with transfer (Not given)	Nil	Nil
Net consideration	22,00,000	10,00,000
Less: Indexed cost of acquisition of land	5,19,000	
Cost of acquisition of building		14,00,000
Long-term Capital Gains	16,81,000	
Short-term Capital Loss		-4,00,000
Taxable Capital Gains		12,81,000

Tax consequences in the hands of Dhruv : Mr. Rajkumar sold the house property to Mr. Dhruv for 25 lakhs, while its stamp value/fair value is 32 lakhs. Hence, there is an inadequate consideration of 7 lakhs (32 lakhs - 25 lakhs), i.e. difference between the stamp duty value of 32 lakhs and the actual consideration of 25 lakhs paid is taxable under section 56(2)(x) since the difference exceeds 1,25,000 being, the higher of 50,000 and 10% of consideration (25,00,000) i.e. 2,50,000.]

ILLUSTRATION 20

Computation of Total Income: Ms. Mohini transferred a house to her friend Ms. Ragini for 35,00,000 on 01-06-2025. The Sub Registrar valued the land at 60,00,000. Ms. Mohini contested



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the valuation and the matter was referred to Divisional Revenue Officer, who valued the house at 58,50,000. Accepting the said value, differential stamp duty was also paid and the transfer was completed.

The total income of Mohini and Ragini for the assessment year 2026-27, before considering the transfer of said house are 2,80,000 and 3,45,000, respectively. Ms. Mohini had purchased the house on 15th May 2010 for 25,00,000 and registration expenses were 1,50,000.

You are required to explain provisions of Income-tax Act, 1961 applicable to present case and also determine the total income of both Ms. Mohini and Ms. Ragini taking into account the above said transactions.

SOLUTION

Computation of Total Income chargeable to tax of Ms. Mohini:

Particulars	₹	₹
Capital Gains		
Full value of consideration (Section 50C) [WN]	58,50,000	
Less: cost of acquisition	26,50,000	32,00,000
Other Income		2,80,000
Total Income (rounded off)		34,80,000

Working Notes: As per provisions of Section 50C, if the stamp duty value adopted by stamp valuation authority is disputed in appeal and the same is reduced by the appellate authority, the reduced value shall be taken to be full value of consideration for computing the capital gains chargeable to tax since the difference between the stamp duty value (as reduced) and the actual consideration exceeds 10% of the actual consideration. Hence, in this case the full value of consideration for the purpose of computing capital gains shall be 58.50 lakhs.

Computation of Total Income chargeable to tax of Ms. Ragini:

Income from other sources:	
Purchase of Immovable property for inadequate consideration [Note]	23,50,000
Other Income	3,45,000
Total Income	26,95,000

Note: Since Ms. Ragini purchased immovable property for inadequate consideration, as per Section 56(2)(x) $(58,50,000 - 35,00,000) = 23,50,000$ i.e. difference between the stamp duty value of 55.50 lakhs and the actual consideration of 35 lakhs paid is taxable under section 56(2)(x) as Income from other sources, since the difference exceeds 3,50,000 being, the higher of 50,000 and 10% of consideration (35,00,000) i.e. ₹ 3,50,000.]

ILLUSTRATION 21

Capital gains & Gift in case of inadequate consideration : Mr. Subramani sold a house plot to Mrs. Vimala for 45 lakhs on 12-05-2025. The valuation determined by the stamp valuation authority was 53 lakhs. Discuss the tax consequences of above, in the hands of each one of them, viz, Mr. Subramani & Mrs. Vimala. Mrs. Vimala has sold this plot to Ms. Padmaja on 21-05-2026



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for 55 lakhs. The valuation as per stamp valuation authority remains the same at 53 lakhs. Compute the capital gains arising on sale of the house plot by Mrs. Vimala.

Note: None of the parties viz Mr. Subramani, Mrs. Vimala & Ms. Padmaja are related to each other; the transactions are *ala* & *Ms. P* between outsiders. (6 marks, nov 2018-NS)

SOLUTION

Tax implications in hands of Mr. Subramani: As per Section 50C, where the value adopted or assessed or assessable by the stamp valuation authority exceeds 110% of the consideration received, the stamp duty value shall be deemed to be the full value of the consideration. Hence, in the given case - Sales consideration=45,00,000, 110% of Sale Consideration=49,50,000, Stamp duty value = 53,00,000. Hence, 53,00,000 will be taken as Full Value of consideration in hands of Mr. Subramani for computing his capital gains.

Tax implications in hands of Mrs. Vimala on purchase of immovable property: Difference between the stamp duty value of 53,00,000 and the actual consideration of 45,00,000 paid is taxable under 56(2)(x) since the difference exceeds 450,000 being, the higher of 50,000 and 10% of consideration i.e. 4,50,000. Thus, Income from other sources taxable in hands of Mrs. Vimala = 8,00,000 [53,00,000 - 45,00,000].

Sale of immovable property to Ms. Padmaja: Capital Gains will arise in hands of Vimala on sale of immovable property to Padmaja. Since immovable property is not held for more than 24 months, the resultant capital gains shall be short term capital gains. The stamp duty value so taken into account for computing Income from other sources shall become cost of acquisition in hands of Vimala as per provisions of Section 49(4).

Short term capital gains: [55,00,000-53,00,000]=2,00,000.

ILLUSTRATION 22

Deemed Dividend & Interest on enhanced compensation: Ms. Julie received following amounts during the previous year 2025-26.

- 1) Received loan of 5,00,000 from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was 2,00,000 on the date of the loan.
- 2) Received Interest on enhanced compensation of 5,00,000. Out of this interest, 1,50,000 relates to the previous year 2022-23, 1,90,000 relates to previous year 2023-24 and 1,60,000 relates to previous year 2024-25. She paid 1 lakh to her advocate for his efforts in the matter.

Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2026-27 (4 marks, Nov 2020)

SOLUTION

The tax implications are discussed as under:

- 1) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of 2 lakhs would be treated as deemed dividend for the A.Y. 2026-27 and will be taxable in her hands.



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- 2) Interest on enhanced compensation is chargeable to tax under the head "Income from other sources" in the year of receipt, after providing for deduction of 50% of such income. Accordingly, 2,50,000 [5,00,000 - ₹2,50,000, being 50% of 5 lakh] would be chargeable to tax in the hands of Ms. Julie under the head "Income from Other Sources" for the A.Y. 2026-27.

ILLUSTRATION 23

Computation of income from other sources: From the following particulars of Pankaj for the previous year ended 31 March, 2026 compute the Income under the head "Income from other Sources":

S.No	Particulars	₹
(i)	Directors Fee from a Company	10,000
(ii)	Interest on Bank Deposits	3,000
(iii)	Income from undisclosed source	12,000
(iv)	Winnings from Lotteries (Net)	33,936
(v)	Royalty on a book written by him	9,000
(vi)	Lectures in Seminars	5,000
(vii)	Interest on loan given to a relative	7,000
(viii)	Interest on Debentures of a Company (listed in a Recognized Stock Exchange) Net of Taxes	18,000
(ix)	Interest on Post Office Savings Bank Account	500
(x)	Interest on Government Securities	2,200
(xi)	Interest on Monthly Income Scheme of Post office	33,000

He paid 1,000 for typing the manuscript of book written by him.

SOLUTION

Computation of the Income under the head "Income from other Sources" (amounts in ₹)-

	Particulars	₹
(i)	Directors Fee from a Company	10,000
(ii)	Interest on Bank Deposits	3,000
(iii)	Income from undisclosed source	12,000
(iv)	Winnings from Lotteries [WN-1]	48,480
(v)	Royalty on a book written by him [WN-2]	8,000
(vi)	Lectures in Seminars	5,000
(vii)	Interest on loan given to a relative	7,000
(viii)	Interest on Debentures of a Company (listed in a Recognized Stock Exchange) Net of Taxes [WN-3]	20,000
(ix)	Interest on Post Office Savings Bank Account [WN-4]	Exempt
(x)	Interest on Government Securities	2,200
(xi)	Interest on Monthly Income Scheme of Post office	33,000
	Income from Other Sources	1,48,680

Working Notes:

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- 1) Gross winnings from lotteries = Income (net of TDS) $\times 100 \div (100 - \text{TDS rate}) = 33,936 \times 100 \div 70 = 48,480$.
- 2) Royalty income is taxed under the head 'Profits and gains of Business or Profession' only if the assessee is an author by profession. In the given case, it is assumed that the royalty income doesn't fall under PGBP head, hence the same shall be taxable under the head 'Income from Other Sources'.
Taxable Amount = Royalty Less Expenses on typing manuscript = 9,000 - 1,000 = 8,000.
- 3) Gross interest on debentures = 18,000 $\times 100 \div 90 = 20,000$.
- 4) Interest on Post Office Savings Bank Account is exempt under section 10(15) up to ₹ 3,500.

ILLUSTRATION 24

Taxability of various receipts: State with brief reasoning whether the following receipts are chargeable to income-tax or are exempt (if chargeable, the amount taxable is to be mentioned) for the assessment year 2025-26:

Nature of receipt	Amount (₹)
Interest on enhanced compensation received on 12-03-2025 for acquisition of urban land, of which 40% relates to the earlier year	96,000
Rent received for letting out agricultural land for a movie	72,000

Computation is NOT required.

SOLUTION

- (1) Section 145B(1) provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates. Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'. 50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income. Hence, taxable interest under the head Income from other sources is 48,000.
- (2) Income derived from any farm building or land from its use for non-agricultural purposes (including letting for residential purpose or for the purpose of any business or profession) shall not be agricultural income. Hence, Rent received for letting out agricultural land for a movie shooting shall be chargeable to tax.

ILLUSTRATION 25

Taxability of various receipts: Discuss the tax implications under section 56(2) in respect of each of the following transactions

- 1) Mr. Tejpal received a painting by M. F. Hussain worth 2 lakh from his nephew on his 10th wedding anniversary.
- 2) Verma's son transferred shares of D Ltd. to Verma HUF without any consideration. The fair market value of the shares is 2.5 lakh.
- 3) Mr. Sharan's land was acquired by the Government in August 2011. He received interest of 5,40,000 on enhanced compensation in January, 2026, out of which 1,20,000 related to





the year 2022-23, ₹ 1,60,000 related to the year 2023-24, ₹ 2,00,000 related to the year 2024-25 and 60,000 related to the year 2025-26.

- 4) Mr. Rajan decided to sell capital asset to Mr. Mahajan and received an advance of ₹ 1,00,000 on 1 October, 2025. Mr. Mahajan could not pay the balance sum and advance money was forfeited by Mr. Rajan on 15th January, 2026.

SOLUTION

Tax implications u/s 56(2)-

- Since paintings are included in the definition of "property", therefore, when paintings are received without consideration, the same is taxable under section 56(2)(x), as the aggregate fair market value of paintings exceed ₹ 50,000. Therefore, 2,00,000, being the value of painting gifted by his nephew, would be taxable under section 56(2)(x) in the hands of Mr. Tejpal, since "nephew" is not included in the definition of "relative" thereunder.
- Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Verma's son is a member of Verma HUF, he is a "relative" of the HUF. Therefore, if Verma HUF receives any property (shares, in this case) from its member, i.e., Verma's son, without consideration, then, the fair market value of such shares will not be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(x).
- As per section 145B(1), interest received on enhanced compensation shall be deemed to be the income of the previous year in which it is received, irrespective of the method of accounting followed by the assessee. Therefore, in this case, interest on enhanced compensation received by Mr. Sharan in January, 2025 shall be deemed to be the income of P.Y. 2025-26, i.e., the year of receipt, irrespective of the method of accounting followed by him. Such interest is taxable under section 56(2)(viii)
$$(1,20,000 + 1,60,000 + 2,00,000 + 60,000) = 5,40,000$$

Less: Deduction under section 57(iv) @ 50% of ₹ 5,40,000 = 2,70,000
- Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if such sum is forfeited and the negotiations do not result in transfer of such capital asset. Hence, amount of 1,00,000 received by Mr. Rajan will be taxable as income from other sources.

ILLUSTRATION 26

Taxability of gifts - Mr. Y a non-resident has received the following gifts from his friend X who is resident in India during the half year ended 31-03-2026. Determine his income from other sources.

- Gift of 25 lakh by NEFT transfer from X's bank account (PNB, Mumbai) to Y's bank account in New York, US.
- Gift of 15 lakh to Y (X has a bank account in Citibank, New York. Permission of RBI has taken for this purpose. This gift is transferred from Citibank, New York account of X to the account of Y in Deutsche Bank, New York).
- Gift of house property situated in New Jersey (market value: 2.70 crore).
- Diamond Jewellery (market value ₹ 50 lakh) given in New York from X's locker in New York.



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- 5) *Monalisa painting (market value: 10 lakh) (given as gift outside India from X's locker in a foreign bank).*
- 6) *Shares in Reliance Industries Ltd. (market value as per stock exchange quotation: 20 lakh).*

SOLUTION

According to Section 9(1)(viii), Income arising outside India, being any sum of money referred to in Section 2(24) (xviii) i.e. gifts paid by a person resident in India to a non-resident, not being a company, or to a foreign company shall be deemed to accrue or arise in India. In light of the above provisions the taxability in hands of Mr. Y is as under ₹-

	Particulars	₹
a.	Gift by way of NEFT to foreign bank [The same shall be taxable in India as the Income is deemed to accrue or arise in India as per the provisions of Section 9(1)(viii)]	25,00,000
b.	Gift by bank transfer in New York [The same shall be taxable in India as the Income is deemed to accrue or arise in India as per the provisions of Section 9(1)(viii)]	15,00,000
c.	Gift of house property situated in New Jersey [The same shall not be taxable in India as the provisions of Section 9(1)(viii) applies only in respect of money and not in respect of other property]	Nil
d.	Gift of diamond Jewellery outside India [The same shall not be taxable in India as the provisions of Section 9(1)(viii) applies only in respect of money and not in respect of other property]	Nil
e.	Painting outside India [The same shall not be taxable in India as the provisions of Section 9(1)(viii) applies only in respect of money and not in respect of other property]	Nil
f.	Shares in Reliance Industries Ltd. [The same shall be taxable in India, as per the provisions of Section 9(1)(i), the income shall be deemed to accrue or arise in India]	20,00,000
	Income from Other Sources	60,00,000

ILLUSTRATION 27

FOS and Capital Gains: Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2025-26:

- i) Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- ii) Cash gift of 21,000 each from his four friends.
- iii) Land at Jaipur on 1 July, 2025 as a gift from his friend Kabra, the stamp duty value of the land is 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @ 400 each on 19th June, 2025 the fair market value of which was 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June, 2025.



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Further, on 1st November, 2025, Mr. Lalit took possession of his residential house booked by him two years back at 20 lakh. The stamp duty value of the property as on 1st November, 2025 was 32 lakh and on the date of booking was ₹ 24 lakh. He had paid 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value 1,50,000 and cash 50,000 in distribution from the ABC (P) Ltd. at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹1,25,000.

On 1st March, 2026, he sold the plot of land at Jaipur for 8 lakh.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2026-27
(8 Marks, May 2022)

SOLUTION

Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2026-27 (amount in ₹)

	Particulars	₹
(i)	Motor car is not included in the definition of "property" for the purpose of section 56(2)(x), hence, value of the same is not taxable, even though it is received without any consideration.	-
(ii)	Cash gift is taxable u/s 56(2)(x) [since the aggregate of 84,000 (21,000 × 4) exceeds 50,000]	84,000
(iii)	Stamp value of plot of land at Jaipur, received without consideration, is taxable u/s 56(2)(x) since the same exceeds 50,000	6,00,000
(iv)	Difference of 2 lakh [1000 shares × 200] in the value of shares of ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset. [Since Mr. Lalit is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. Lalit.]	-
(v)	Difference between the stamp duty value of 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of 20 lakh paid is taxable u/s 56(2)(x) since the difference exceeds 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	4,00,000
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend u/s 2(22)(c)	1,25,000
	Income taxable under the head "Income from other sources"	12,09,000

Computation of "Capital Gains" of Mr. Lalit for the A.Y. 2026-27 (amount in ₹)

Particulars	₹



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Capital gains on sale of land at Jaipur Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax u / s 56(2)(x)]	6,00,000
Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	2,00,000
Capital gains on distribution of assets on liquidation of ABC (P) Ltd. Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
FMV of assets distributed	1,50,000
Cash	50,000
	2,00,000
Less: Deemed dividend under section 2(22)(c)	1,25,000
Full value of consideration for computing capital gains	75,000

Note:

- As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.
- As per section 56(1)(i) dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u / s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares.

ILLUSTRATION. 28

From the following calculate the taxable amount under the proper head of income for FY 2025-26 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 2025. The dividend was declared by the company, ie LMN Limited, at its annual general meeting held in October 2024.
- Advance forfeited amounting to ₹ 1,00,000 on 01.05.2025 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 FY 2025-26, he received ₹ 99,000 as pension from employer of deceased wife.

SOLUTION

Computation Of Taxable Amount Of Mr L For FY 2025-26:

S.No.	Particulars	Amount (₹)
1.	Dividend from LMN Ltd would be chargeable to tax u/h "Income from Other Sources". Since dividend was declared by LMN Ltd at its annual general meeting held in October 2024, the amount of dividend was taxable in FY 2024-25. Accordingly, the dividend of 50,000 would not be taxable in the current FY 2025-26.	Nil
2.	Advance of ₹ 1,00,000 forfeited on 1.5.2025 would be subject to tax u/h "Income from Other Sources" as per Section 56.	1,00,000



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3.	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 u/h "Income from Other Sources" as per Section 56(2)(x).	51,000
4.	If an employee passes away, any amount received as family pension is taxable in the hands of the recipient family member u/h "Income from Other Sources" as per Section 56. Lower of the following two figures is available as deduction: - 25,000; or - 1/3rd of the family pension received (ie, 1/3rd of 99,000 = 33,000) Thus, taxable pension is 84,000 (₹99,000-25,000)	74,000
	Total Income	2,25,000

ILLUSTRATION 29

Deemed Dividend u/s 2(22)(e) : Mr. Ravi received an advance of ₹ 2,00,000 on 10-05-2025 from a closely held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of ₹ 1,00,000 at the time of giving the advance.

Compute the amount of income to be included in the hands of Mr. Ravi for the assessment year 2026-27 and also state the head under which it is to be included. **(2 Marks, May 2024)**

SOLUTION

In the present case, the amount of advance of ₹ 2,00,000 received by Mr. Ravi from closely held manufacturing company would be deemed as dividend to the extent of accumulated profit of ₹ 1,00,000, since Mr. Ravi holds 22% shareholding in the company which is not less than 10% of the voting power in the company.

Accordingly, deemed dividend of ₹ 1,00,000 would be taxable in the hands of Mr. Ravi under the head "Income from Other Sources" for the A.Y. 2026-27.

ILLUSTRATION 30

Taxability of the gifts: Check the taxability of the following gifts received by Mrs. Rashmi during the previous year and compute the taxable income from gifts:

- On the occasion of her marriage on 14-8-2025, she has received 90,000 as gift out of which 70,000 are from relatives and balance from friends.
- On 12-9-2025, she has received gift of 18,000 from cousin of her mother.
- A cell phone of 21,000 is gifted by her employer on 15-08-2025
- She gets gift of 25,000 from elder brother of her husband's grandfather on 25-09-2025.
- She has received gift from her friend of 2,000 on 14-04-2025. **(6 Marks, PE-II Nov. 2008)**

SOLUTION

The answer is as follows

- Not taxable since the same has been received by her on the occasion of marriage.
- Taxable since her mother's cousin does not fall in the category of relative.



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- iii) Gift from employer shall be chargeable to tax under the head 'Salaries' as the same exceeds ₹ 5,000.
- iv) Taxable since brother of grandfather does not fall in the category of relative.
- v) Taxable.

Therefore, the total taxable sum under income from other sources u/s 56 = 18,000 + 25,000 + 2,000 = 45,000. Since the aggregate value of taxable gifts doesn't exceed ₹ 50,000, therefore, the same are not 'income' as per section 56(2)(x). Hence, none of the gifts shall be taxable in the hands of Mrs. Rashmi.

ILLUSTRATION 31 Repeated

ILLUSTRATION 32

Computation of gross total income: J furnishes the following particulars relating to his house properties and other incomes and expenditure for the year 2025-26:

- i) **First House:** This house is taken by him on lease for 10 years which is let to a tenant, for his residence, at a monthly rent of 2,400. He has incurred the following expenses during this year: Lease rent = ₹ 1,000 per month Salary of Durban = ₹ 200 per month Interest on loan taken to pay for the acquisition of the lease = ₹ 200 per month
- ii) **Second House:** This house was constructed by him in 1988, but was transferred to his wife in 1992 out of love and affection. He, however, continues to stay in this house with his wife till date. He has taken a loan for the construction of this house for which interest of 6,000 becomes due for the year, but had not been paid by him. He has paid repair expenses of ₹ 1,000 during the year.
- iii) Taxable income from business for this year amounts to ₹ 64,000.

Compute gross total income of J for the assessment year 2026-27 if has opted out of the default tax regime
(CA Nov. 1998)

SOLUTION

Computation of Gross Total Income of J

Particulars	₹	₹	₹
Income from House Property			
Net Annual Value of Self-occupied House II	[WN-1]	Nil	
Less: Interest on borrowed capital		6,000	6,000
PGBP			64,000
Income from other sources			
Rent of House 1 (2,400 × 12)	[WN-2]	28,800	
Less: Lease rent (1,000 × 12)		12,000	
Salary of Durban (200 × 12)		2,400	
Interest on loan taken to pay for the acquisition of the lease (200 × 12)		2,400	12,000
Gross Total Income			70,000

Working Notes:

- 1) Since Second House has been transferred by J to his wife without adequate consideration, hence he shall be to be the deemed owner of such house. Thus, the same is taxable in his hands.



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- 2) Since First House is taken by J on lease of 10 years i.e. less than 12 years, hence he is not the deemed owner of this house. Thus, income from this house shall be taxable in the hands of J under the head 'Income from Other Sources'.

ILLUSTRATION 33

Taxability of Income under various heads: State under which heads the following incomes are taxable :

- (1) Rental income in case of dealer in property;
- (2) Dividend on shares in case of a dealer in shares;
- (3) Salary by a partner from his partnership firm;
- (4) Rental income of machinery;
- (5) Winnings from lotteries by a person having the same as business activity;
- (6) Salaries payable to a Member of Parliament;
- (7) Receipts without consideration;
- (8) In case of retirement, interest on employee's contribution if provident fund is unrecognised.

(4 Marks, Nov. 2010)

SOLUTION

The taxability of the given incomes is discussed in the following table -

	Particulars	Head of Income
1.	Rental income in case of dealer in property	Income from house property.
2.	Dividend on shares in case of a dealer in shares	Income from other sources.
3.	Salary by partner from his partnership firm	Profit and gains of business or profession.
4.	Rental income of machinery	Profits and gains of business or profession. However, if the same is not taxable as business income, it is taxable as Income from Other Sources u/s 56(2) (ii).
5.	Winnings from lotteries by a person having the same as business activity	Income from other sources.
6.	Salaries payable to a Member of Parliament	Income from other sources
7.	Receipts without consideration	Income from other sources under section 56(2)(x)
8.	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources.

ILLUSTRATION 34

Taxation of dividends received from domestic companies: XYZ Ltd. a domestic company, declared dividend of 150 lakh for the Financial Year 2025-26 and distributed the same on 31-07-2025. Mr. A holding 10% share in XYZ Ltd. received net dividend of 13.5 lakh in July, 2025. Mr. B holding 5% share in XYZ Ltd. received net dividend of 6.75 lakh in July, 2025.

Discuss the tax liabilities in the hands of Mr. A and Mr. B assuming that Mr. A and Mr. B have not received dividend from any other domestic company during the year. (3 Marks, May 2018)



SOLUTION

In both the cases dividend received from shares of Indian company shall be chargeable to tax in hands of the shareholder. Gross dividend will be taxable in hands of shareholders. Thus, gross dividend of ₹ 15 lakh (13.5 lakh 90×100) received by Mr. A and gross dividend ₹ 7.5 lakh (6.75 lakh 90×100) received by Mr. B will be chargeable to tax in their hands.

ILLUSTRATION 35

Taxability under various heads of Income: Decide the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of Reliance Industries Ltd. to M/s. B Co. (P) Ltd. on 10-10-2024 for 3,00,000 when the market price was 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at 4,45,000. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in hands of Mr. B and M/s. B Co (P) Ltd. because of the above said transaction.
- (ii) Ms. Chhaya transferred a vacant site to Ms. Dayama for fixed the value of vacant site for stamp duty purpose at 4,25,000. The stamp valuation authority 6,00,000. The total income of Chhaya and Dayama before considering the transfer of vacant site are 50,000 and ₹ 2,05,000 respectively. The indexed cost of acquisition for Ms. Chhaya in respect of vacant site is 4,00,000 (computed). Determine the total income of both Ms. Chhaya and Ms. Dayama taking into account the abovesaid transaction.
- (iii) Mr. Cheqian is employed in a company with taxable salary income of 5,00,000. He received a cash gift of 1,00,000 from Atma Charitable Trust (registered u/s 12AA) in December 2024 for meeting his medical expenses. Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Cheqian?

(6 Marks, May 2011)

SOLUTION

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.
Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.
The indexed cost of acquisition (₹ 4,45,000) less the actual sale consideration (₹ 3,00,000) would result in a long term capital loss of ₹ 1,45,000 in the hands of Mr. B, which is eligible for set off against any other long term capital gain.
- (ii) Total Income of Chhaya = ₹ 50,000 + LTCG (6 lakhs, being stamp value under section 50C - ₹ 4 lakhs) = ₹ 2,50,000.
Total Income of Dayama = ₹ 2,05,000 + ₹ 1,75,000 = ₹ 3,80,000. [Difference between the stamp duty value of 6,00,000 and the actual consideration of 4,25,000 paid is taxable under section 56(2)(x) since the difference exceeds ₹ 50,000 being, the higher of ₹ 50,000 and 10% of consideration i.e. ₹ 42,500.]





- (iii) No, the cash gift so received by Mr. Cheqian shall not be taxable in his hands as any sum received without consideration i.e., as cash gift from a charitable trust registered under section 12AA is specifically excluded under section 56(2)(x)

ILLUSTRATION 36

Taxability of various receipts: Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- (i) ABC Private Limited, a closely held company, issued 10,000 share at ₹ 130 per share. (The face value of the share is 100 per share and the fair market value of the share is ₹ 120 per share).
 - (ii) Mr. A received an advance of ₹ 50,000 on 1-9-2024 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 50,000 was forfeited.
 - (iii) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is 10 lacs as per the registrar of stamp duty.
 - (iv) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving goods marks in CA Final exam. The fair market value of the car is ₹ 5,00,000.
- (2 x 4 = 8 Marks, May 2016)

SOLUTION

- (i) The provisions of Section 56(2)(viib) have been omitted w.e.f. AY 2025-26 which provided that the consideration received by the company in which public are not substantially interested in excess of the 9190 fair market value of the shares would be taxable. Therefore, ₹ 1,00,000 [i.e., (₹ 130 - 120) x 10,000 shares] shall not be the income chargeable under in the hands of ABC Private Limited.
- (ii) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if such sum is forfeited and the negotiations do not result in transfer of such capital asset. Hence, amount of ₹ 50,000 received by Mr. A will be taxable as income from other sources.
- (iii) Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(x) Since "N" is a member of his father's HUF, he is a "relative" of the HUF. Therefore, if HUF receives any property (house, in this case) from its member, i.e., "N", without consideration, then, the stamp duty value of such property will not be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(x).
- (iv) Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

ILLUSTRATION 37

Interest on compensation and Gifts: Examine whether the following are chargeable to tax and the amount liable to tax :



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- (i) Interest on enhanced compensation ₹ 3,00,000 received on 31-03-2025 from Government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2024-25.
 - (ii) Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2025 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was effected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
 - (iii) Mr. A received ₹ 5,00,000 on 1st March 2026 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under section 12AB of Income-tax Act.
- (6 Marks, Nov. 2022)**

SOLUTION

- (i) Interest on enhanced compensation received on 31-03-26 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to P.Y. 2024-25) would be deemed to be the income of P.Y. 2025-26, being the year in which it is received irrespective of the method of accounting followed by the assessee.

Interest of ₹ 3,00,000 on enhanced compensation is chargeable to tax during the P.Y. 2024-25 after providing deduction of 50% under section 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head "Income from other sources".

- (ii) **In the hands of Mr. Narayanan**

Since the consideration of 2,00,000 is less than 3,00,000, being the fair market value of unquoted shares of BS Ltd., the fair market value of shares i.e., ₹3,00,000 would be deemed to be the full value of consideration. Accordingly, 25,000 [3,00,000-2,75,000, being indexed cost of acquisition] would be liable to tax as long term capital gains in the hands of Mr. Narayanan.

In the hands of AB Pvt. Ltd.

Shares received by AB Pvt. Ltd. from Mr. Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds 50,000. Accordingly, ₹ 1,00,000, being the difference between aggregate

Fair Market Value of the shares i.e., ₹ 3,00,000 and consideration i.e., ₹ 2,00,000 would be chargeable to tax under the head "Income from other sources".

- (iii) The sum of ₹5,00,000 received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr. A, since the same is received from a trust registered under section 12AB.

ILLUSTRATION 38

Taxability of Gifts: Discuss the taxability with reason in the hands of recipient for the assessment year 2026-27 in respect of following receipts or income:

- (i) Mr. Ram received a sum of 5,00,000 from his father on Ram's wedding anniversary.
- (ii) Mr. Govind sold his house property to Mrs. Radha for 1,25,00,000, whereas value determined by stamp valuation authority was 1,75,00,000.
- (iii) Ms. Agastha got a gift of car worth 7,00,000 from her friend on her wedding anniversary.



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(4 Marks, May 2025)

SOLUTION

	Taxable/ Non-taxable	Reason
(i)	Non-taxable	Sum of money exceeding 50,000 received without consideration by Mr. Ram from his father is not taxable under section 56(2)(x) since the sum is received from a relative i.e., father of Mr. Ram.
(ii)	Taxable	The difference of 50 lakhs between stamp duty value of ₹ 1,75,00,000 and actual consideration of ₹ 1,25,00,000 is taxable under section 56(2)(x) in the hands of Mrs. Radha since the difference exceeds 12,50,000, being the higher of 50,000 and 10% of consideration. ₹ 50 lakhs is taxable in the hands of Mrs. Radha. 175 lakhs is to be considered as deemed sale consideration for the purpose of computing capital gain in the hands of Mr. Govind.
(iii)	Non-taxable	Car is not included in the definition of property for the purpose of section 56(2)(x) Therefore, the car received by Ms. Agastha from her friend is not taxable.

ILLUSTRATION 39 Repeated

ILLUSTRATION 40 Repeated

ILLUSTRATION 41 Repeated



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CHAPTER – 8

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

STUDY MATERIAL

ILLUSTRATION 1

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

SOLUTION

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

ILLUSTRATION 2

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2026-27 if they are paying tax under default tax regime

SOLUTION

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

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A (₹ 30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	75,000	2,85,000
Other Income		7,00,000
Gross total income		9,85,000

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

ILLUSTRATION 3

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

SOLUTION





If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable. Gross total income of Mr. A = ₹ 7,00,000 [Other income]. Gross total income of Mrs. A = Salary received by Mrs. A [₹ 30,000×12] less ₹ 75,000, being the standard deduction under section 16(ia) plus other income [₹ 4,00,000] = ₹ 6,85,000

ILLUSTRATION 4

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2026-27.

SOLUTION

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

Computation of Gross total income of Mr. B

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

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary		Nil
[Clubbed in the hands of Mr. B]		
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of ₹ 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

ILLUSTRATION 5

Mr. Vaibhav started a proprietary business on 01.04.2024 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2024-25. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2025, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2025-26. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

SOLUTION

The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital	Total (₹)





		contribution out of gift from Mrs. Vaishaly (₹)	
Capital as on 1.4.2025	3,00,000 (5,00,000 - 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2025-26 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2025 (3:5)	1,50,000 4,00,000 × 3/8	2,50,000 4,00,000 × 3/8	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2026-27 is ₹ 2,50,000. In case Mrs. Vaishaly gave the said amount of ₹ 5,00,000 as a bona fide loan, then, clubbing provisions would not be attracted.

ILLUSTRATION 6

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

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

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

SOLUTION

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

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

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

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

ILLUSTRATION 7

Mr. A has three minor children - two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2025 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

SOLUTION

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

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]		
Less: Exempt under section 10(32) [₹ 1,500 × 2]	4,000	



Minor son	3,000	1,000
Less: Exempt under section 10(32)	1,200	
Income to be clubbed in the hands of Mr. A	1,200	Nil
		1,000

ILLUSTRATION 8

Compute the gross total income of Mr. A & Mrs. A from the following information

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2025 from friend of Mrs. A	2,500

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

SOLUTION

Computation of total income Mr & Mrs A.

Particulars	Mr. A	Mrs. A.
Income from profession/Income from salary	3,90,000	2,30,000
Less: Exemption under section 10(32)		
Income from other sources:		
Income of minor son B from company deposit	15,000	
Interest from Bank received by C [WN-2]	3,000	
Less: Exemption u/s 10(32) (for two children i.e. 1,500 × 2)	-3,000	
	4,05,000	2,30,000

Working Notes:

- (1) As per section 64(1A) any income, accruing or arising to a minor child on account of activity involving application of her skill, talent or specialized knowledge and experience, is not to be clubbed. Therefore income of minor daughter C from special talent shall not be clubbed.
- (2) Interest from bank deposit is liable to be clubbed even when deposit is made out of income arising from application of special talent.
- (3) Gift received by C is not taxable since, as per section 56(2)(x) gift received from non-relatives is taxable only when the aggregate amount from one or more person exceeds 50,000.

ILLUSTRATION 9

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2025. On 12-7-2025, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2025 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

SOLUTION

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2025 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2025.



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

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

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation. However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

TEST YOUR KNOWLEDGE

ILLUSTRATION 10

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

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

SOLUTION

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

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

ILLUSTRATION 11

During the previous year 2025-26, the following transactions occurred in respect of Mr. A.

- (a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2025 to 31-3-2026 to the savings bank account of Mr. B, son of his brother, to help him in his education.





- (b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- (c) Mr. A gifted a flat to Mrs. A on April 1, 2025. During the previous year 2025-26, Mrs. A's from house property" (computed) was "Income ₹ 52,000 from such flat.
- (d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

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

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

SOLUTION

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2026-27

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

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the





income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

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

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

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

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

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

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

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

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

ILLUSTRATION 12

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

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

SOLUTION

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration. As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

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





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

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

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration. Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

ILLUSTRATION 13

A proprietary business was started by Smt. Rani in the year 2023. As on 1.4.2024 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2024 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2024-25, ₹ 1,50,000 and Financial year 2025-26 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2026-27 with reasons.

SOLUTION

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2024	3,00,000	-	3,00,000
Investment on 10.04.2024 out of gift received from her husband		2,00,000	2,00,000
profit for F.Y. 2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2024	3,00,000	2,00,000	5,00,000
Capital employed as at 1.4.2025	4,50,000	2,00,000	6,50,000
Profit for F.Y.2025-26 to be apportioned on the basis Of capital employed as at 1.4.2025 (i.e., 45: 20)	2,70,000	1,20,000	3,90,000





Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is ₹ 1,20,000.

ILLUSTRATION 14

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

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

Examine the tax implications in the hands of Mr. and Mrs. B. both have exercised the option of shifting out of the default tax regime.

SOLUTION

Clubbing of income and other tax implications As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists. Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

- Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- Salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child. As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".
- Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

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

PAST EXAM QUESTIONS

ILLUSTRATION 15





Clubbing of Income: Mr. A is an employee of Larsen Limited and has substantial interest in the company. His salary is 25,000 p.m. Mrs. A also is working in that company at a salary of 10,000 p.m. without any professional qualification. Mr. A also receives ₹30,000 as income from securities, Mrs. A owns a house property which she has let out. Rent received from such house property is 12,000 p.m. Mr. & Mrs. A have three minor children-two daughters and one son. Income of the twin daughters is 2,000 p.a. and that of his son is ₹ 1,200 p.a. Compute the income of Mr. and Mrs. A assuming that they have not exercised the option of shifting out of the default tax regime provided under section 115BAC (8 Marks, IPCC May 2013)

SOLUTION

Computation of Total Income Mr. & Mrs. A (amount in ₹) -

Particulars		Mr. A	Mr. B
Income from salary:			
Salary (25,000 × 12)	3,00,000		
Less: Standard Deduction u/s 16(ia)	75,000	2,25,000	
Salary received by Mrs. A from Larsen Limited [WN]	1,20,000		
Less: Standard Deduction u/s 16(ia)	75,000	45,000	
Income from let out property:			
Rent received	1,44,000		
Less: Standard deduction 30%	43,200		1,00,800
Interest on Securities		30,000	
Income of Minor Children to be clubbed in Mr. A's income (Since his total income is greater)			
Income of Twin minor daughters	2000		
Less: Exempt u/s 10(32)	-	2000	
Income of Minor Son	1,200		
Less: Exempt u/s 10(32)	-	1200	
Total Income		3,03,200	1,00,800

Working Note: Salary received by Mrs. A from Larsen Limited will be clubbed in Mr. A's income since Mr. A has substantial interest in the company and Mrs. A do not possess any professional qualification.

ILLUSTRATION 16

Clubbing of Income: Mr. Mittal has four minor children consisting of three daughters and one son. The annual income of all the children for the Assessment Year 2026-27 were as follows:

(4 Marks, Nov. 2014)

Particulars	Amount ₹
First daughter (Including Scholarship received 5,000)	10,000
Second Daughter	8,500
Third Daughter (Suffering from disability specified u/s 80U)	4,500
Son	40,000

Mr. Mittal gifted 2,00,000 to his minor Son who invested the same in the business and derived income of ₹20,000 which is included above.

Compute the amount of Income earned by Minor Children to be clubbed in the hands of Mr. Mittal if she has shifted out of the default tax regime. (4 marks, Nov 2014)

SOLUTION



Computation of income earned by minor children to be clubbed with the income of Mr. Mittal:
(amt. ₹)

	Particulars	₹
i)	Income of first daughter Less: Income exempt under section 10(32)	5,000 1,500
ii)	Total (A) Income of Second daughter Less: Income exempt under section 10(32) Total (B)	3,500 8,500 1,500 7,000
iii)	Income of Third daughter (It shall not be clubbed in hands of Mittal since she is suffering from disability under Section 80U)	
iv)	Income of son Less: Income exempt under section 10(32) Total (C)	40,000 1,500 38,500
	Total Income to be clubbed as per section 64(1A) (A+B+ C)	49,000

Working Note: Scholarship received by daughter accrue or arise to her on account of activity involving application of her skill, talent or specialized knowledge and experience.

ILLUSTRATION 17

Clubbing of Income: Kamal gifted 10 lakhs to his wife, Sulochona on her birthday on, 1st January, 2025. Sulochona lent 5,00,000 out of the gifted amount to Krishna on 1st April, 2025 for 6 months on which she received interest of 50,000. The said sum of 50,000 was invested in shares of a listed company on 15th October, 2025, which were sold for 75,000 on 30th December, 2025. Securities transactions tax was paid on such sale. The balance amount of gift was invested as capital by Sulochona in a business. She suffered loss of 15,000 in the business in Financial Year 2025-26.

In whose hands the above income and loss shall be included in Assessment Year 2026-27? Support your answer with brief reasons. (5 Marks, Nov. 2017)

SOLUTION

Under section 64(1)(iv), where any asset is transferred directly or indirectly to the spouse by an individual, otherwise than for adequate consideration or in connection with an agreement to live apart, the income arising therefrom is included in the hands of the transferor. The term "income" in this context includes "loss" as well - CIT v. J.H. Gotla [1985] 156 ITR 323 (SC).

Therefore, interest of 50,000 from moneys lent to Krishna shall be clubbed in hands of her husband Mr. Kamal.

The loss of 15,000 sustained by Sulochona in the business carried on by her with funds gifted by her husband can be claimed by her husband. Further, gift from husband is not taxable under section 56(2)(x).

When Mrs. Sulochona invested the interest income of 50,000 in shares of listed company and earned short term capital gains amounting 25,000 therefrom, such capital gains shall not be clubbed with the income of her husband but shall be taxable in her individual capacity. This is so because the income from the accretion of the transferred assets is not to be clubbed with the income of the transferor. CIT v. M.S.S.Rajan [2001] 252 ITR 126 (Mad).

ILLUSTRATION 18

Clubbing of Income: Mr. Madhav made a gift of 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31 March 2024, which he deposited in a fixed deposit account in a



Nationalised bank at 10% interest p.a. compounded annually. The balance in this account as on 1 April, 2025 was 2,75,000 and the bank credited a sum of 27,500 as interest on 31st March, 2026. Madhav's father gifted equity shares worth 50,000 of an Indian company (unlisted) to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2013) in July 2013 which were purchased by him on 8th December, 2005 for 80,000. Manan received a dividend of 5,000 on these shares in October 2025. He sold these shares on 1st November, 2025 for 5,00,000 and deposited 3,00,000 in a company at 15% interest per annum.

Mr. Madhav has a taxable income of 3,50,000 from his profession during the financial year 2025-26.

Compute his Gross Total Income for the A.Y. 2026-27 if she has shifted out of the default tax regime.
(5 Marks, May 2018-NS)

SOLUTION

Computation of Gross Total Income for the A.Y. 2025-26 (amount in :

Particulars	₹	₹
Taxable Income from Profession		3,50,000
Capital Gains		
Full Value of consideration	5,00,000	
Less: cost of acquisition [indexation benefit will not be available as transfer takes place after 22/7/2024]	80,000	4,20,000
Income from Other Sources		
Dividend from shares of Indian company [Taxable in hands of share holder] Interest received by Master Tapan (Income cannot be clubbed in hands of Madhav, since Master Tapan is suffering from disability specified under Section 80L)	5,000	
Interest on company deposits invested by Master Manan will be clubbed in hands of Madhav[3,00,000 × 15% × 5 ÷ 12]	18,750	
Less: Exemption under Section 10(32)	-1,500	22,250
Gross Total Income		7,92,250

ILLUSTRATION 19

Clubbing of Income: Mrs. and Mr. Vinod Amin have two minor children M and N. The following are the receipts in the hands of M and N during the year ended 31-03-2026:

- M received a gift of 70,000 from her friend's father on the occasion of her birthday.
- M won a prize money of ₹ 3,00,000 in National Quiz competition.
- This was invested in debentures of a company, from which interest of 19,000 (gross) accrued during the year.
- N won prize in a lottery. The net amount received after deduction of tax at source was 1,05,000.

Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how These items will be considered for taxation under the provisions of the Income-tax Act, 1961. Detailed computation of income is not required.
(5 Marks, Nov. 2018-NS)

SOLUTION

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



child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child. Since the income of Mr. Vinod Amin (before considering the clubbing provisions) is higher than that of his wife, the income accrued to minor child will be clubbed in his income. Thus, the treatment of various income of minor child shall be as under:

- Gift received by M amounting 70,000 from her friend's father on the occasion of her birthday will be clubbed in hands of Mr. Vinod Amin under the head Income from other sources.
- 3,00,000 earned by M in National Quiz competition shall not be clubbed in hands of her father as the same has been earned by her application of skill or talent. Interest from debentures amounting 19,000 is liable to be clubbed even when investment is made out of income arising from application of special talent.
- Income of ₹ 1,50,000 (gross) arising to minor N from lottery shall be included in the hands of Mr. Vinod Amin as "Income from other sources".

From the income so clubbed Mr. Vinod Amin will be entitled to deduction of 1,500 per child under Section 10(32) of the Act.

ILLUSTRATION 20

Clubbing of Income: Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2026-27.

Particulars	Amount ₹
1. Income of Mr. Mahadev - professional bhajan singer (computed)	5,65,000
2. Salary income of Mrs. Dariya (computed)	3,80,000
3. Loan received by Mrs. Dariya from Ramu & Jay (Pvt.) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4. Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5. Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6. Interest income received by minor married daughter Gudia from deposit with Ramu & Pvt. Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2026-27. if she has shifted out of the default tax regime (5 Marks, Nov. 2019)

SOLUTION

Computation of total income Mr. Mahadev & Mrs. Dariya for the assessment year 2026-27

Particulars	Mr. Mahadev	Mrs. Dariya
Income from profession/Income from salary	5,65,000	3,80,000
Income from other sources:		
Loan received from Mrs. Dariya from Ramu and Jaya (Pvt.) Ltd. (Shall not be regarded as Income)		
Interest Income of minor married daughter received from Ramu and Jay Pvt Ltd. [WN-3]	40,000	
Less: Exemption u/s 10(32)	-1,500	
Total Income	6,03,500	3,80,000

Working Notes:





- i) As per section 64(1A) any income, accruing or arising to a minor child on account of activity involving application of his skill, talent or specialized knowledge and experience, is not to be clubbed. Therefore, income of minor son Golu from special talent shall not be clubbed.
- ii) Cash Gift received by minor son Golu is not taxable since, as per section 56(2)(x), gift received from non-relatives is taxable only when the aggregate amount from one or more person exceeds 50,000.
- iii) Income earned by minor married daughter shall be clubbed in hands of his parent whose other income is greater.

ILLUSTRATION 21

Clubbing of Income: Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2026-27 from the following. He has opted out of the default tax regime:

- i) Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of 2,40,000 per annum.
- ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1 September, 2025 for adequate consideration. The rent received from this let-out flat is 9,000 per month.
- iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received 36,000 and Smt. Ram Kumar received 64,000 as interest from the firm and also had a share of profit of 12,000 and 26,000 respectively.
- iv) Smt. Ram Kumar transferred 10% debentures worth 3,00,000 to Shri Ram Kumar. The whole amount of 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of 39,000.
- v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2024. Master Rohit (aged 13 years) received 15,000 as income from this property on 20th February, 2026. if she has shifted out of the default tax regime

(6 Marks Nov. 2020)

SOLUTION

Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2026-27

Particular	Shri Ram Kumar		Smt. Ram Kumar	
	₹	₹	₹	₹
Salary	1,80,000		2,40,000	
Less: Standard deduction	50,000	1,30,000	50,000	1,90,000
Income from house property				
Rent received (taken as annual value in the absence of other information)	45,000		63,000	
Less: Deduction u/s 24(a) @ 30% of Annual Value	13,500	31,500	18,900	44,100
Note: Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration. Therefore, the rent for the 5 months upto the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife.				
Profits and gains of business or profession				
Share of profit from firm [Exempt under section 10(2A)]	-		-	
Interest from firm (assumed that the same is fully deductible in the hands of the firm)	36,000	36,000	64,000	64,000





Income from other sources				
Interest on debentures (interest @ 10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor-spouse, Smt. Ram Kumar) = 10% of 3 lakh [WN-1]	-		30,000	
Income from investments [39,000 x 3,00,000 / 3,30,000] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor-spouse, Smt. Ram Kumar. Income from accretion to such debentures (ie., income earned by investing debenture interest of 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., 3,545, will be taxable in the hands of the Shri Ram Kumar himself) [WN-2]	3,545	3,545	35,455	65,455
Total income (before including minor's income)		2,01,045		3,63,555
Income of minor son Rohit to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is 13,500 (15,000 - 1,500) [WN-2]		-		13,500
Total Income		2,01,045		3,77,055

Working Note:

- (1) In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹30,000 as well as income from investment of 39,000 will be taxable in the hands of Shri Ram Kumar.
- (2) In respect of property transferred to Rohit, the question simply states 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution.

However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 10,500 [15,000 - 4,500 (30% of 15,000 allowable as deduction u/s





24(a)] - 1500 (exemption u/s 10(32)), and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,72,555.

ILLUSTRATION 22

Clubbing of Income: During the previous year 2025-26, following transactions took place in respect of Mr. Raghav who is 56 years old.

- i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under-

	House-1 Self-occupied	House-2 Let-out
Rent received per month	Not applicable	60,000
Municipal taxes paid	7,500	Nil
Interest on loan (taken for purchase of property)	3,50,000	5,00,000
Principal repayment of loan (taken from HDFC bank)	2,00,000	3,00,000

- ii) Mr. Raghav had a house in Delhi. During financial year 2013-14, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2025-26 from such house property is 5,50,000.
- iii) Mr. Raghav receives following income from M/s. M Pvt. Ltd. during P.Y. 2025-26:
- Interest on Debentures of 7,50,000; and
 - Salary of 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s. M Pvt. Ltd. as on 31-3-2026 is as under

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

- iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of 1 crore to such firm. Firm had no income or expense other than the interest of 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.
- v) Mr. Raghav holds preference shares in M/s. K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2025-26 is 13,00,000.
- vi) Other income of Mr. Raghav includes
- Interest from saving bank account of 2,00,000
 - Cash gift of 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2026-27, if she has shifted out of the default tax regime (8 Marks, Jan. 2021)

SOLUTION

Computation of Total Income of Mr. Raghav for A.Y. 2026-27 (amount in ₹)

Particulars	₹	₹
Salary [Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working		Nil





in the same company without any professional qualifications commensurate with his salary, the salary of 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		
Income from house property		
House 1		
[Self-occupied] Net annual value	-	(2,00,000)
Less: Interest on loan [upto ₹ 2,00,000]	2,00,000	
House 2 [Let out]		
Gross annual value [60,000 × 12] [Rent receivable has been taken as the gross annual value in the absence of other information]	7,20,000	
Less: Municipal taxes	-	
Net annual value	7,20,000	
Less: Deductions from Net Annual Value		
a) 30% of Net Annual Value	2,16,000	
b) Interest on loan	5,00,000	4,000
House in Delhi [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]		
Gross Annual Value	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
a) 30% of Net Annual Value	1,65,000	
b) Interest on loan	-	3,85,000
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Raghav as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	13,00,000	
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable, since sum of money exceeding 50,000 is received from his niece, who is not a relative as per section 56(2)]	75,000	23,25,000
Gross Total Income		25,14,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C [Principal repayment of loan 5 lakh, restricted to ₹1,50,000]	1,50,000	
Deduction u/s 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		23,54,000



ILLUSTRATION 23

Clubbing of Income: Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old

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 02-10-2025 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 2026-27 assuming that they have not opted to be taxed under section 115BAC. (5 Marks, July 2021)

SOLUTION

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi (amount in ₹)

Particulars	Mr. Dharmesh	Mrs. Anandi
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
Income of minor son "A"		
Total Income before including income of minor children		
Income of minor son "A"		
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 u/s 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]		
Income of minor son "B"		
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)	1,500	3,500
Income of minor daughter "C" 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] Hence, clubbing provisions will not apply in this case/no adjustment is required.	Nil	
Cash gifts of 45,000 received from friend of Mrs. Anandi [Gift not exceeding 50,000 received from a non-relative is not taxable u/s 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).

ILLUSTRATION 24

Clubbing of Income: Details of Income of Mr. R and his wife Mrs. R for the previous year 2025-26 are as under:

- Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2025-26 the HUF earned an income of 50,000 from such property.
- Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01-04-2006 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2025-26, she earned interest @ 11% per annum.
- Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2025-26 they have withdrawn a salary of 3,20,000 and 2,70,000 respectively.
- Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17-09-2013 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2016. On 04-03-2026, Mr. R sold entire share holdings and earned 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission 4,00,000 and Mrs. R has interest income of 3,30,000. Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2026-27. assuming that they have not opted to be taxed under section 115BAC. (4 Marks, Dec. 2021)

SOLUTION

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2026-27:

Particulars	Mr. R	Mrs. R
	Amount (₹)	
I Income from house property		
Income from property transferred to HUF without Consideration Since Mr. R has transferred his property to his HUF without consideration, income of 50,000 from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II Capital Gains		





Income from equity shares transferred by Mrs. R to Mr. R without consideration Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [$5,20,000 \times 5,000/8,000$]		3,25,000
Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [$5,20,000 \times 3,000/8,000$]	1,95,000	
III Income from Other Sources Income from commission	4,00,000	
Interest income		3,30,000
Interest income on 4 lakh transferred by Mr. R to Mrs. R without consideration Income of 44,000, i.e., 11% of 4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
Income of 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500
VI Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R. Salary income of Mr. R= 3,20,000-50,000 (standard deduction)		2,70,000
Salary income of Mrs. R= 2,70,000-50,000 (standard deduction)		2,20,000
Gross Total Income	6,89,000	11,83,500

ILLUSTRATION 25

Computation of total income: From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2026-27 assuming that they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



- (i) Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @ 6% from 01-04-2025 to 31-03-2026 to the savings account of his brother's son for his education.
- (ii) Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30% equity shares of the ABC Private Limited.
- (iii) Raman started proprietary business on 01-04-2001 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the previous year 2023-24. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2025 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the previous year 2025-26.
- (iv) Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account.

(4 Marks, Nov. 2022)

SOLUTION

Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2026-27

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	
(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 × 6%]	30,000	
(ii) Salary income [₹ 3,00,000 (₹ 25,000 × 12) less standard deduction of ₹ 50,000] [Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		2,50,000
(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., $\frac{1}{3} \times ₹ 3,00,000$) arising from such investment is to be included in the total income of Savita. Mr. Raman's contribution in capital as on 1-4-2025 = ₹ 8,00,000 [₹ 10,00,000 - ₹ 2,00,000] Mrs. Savita's contribution on 1-4-2025 = ₹ 4,00,000 ₹ 3,00,000, being the profit for P.Y. 2025-26 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1-4-2025 (8:4 or 2:1) Total income [before considering minor income from interest on savings account]	2,00,000 2,30,000	1,00,000 3,50,000
(iv) Cash award won in a debate by Sajan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent. However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹ 1,500) is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband [₹ 7,000 - ₹ 1,500]	- -	- 5,500
Gross Total Income	2,30,000	3,55,500



Less: Deduction under section 80TTA (Interest on savings bank account)	-	5,500
Total Income	2,30,000	3,50,000

ILLUSTRATION 26

Computation of total income: Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- Mr. Chaman's salary income - ₹ 11,00,000
- Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1-4-2026, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000
- Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2025-26. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2025-26.
- Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). **(6 Marks, May 2023)**

SOLUTION

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the Assessment year 2026-27 :

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	(₹)	(₹)	(₹)	(₹)
Income under the head "Salaries" Salaries (computed)	11,00,000			
Profits and gains from business or profession Income from Kathak performances		2,50,000		
Capital Gains Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2		2,00,000		



lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]				
The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent			3,56,000	
However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500]	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income				35,000
Gross Total Income	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A Under section 80TTA: In respect of interest on saving bank account to the extent of	10,000			
Under section 80U: Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note :

- (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1-4-2025 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words "invested the entire amount in the stock market" in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total



income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

- (2) Item (iv) mentions that the gift was made by Mrs. Chaman to Mr. Chaman on 1-4-2026, which falls outside the P.Y. 2025-26. Since the date of gift has been mentioned as 1-4-2026 in the question, as per the plain reading, such short-term capital loss cannot be set-off against long-term capital gains of ₹ 5,50,000. In such a case, the total income of Mr. Chaman would be ₹ 8,00,000.

ILLUSTRATION 27 Repeated

ILLUSTRATION 28

Computation of total income and clubbing: Mr. Dhaval and his wife Mrs. Hetal furnish the following information:

- Salary income (Computed) of Mrs. Hetal: ₹ 4,60,000
- Income of minor son 'B' who suffers from disability specified in Section 80U: ₹ 1,08,000
- Income of minor daughter 'C' from singing: ₹ 86,000
- Income from profession of Mr. Dhaval: ₹ 7,50,000
- Cash gift received by 'C' on 02-10-2025 from friend of Mrs. Hetal on winning of singing competition: ₹ 48,000
- Income of minor married daughter 'A' from company deposit: ₹ 30,000

Compute the total income of Mr. Dhaval and Mrs. Hetal, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(8 Marks, PCC May 2008)

SOLUTION

Computation of total income of Mr. Dhaval and Mrs. Hetal (amounts in ₹)

Particulars	Mr. Dhaval	Mrs. Hetal
Income from Salaries (Computed) [WN-1]		4,60,000
Income from profession	7,50,000	
Add: Deemed income u/s 64(1A): Income of minor married daughter "A" [WN-2 to 5]	30,000	
Less: Exemption u/s 10(32)	-1,500	
Total Income	7,78,500	4,60,000

Working Notes:

- Income of minor son 'B' shall not be clubbed since he suffers from disability specified in Section 80U.
- Income of minor daughter 'C' shall not be clubbed since she has earned the same by the application of her skill & competence.
- Cash gift received by minor daughter 'C' is not taxable u/s 56(2)(x) since the amount of gift doesn't exceed ₹ 50,000.
- Income of minor daughter 'A' shall be clubbed in the income of the parent whose income before such clubbing is higher. Since, in the given question, the income of Mr. Dhaval is higher, hence, the income from company deposits shall be clubbed in the income of Mr. Dhaval.

ILLUSTRATION 29

Computation of capital gains and clubbing: On 21-3-2025, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-4-2024 at 2000 per share. On 1-6-2025, bonus shares were allotted in the ratio of 1:1 All these shares were sold by Mrs. Thilagam as under-



Date of Sale	Manner of Sale	No. of Shares	Net sales value
21-05-2025	Sold in recognized stock exchange, STT paid	100	2,50,000
21-07-2025	Private sale, to an outsider	All bonus shares	1,25,000
28-02-2026	Private sale to her friend Mrs. Hema (Market value on this date was 2,10,000)	100	1,70,000

Briefly state the income-tax consequences in respect of the sale of the shares by Mrs. Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is NOT required. (5 Marks, IPCC May 2011)

SOLUTION

Where an asset has been transferred by an individual to his spouse otherwise than for adequate consideration, the income arising from the sale of the said asset by the spouse will be clubbed in the hands of the individual.

Where there is any accretion to the asset transferred, income arising to the transferee from such accretion will not be clubbed. Hence, the profit from sale of bonus shares allotted to Mrs. Thilagam will be chargeable to tax in the hands of Mrs. Thilagam.

Therefore, the capital gains arising from the sale of the original shares has to be included in the hands of Mr. Janak, and the capital gains arising from the sale of bonus shares would be taxable in the hands of Mrs. Thilagam.

Where an asset received by way of gift has been sold, the period of holding of the previous owner should be considered for determining whether the capital gain is long term or short term. The cost to the previous owner has to be taken as the cost of acquisition.

1) Computation of capital gains on the sale of shares

Particulars	Sale on 21-5-2025 (100 gifted shares)	Sale on 28-2-2026 (100 gifted shares)
Net full value of consideration	2,50,000	1,70,000
Less: Cost of acquisition (No benefit of indexation is available as per Section 112A) [Private sale to friend will not be taxable under Section 112A]	2,00,000	2,00,000
Long-term Capital Gains	50,000	-30,000
Taxable LTCG in hands of Janak		20,000

Since, Long-term Capital gains is does not exceed 1,25,000, hence no tax shall be levied as per Section 112A.

2) Computation of capital gains on the sale of bonus shares (amount in ₹)

Particulars	Sale on 21-7-2025 (100 Bonus shares)
Net full value of consideration	1,25,000
Less: Cost of acquisition (Nil, in case of bonus shares)	Nil
Short-term Capital Gains	1,25,000
Taxable in hands of Mrs. Thilagam (Accretion in income)	



**ILLUSTRATION 30**

Loans advanced to HUF: Dinesh, an individual engaged in the business of finance, advances ₹ 5 lakhs to his HUF on interest at 12% p.a., which is the prevailing market rate. The HUF invests the amount in its business and earns profit of ₹ 2 lakhs from this money. Can the Assessing Officer add a sum of ₹ 1,40,000 (i.e. ₹ 2,00,000 - ₹ 60,000) as income of Dinesh u/s 64(2) of the Income-tax Act? Will it make any difference if Dinesh does not charge any interest?

SOLUTION

Section 64(2) shall be applicable only where an individual member of HUF converts his property into the property of HUF or throws it into the common stock of the HUF without adequate consideration.

In this case, Dinesh does not transfer money to his HUF but only lends an amount of ₹ 5 lakhs to his HUF at an interest of 12%, which is the prevailing market rate. This is a transaction of loan advancement, there is no transfer of property from Dinesh to the HUF. Therefore, the Assessing Officer cannot add the profit arising to HUF in the total income of Dinesh by invoking section 64(2).

Even if no interest is charged by Dinesh, the nature of transaction will not change. It still remains as a loan transaction.

ILLUSTRATION 31

Clubbing of income: Sankar has transferred a house property to Uma on 1-4-2013. Uma married Sekar, who is the son of Sankar on 1 April 2024. The income from the property received by Uma during the previous year 2024-25 is 1,20,000. The assessing officer has clubbed the above income in the hands of Sankar. Is the action of assessing officer tenable under the law?

SOLUTION

As per Section 64(1)(vi), Income arising out of asset transferred without adequate consideration to son's wife is liable to be clubbed in the hands of the assessee, subject to the condition that the said relationship must exist at the time of both transfer of property and accrual of Income. In the given case, the said relationship did not exist between Uma and Sankar at the time of transfer, thus the income of 1,20,000 arising to Uma from such property shall be assessable in the hands of Uma only, and won't be clubbed with the income of Sankar. Therefore, the action of the Assessing Officer is not tenable in law.

ILLUSTRATION 32

Clubbing of income: Mr. H, a mentally retarded minor has a total income of 1,20,000 for the assessment year 2025-26. The total income of his father L and of his mother R for the relevant assessment year is 2,40,000 and 1,80,000 respectively. Discuss the treatment to be accorded to the total income of B for the relevant assessment year.

SOLUTION

Section 64(1A) provides for clubbing of income of minor child in the hands of the parent whose income is greater. The clubbing provisions cannot be invoked in case the minor child is suffering from any disability of the nature specified under section 80U. In such cases, income of such child shall be assessed in its hand itself. 'Mental retardation' is a disability covered under section 80U. Therefore, in the given case, 1,20,000 shall be assessed as income in the hands of minor H without applying the clubbing provisions as provided u/s 64(1A). Minor H would be entitled to deduction of 75,000 or 1,25,000 towards normal disability or severe disability as contemplated under section 80U.





ILLUSTRATION 33

Conversion of SOP into Joint Family Property and Partition there of: Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration.

On 01-10-2025, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2025-26 is 1,00,000. Determine the tax implications.

(4 Marks, May 2022)

SOLUTION

The tax implications are under -

Particulars	Amount ₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30-9-2025 (6/12 x 70,000 [Net Annual Value of 1,00,000 less deduction under section 24(a) @ 30%]) would be included in the total income of Mr. Sarthak. Since the HUF was partitioned on 1-10-2025, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	35,000
Sarthak's Share [25% of 35,000 (70,000 x 6/12)]	8,750
Juhi's Share [25% of 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., 8,750, being 25% of 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of 1,500 under section 10(32). 25% share of Sarthak's major son, Arjun, i.e., 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income. Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

ILLUSTRATION 34

Clubbing if funds gifted to wife invested in firm: Mrs. E, wife of Mr. F, is a partner in a firm. Her capital contribution to the firm as on 1-4-2024 was 5 lakhs, out of which 3 lakhs was contributed out of her own sources and 2 lakhs was contributed out of gift from her husband. As further capital was needed by the firm, she further invested 2 lakhs on 01-05-2024 out of the funds gifted by her husband. The firm paid interest on capital of 80,000 and share of profit of 60,000 for the financial year 2024-25. Advise Mr. F as to the applicability of the provision of Section 64(1)(iv) and the manner thereof in respect of the above referred transactions.

SOLUTION



As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises, directly or indirectly, subject to the provisions of section 27(i), to the spouse of such individual from assets transferred directly or indirectly to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

In this instant case, Mr. F has gifted money to his wife, Mrs. E. Mrs. E, in turn, invested such gifted money in the capital of a partnership firm, of which she is a partner. Mrs. E has also contributed a sum of 3 lakhs out of her own resources to the capital of the firm.

As per Explanation to section 64(1), for the purpose of clubbing under section 64(1)(iv), where the assets transferred, directly or indirectly, by an individual to his spouse are invested by the transferee in the nature of contribution of capital as a partner in a firm, proportionate interest on capital will be clubbed with the income of the transferor.

Hence, interest received by Mrs. E from the firm shall be included in total income of Mr. F to the extent of 32,000 i.e., $\text{₹}80,000 \times \text{₹}2,00,000 \div 5,00,000$.

Share of profit amounting to 60,000 is exempt from income-tax under the provisions of section 10(2A). The provisions of section 64 will not apply, if the income from the transferred asset itself is exempt from tax.

ILLUSTRATION 35

Clubbing in case of cross transfer: Mr. Ramesh gifted a sum of 16-04-2025. On 18-04-2025, his brother gifted debentures worth 5 lacs to his brother's minor son on 6 lacs to Mrs. Ramesh. Son of Mr. Ramesh' brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Ramesh received interest of 45,000 on debentures received by her. Discuss the implications under the provisions of the Income-tax Act, 1961. **(4 Marks, May 2015)**

SOLUTION

In the given case, Mr. Ramesh gifted a sum of 5 lakhs to his brother's minor son on 16-04-2025 and simultaneously, his brother gifted debentures worth 6 lakhs to Mr. Ramesh's wife on 18-04-2025. The gifted amounts were invested as fixed deposits in banks by brother's minor son. These transfers are in the nature of cross transfers.

ILLUSTRATION 36

Clubbing of Income: 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 2025-26:

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 previous year ₹ 35,000 relates to previous year 2025-26 and the balance relate to preceding
- (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 2025, Mr. Suraj received 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2011. 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, 2025 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 2026-27 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. (6 Marks, Sept. 2024)

SOLUTION

Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2026-27:

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"] [₹35000 × 12]		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		
Gift from grandfather's sister [Taxable u/s 56(2)(x) since grandfather's sister is not a relative and the amount of gift exceeds 50,000]	1,00,000 1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt u/s 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		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]			Nil
Taxable Income	80,000	2,94,000	

ILLUSTRATION 37

Transferred assets invested by spouse: A proprietary business was started by Mrs. R in the year 2024. As on 1-4-2024, her capital in business was ₹ 3,00,000. Her husband gifted 2,00,000 on 10-4-2024, which amount Mrs. R invested in her business on the same date. Mrs. R earned profits from her proprietary business for the financial years 2024-25, ₹1,50,000 and financial year 2025-26 3,90,000. Compute the income to be clubbed in the hands of R's husband for the A.Y. 2026-27 with reasons. (5 Marks, Nov. 2004)

SOLUTION

Assessment year 2025-26 - There shall be no clubbing of income in the hands of Mr. R in the assessment year 2025-26 as no investment was made by Mrs. R in the business out of Mr. A's funds as on the first day of the previous year i.e. 1-4-2024. Thus, profits of 1,50,000 is to be fully taxed in the hands of Mrs. A for the assessment year 2025-26.

Assessment year 2026-27 - Total capital as on 1st day of the previous year i.e. 1-4-2025 = 3,00,000 + 2,00,000 + 1,50,000 (profits of F.Y. 2024-25) = 6,50,000, out of which 2,00,000 represents investment of Mr. A's funds. Therefore, income to be clubbed in the total income of Mr. A = $(2,00,000 \div 6,50,000) \times ₹3,90,000 = 1,20,000$.

Illustration 38 Repeated

ILLUSTRATION 39 Repeated

**ADDITIONAL QUESTIONS****ILLUSTRATION 40**

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on 1st January, 2025. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2025 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2025, which were sold for ₹ 75,000 on 30th December, 2025. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2025. She suffered loss of ₹ 15,000 in the business in Financial Year 2025-26.

In whose hands the above income and loss shall be included in Assessment Year 2026-27? Support your answer with brief reasons.

Answer

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly to the spouse of such individual from assets transferred directly or indirectly to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Since the capital was invested in business by Ms. Nisha on 1st April, 2025, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@20% in the hands of Ms. Nisha.

ILLUSTRATION 41

Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2026:

- (i) Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.
- (ii) Nonu won a prize money of ₹ 3,00,000 in National Sports competition.

This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year.

Mr. Naresh's income before considering clubbing provisions is higher than that of his wife and he has opted out of the default tax regime. Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

Answer

- (i) Gift received from non-relative by minor daughter Mahi





Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife. Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)

(ii) Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu

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 parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent. Exemption of ₹ 1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

ILLUSTRATION 42

Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2026-27.

		₹
1	Income of Mr. Mahadev-professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2026-27 if both of them are paying tax under default tax regime.

Answer

Computation of Taxable income of Mr. Mahadev for A.Y. 2026-27

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son - Golu	





- Income from winning singing reality show on T.V. 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 parent. Hence, ₹ 2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent.		Nil
- Cash gift received by Golu from friend of Mr. Mahadev on winning the show The cash gift received by his minor son Golu (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.		Nil
Income of minor married daughter - Gudia		
Interest income on deposit with Ramu & Jay Pvt Ltd.	40,000	
Less: Exemption under section 10(32) [Not allowable]	Nil	40,000
[Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income.]		
Taxable Income		6,05,000

Computation of Taxable income of Mrs. Dariya for A.Y. 2026-27

Particulars	₹
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt) Ltd.	Nil
[Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Dariya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	
Taxable Income	3,80,000



CHAPTER - 9

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

STUDY MATERIAL

ILLUSTRATION 1

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2026-27:

Particulars	Amount (₹)
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2026-27, assuming that

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

SOLUTION

(i) Computation of total income of Mr. A for the A.Y.2026-27 under normal provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes:



- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) Computation of total income of Mr. A for the A.Y. 2026-27 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of ₹ 2,20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

ILLUSTRATION 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y. 2025-26:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y. 2026-27, assuming that he pays tax under section 115BAC?

SOLUTION

Total income of Mr. B for the A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property to be carried forward [Note (i)]	-	



Profits and gains of business and profession		
Business loss to be carried forward [Note (ii)]	(22,000)	
Speculative loss to be carried forward [Note (iii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iv)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iv)]		
Taxable income		45,000

Notes:

- Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any.
- Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

ILLUSTRATION 3

During the P.Y. 2025-26, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2024-25	(96,000)
Short term capital loss of A.Y.2025-26	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2026-27?

SOLUTION

Taxable capital gains of Mr. C for the A.Y. 2026-27

Particulars	(₹)	(₹)
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the A.Y.2025-26	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2024-25 ₹ 96,000 set off to the extent of ₹ 75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000



Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2024-25 of ₹ 21,000 (i.e. ₹ 96,000 - ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year

ILLUSTRATION 4

Mr. D has the following income for the P.Y.2025-26:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2025-26)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2023-24)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2026-27?

SOLUTION

Total income of Mr. D for the A.Y. 2026-27

Particulars	(₹)	(₹)
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 - ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2027-28		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	50,000	35,000
Total income		35,000

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

ILLUSTRATION 5

Mr. E has furnished his details for the A.Y.2026-27 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2024-25	(30,000)
Winning from lotteries (Gross)	20,000

Compute the total income of Mr. E for the A.Y.2026-27.

SOLUTION

Computation of total income of Mr. E for the A.Y.2026-27

Particulars	(₹)	(₹)
Income from salaries		1,50,000



Income from speculation business Less :	60,000	
Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

TEST YOUR KNOWLEDGE

ILLUSTRATION 6

Compute the gross total income of Mr. F for the A.Y. 2026-27 from the information given below

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2025-26)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

SOLUTION

Gross Total Income of Mr. F for the A.Y. 2026-27

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Notes:



- (1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2025-26 cannot be set-off in the A.Y.2026-27, since there is no long-term capital gains in that year. It has to be carried forward for setoff against long-term capital gains, if any, during A.Y.2027-28.

ILLUSTRATION 7

Mr. Sohan submits the following details of his income for the A.Y.2026-27:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business for P.Y. 2020-21 (discontinued in P.Y. 2021-22)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Gross Total Income of Mr. Sohan for the A.Y.2026-27

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron ore business set-off as per section 72(1) to the extent of ₹ 50,000 Balance business loss of ₹ 70,000 of P.Y.2020-21 to be carried forward to A.Y.2027-28	(50,000)	Nil
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil



Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y. 2027-28		
Loss of iron-ore business (₹ 1,20,000 - ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt under section 10(1).

ILLUSTRATION 8

Mr. Batra furnishes the following details for year ended 31.03.2026:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

(1) Losses from activity of owning and maintaining race horses-pertaining to A.Y. 2023-24 - ₹ 25,000.

(2) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2018-19.

Compute gross total income of Mr. Batra for the Assessment Year 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2027-28.

SOLUTION

Computation of Gross Total Income of Mr. Batra for the A.Y. 2026-27

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property [Since Mr. Batra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2018-19 set-off to the extent of ₹ 50,000	50,000	NIL





Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2023-24 setoff to the extent of ₹ 15,000	15,000	NIL
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2027-28 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2027-28 [See Note 3]		
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2027-28

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2023-24	10,000

Notes:

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2018-19 expired in the A.Y. 2026-27, the balance unabsorbed business loss of 10,000 cannot be carried forward to A.Y. 2027-28.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

ILLUSTRATION 9

Mr. A furnishes you the following information for the year ended 31.03.2026:

	Particulars	₹
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2026-27. Assume 10% of the	7,50,000



	turnover during the P.Y.2025-26 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	
(iii)	He has brought forward depreciation relating to A.Y. 2024-25	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of total income and tax liability of Mr. A for the A.Y. 2026-27

Particulars	₹
Income from retail trade - as per books (See Note 1 below)	7,50,000
Income from plying of vehicles - as per books (See Note 2 below)	3,20,000
Less: Set off of b/f depreciation relating to A.Y. 2023-24	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
Total tax liability	1,10,760

Note:

- (1) Income from retail trade: Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books. However, if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.
- (2) Income from plying of light goods vehicles: Income calculated under section 44AE(1) would be ₹ 7,500 × 12 × 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable. If income is declared as per presumptive provisions, his total income would be as under

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]	8,41,340



Income from plying of light goods vehicles under section 44AE [₹ 7,500 x 12 x5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation - not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add: Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

ILLUSTRATION 10

Mr. Aditya furnishes the following details for the year ended 31-03-2026:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2024-25 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2021-22.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 - ₹ 2,00,000) to be carried forward to A.Y. 2027-28		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2021-22 can be set off against current year income from trading business as per		



section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	5,000	Nil
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2027-28 as per section 73(2) Loss of ₹ 20,000 from specified business covered under section 35AD to be carried forward for setoff against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	
Less: set off of loss from house property to the extent of	23,000	-
Total Income		1,63,000

Items eligible for carried forward to A.Y.2027-28

Particulars	₹
Loss from House property As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2034-35, in this case.	50,000
Loss from speculative business A A Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2030-31, in this case, as specified under section 73(4).	20,000
Loss from specified business Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000
Loss from the activity of owning and maintaining race horses	2,000



Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2028-29, in this case, as specified under section 74A(3)

ILLUSTRATION 11

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2025-26.

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y. 2025-26 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the A.Y. 2026-27 and the amount of loss, if any that can be carried forward or not.

SOLUTION

Computation of Gross Total Income of Mr. Garg for the A.Y. 2026-27

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2025-26 (Unabsorbed depreciation can be set-off against any head of income other than salary)	11,000	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2027-28

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another	22,000



	speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2025-26 has to be carried forward to A.Y. 2027-28 for set-off against income of that year speculative business It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2029-30]	
(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2030-31]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

ILLUSTRATION 12

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2026:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of total income of Mr. Srivatsan for the A.Y.2026-27

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property since Mr. Srivatsan	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	
Less: Set-off of loss from house property to the extent of	40,000	-



Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		45,000
Total income		70,000

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 - ₹ 30,000 - ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.
- Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 - ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- Loss from card games can neither be set off against any other income, nor can be carried forward.
- Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

ILLUSTRATION 13

Mr. Rajat submits the following information for the financial year ending 31st March, 2026. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

- Compute the total income; and
- Ascertain the amount of losses that can be carried forward.

	Particulars	₹
(i)	He has two let out house property:	
	(a) House No. I - Income after all statutory deductions	72,000
	(b) House No. II - Current year loss	(30,000)
(ii)	He has three proprietary businesses:	
	(a) Textile Business	
	(i) Discontinued from 31st October, 2025 - Current year loss	40,000
	(ii) Brought forward business loss of A.Y.2021-22	95,000
	(b) Chemical Business:	
	(i) Discontinued from 1st March, 2023 - hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000



	(iii) Brought forward business loss of A.Y. 2022-23	50,000
	(c) Leather Business: Profit for the current year	1,00,000
	(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

SOLUTION

Computation of total income of Mr. Rajat for the A.Y. 2026-27

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2021-22 set off against the business income of current year	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A Under section 80C - LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to A.Y. 2027-28

Particulars	₹
Brought forward chemical business loss of A.Y. 2022-23 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2026-27 to be carried forward u/s 74	35,000

Notes:

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

ILLUSTRATION 14

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2026:



- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, being dividend income on listed equity shares of domestic companies.
- (vi) Brought forward business loss of A.Y. 2024-25 ₹12,50,000.

Compute gross total income of Ms. Geeta for the A.Y. 2026-27 and ascertain the amount of loss that can be carried forward.

SOLUTION

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2026-27

Particulars	₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: B/f business loss of A.Y. 2024-25 ₹ 12,50,000 to be set off to the extent of ₹ 7,50,000 (Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	7,50,000
	Nil
Capital Gains	
Long term capital gain on sale of land 5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below) 3,00,000	2,00,000
Income from other sources	
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable 51,000	
Dividend income from a domestic company is fully Taxable in the hands of shareholders 55,000	1,06,000
Gross Total Income	3,06,000

Notes:

1. Balance brought forward business loss of assessment year 2024-25 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long term capital gain on sale of land as per section 70(3).

ILLUSTRATION 15

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26:

Sl.No.	Particulars	₹
i.	Income from salary (computed)	18,000
ii.	Net annual value of house property	70,000



iii.	Income from business	80,000
iv.	Income from speculative business	12,000
v.	Long term capital gain on sale of land	15,800
vi.	Loss on maintenance of race horse	9,000
vii.	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses are:

Sl.No.	Particulars	₹
i.	Unabsorbed depreciation	9,000
ii.	Loss from speculative business	16,000
iii.	Short term capital loss	7,800

Compute the gross total income of Mr. P for the A.Y. 2026-27

SOLUTION

Computation of Gross Total Income of Mr. P for the A.Y. 2026-27

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less: Current year depreciation	8,000	
	72,000	
Less: Unabsorbed depreciation	9,000	63,000
(b) Income from speculative business	12,000	
Less: B/f loss of ₹ 16,000 from speculative business s/o to the	12,000	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 - ₹ 12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land Less:	15,800	
Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

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

Notes:

- (i) Loss on gambling can neither be set-off nor be carried forward.



- (ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2027-28. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

PAST EXAM QUESTIONS

ILLUSTRATION 16 Repeated

ILLUSTRATION 17

Computation of Total Income: Mr. Rahul an assessee aged 61 years gives the following information for the previous year 31-03-2025:

	Particulars	Amount ₹
a)	Loss from profession	1,05,000
b)	Capital loss on the sale of property-short term	55,000
c)	Capital gains on sale of shares-long-term (STT is not paid)	2,05,000
d)	Loss in respect of self occupied property)	15,000
e)	Loss in respect of self occupied property	30,000
f)	Share of loss from firm	1,60,000
g)	Income from card games	55,000
h)	Winnings from lotteries	1,00,000
i)	Loss from horse races in Mumbai	40,000
j)	Investment in NABARD bonds	21,000
k)	Medical Insurance premium paid by cheque	18,000

Compute the total income of Mr. Rahul for the assessment year 2025-26 assuming that he has opt to taxed under section 115BAC. (8 Marks, IPCC Nov. 2012)

SOLUTION

Computation of total income of Mr. Rahul (amount in ₹)

Particulars	₹	₹
Income from house property		
Loss of self occupied property and let out property (₹ 15,000+ ₹ 30,000)	45,000	
Profits and gains from business or profession		
Loss from profession	1,05,000	
Capital Gains		
Long-term capital gains on sale of shares (STT is not paid)	2,05,000	
Less: Short-term capital loss on sale of property [WN-1]	55,000	
Profits and gains from business or profession		
Loss from profession	1,05,000	
Capital Gains		



Long-term capital gains on sale of shares (STT is not paid)	2,05,000	
Less: Short-term capital loss on sale of property [WN-1]	55,000	
Income under the head "Capital Gains"		1,50,000
Less: Set-off of losses under other heads of income [WN-2]		
Loss from profession	1,05,000	
Loss under the head "Income from house property" (₹15,000 + ₹30,000)	45,000	1,50,000
		Nil
Income from other sources		
Income from card games	55,000	
Winnings from lotteries	1,00,000	1,55,000
Gross total income		1,55,000
Less: Deduction under Chapter VI-A [WN-4]		Nil
Total Income		1,55,000

Working Notes:

- (1) As per Section 74, short term capital loss of 55,000 can be set-off against long-term capital gains of ₹ 2,05,000 on sale of shares.
- (2) Loss of ₹ 1,05,000 from profession and loss of 45,000 from house property (both let out and self occupied) can be set-off against the net income of ₹ 1,50,000 under the head "Capital Gains".
- (3) Loss from an exempt source cannot be set-off against profit from a taxable source. Therefore, share of loss from a firm cannot be set-off against any other income, since share of profit from firm is exempt under section 10(2A).
- (4) Since the total income comprises only of income from card games and winnings from lotteries, deduction under Chapter VI-A is not allowable from such income. Therefore, Mr. Rahul will not be entitled to claim deduction under section 80C in respect of investment in NABARD bonds and deduction u/s 80D in respect of medical insurance premium paid by cheque.
- (5) Further, loss from horse races can neither be set-off against winnings from lotteries and income from card games nor can it be carried forward.

ILLUSTRATION 18

Compute of Total Income: Compute the total income of Mr. Krishna for the assessment year 2026-27 from the following particulars:

Particulars	Amount (₹)
Income from business before adjusting the following items:	1,75,000
a) Business loss brought forward from assessment year 2023-24	70,000
b) Current depreciation	40,000
c) unabsorbed depreciation	1,55,000
Income from house property (Gross annual value)	4,32,000
Municipal taxes paid	32,000
Mr. Krishna sold a plot at Noida on 12th Sept., 2025 for a consideration of ₹ 6,40,000, which had been purchased by him on 20th Dec. 2023 at a cost of ₹ 4,10,000.	
Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid)	75,000



Long-term capital gain on sale of debentures	60,000
Dividend on shares held as stock in trade	22,000
Dividend from a company carrying on agri business	10,000

During the previous year 2025-26, Mr. Krishna has repaid ₹ 1,67,000 towards housing loan from a scheduled bank. Out of ₹ 1,67,000, ₹ 97,000 was towards payment of interest and rest towards principal payments. He does not opt to taxed under section 115BAC (8 Marks, Nov. 2013)

SOLUTION

Computation of Total Income (amount in ₹):

Particulars	₹	₹
Income from House Property:		
Gross Annual Value	4,32,000	
Less: Municipal taxes paid	32,000	
Net annual Value	4,00,000	
Less: Standard deduction @ 30% of NAV	1,20,000	
Less: Interest on borrowed capital	97,000	1,83,000
Profits and Gains of Business and Profession:		
Income from business	1,75,000	
Less: Current years depreciation	40,000	
Less: Business loss brought forward from assessment year 2020-21	70,000	
Less: Unabsorbed depreciation to the extent of remaining income	65,000	Nil
Capital Gains:		
Long-term capital gain on sale of debentures	60,000	
Less: Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid) shall be allowed to be adjusted from LTCG. (Balance loss of 15,000 shall be carried forward to be set-off from LTCG) Long-term capital gains Nil	Nil	
Short term capital gains on sale of plot of land at Noida (6,40,000 - 4,10,000)	2,30,000	
Less: Unabsorbed depreciation (1,55,000 - 65,000 set-off from business income)	90,000	1,40,000
Income from other sources:		
Dividend on shares held as stock in trade	22,000	
Dividend from a company carrying on agriculture business	10,000	32,000
Gross Total Income		3,55,000
Less: Deduction u/s 80C Repayment of housing loan		70,000
Total Income		2,85,000

ILLUSTRATION 19 Repeated

ILLUSTRATION 20



Computation of taxable income: Mr. Venus provides the following details for the previous year ending 31-03-2025:

- Salary from HNL Ltd. = ₹ 50,000 per month
- Interest on FD with SBI for the Financial Year 2025-26 = ₹ 72,000 (Net of TDS)
- Determined long term capital loss of AY 2024-25 (to be carried forward) = ₹ 96,000
- Long term Capital Gain = ₹ 75,000
- Loss of minor son ₹ 90,000 computed in accordance with the provisions of Income-tax Act. Mr. Venus transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
- Loss of his wife's business = ₹(2,00,000) She carried business with funds which Mr. Venus gifted to her.

You are required to compute taxable income of Mr. Venus for the AY 2026-27 assuming that he does not opt to taxed under section 115BAC. (8 Marks, Nov. 2015)

SOLUTION

Computation of total income of Mr. Venus for the assessment year 2026-27 (amount in ₹)

Particulars	₹	₹
Income from Salary		
Salary from HNL Ltd. [50,000 × 12]	6,00,000	
Less: Standard deduction u/s 16(ia) 50,000	5,50,000	
Less: Loss from House property	90,000	4,60,000
Income from house property		
Loss from House property transferred to his minor son shall be set off from Salaries		
Profits and gains of business or profession		
Loss from his wife's business to be clubbed with Mr. Venus (to be set off from Capital gains and Income from other sources)[WN-1]		
Capital Gains		
Long-term capital gains	75,000	
Less: Business Loss[WN-2]	(75,000)	
Income from other sources		Nil
Income from fixed deposit (Gross) [72,000 × 100/ 90][WN-3]	80,000	
Less: Loss from business	(80,000)	Nil
Gross total income		4,60,000
Less: Deduction under Chapter VIA		Nil
Total Income		4,60,000

Working Notes:

- Loss from business or profession can be set off from any head of income except income from salaries.
- Current year loss will be given priority over set off of brought forward losses. Hence, brought forward loss of ₹ 96,000 will be carried forward as the current year income after setting off of business loss is nil.
- Rate of TDS on income from fixed deposits is 10%.
- Remaining business loss of 45,000 [₹2,00,000 - ₹75,000 - ₹80,000] shall be carried forward.



ILLUSTRATION 21

Computation of Total income: Mr. Jaji is a chartered accountant and his income from profession for the year 2025-26 is 10,00,000. He provides you with the following information for the year 2025-26.

- (1) Income of minor son Biju from company deposit = ₹ 1,50,000
- (2) Income of minor daughter Chitra (professional dancer) = ₹ 20,00,000
- (3) Interest from SBI received by Chitra on deposit made in 2024 out of her special talent = ₹ 20,000
- (4) Gift received by Chitra on 30-09-2025 from friends of Mr. Jaji on winning National award = ₹ 45,000
- (5) Short term capital loss of Mr. Jaji = ₹ 6,00,000
- (6) Long term capital gain of Mr. Jaji = ₹ 4,00,000
- (7) Long term capital gains from shares (STT paid) of Mr. Jaji = ₹ 10,00,000
- (8) Short term capital loss under section 111A of Mr. Jaji = ₹ 10,00,000

Compute the Total Income of Mr. Jaji for Assessment Year 2026-27 (assuming that he does not opt to taxed under returns every year before section 115BAC) and the losses to be carried forward assuming that he files his income tax returns every year before due date.

(5 Marks, May 2018)

SOLUTION

Computation of total income of Mr. Jaji (amount in ₹):

Particulars	₹	₹
Profits and Gains of Business or profession (Professional Income of Mr. Jaji)		10,00,000
Capital Gains:		
Long term capital gain	4,00,000	
Long term capital gains from shares (STT paid) [WN-1]	10,00,000	
Less: Short term capital loss shall be set-off to the extent of LTCG	6,00,000	
Less: Short term capital loss u/s 111A	8,00,000	Nil
Income from Other Sources:		
Income of minor son Biju from company deposit to be clubbed in Income of Mr. Jaji [WN-2]	1,50,000	
Income of minor daughter Chitra (professional dancer) (income arising out of professional skills cannot be clubbed in hands of Mr. Jaji) [WN-3]	-	
Interest from SBI received by Chitra on deposit made in 2023 out of her special talent be clubbed in hands of Mr. Jaji since it is not out of professional skill [WN-3]	20,000	
Gift received by Chitra on 30-09-2024 from friends of Mr. Jaji on winning National award (Since the value of gift does not exceed ₹ 50,000, the same shall not be taxable.)	Nil	1,70,000
Less: Exemption under Section 10(32) [1,500+1,500] [WN-2]		(3,000)
Gross Total Income/Total Income		11,67,000
Losses to be carried forward to A.Y. 2027-28		
Short term capital loss (6,00,000+ 10,00,000 (STCL of section 111A)-14,00,000 set-off)		2,00,000



Working Notes:

- (1) The long term capital gain on equity shares through a recognized stock exchange on which security transaction tax has been paid is taxable under Section 112A exceeding 1,00,000. Hence, short term capital loss shall be set off to the extent of long term capital gains and balance loss shall be carried forward.
- (2) As per Section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater.
- (3) Further, as per Section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.
- (4) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.
- (5) Therefore, the income of 20,00,000 derived by Mr. Jaji's minor daughter through activity involving application of her skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor daughter. However, income from bank deposit is liable to be clubbed even when deposit is made out of income arising from application of special talent.

ILLUSTRATION 22 Repeated

ILLUSTRATION 23

Computation of Total income: Following are the details of incomes/losses of Mr. Rishi for the financial year 2025-26:

(Figures in brackets represents losses)	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
• from rented house property X	1,20,000
• from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
• business P	2,30,000
• business Q	(12,000)
• business R (speculative business)	15,000
• business T (speculative business)	(25,000)
Taxable Income from other sources:	
from card games	16,000
from owning & maintenance of race horses	(7,000)
interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2026-27 assuming that he does not opt to taxed under section 115BAC. (5 Marks, Nov. 2019)

SOLUTION

Computation of Gross total income of Mr. Rishi (amount in ₹)

Particulars	₹	₹
Salaries:		
Income from salary (computed)	3,60,000	



Less: Loss from house property set-off against salary income as per section 71	-2,00,000	1,60,000
Income from House Property:		
Property X	1,20,000	
Property Y	-3,40,000	
Loss from house property Loss to the extent of 2,00,000 shall be set-off from salary and balance loss of 20,000 shall be carried forward to be set off from Income from house property.	-2,20,000	
Profits and gains of business or profession:		
Business P	2,30,000	
Business Q	-12,000	2,18,000
Speculative business R	15,000	
Speculative business T	-25,000	
Speculative loss to be carried forward to be set off from speculative gains	-10,000	
Income from other sources:		
Interest on securities	5,000	
Winnings from card games	16,000	
Loss from owning and maintaining race horses to be carries forward to be set off from profits of owning and maintaining race horses	-7,000	21,000
Gross Total Income		3,99,000

ILLUSTRATION 24

Computation of GTI & Amount of losses to be carried forward: Ms. Pooja a resident individual provides the following information of her income/losses for the year ended on 31st March, 2026:

Particulars	Amount ₹
1) Income from salary (Computed)	2,20,000
2) Income from House Property (let out) (Net Annual Value)	1,50,000
3) Share of loss from firm in which she is partner	10,000
4) Loss from specified business covered under section 35AD	20,000
5) Income from textile business before adjusting the following items	3,00,000
a) Current year depreciation	60,000
b) Unabsorbed depreciation of earlier year	2,25,000
c) Brought forward loss of textile business of the A.Y. 2024-25	90,000
6) Long-term capital gain on sale of debentures	75,000
7) long term capital loss on sale of equity share (STT not paid)	1,00,000
8) Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	1,50,000
9) Dividend from units of UTI	5,000

During the previous year 2025-26, Ms. Pooja has repaid ₹ 5,25,000 towards housing loan from a scheduled bank. Out of this 3,16,000 was towards payment of interest and rest towards principal. Compute the gross total income of Ms. Pooja assuming that she does not opt to taxed under



section 115BAC and ascertain the amount of loss that can be carried forward. Ms. Pooja has always filed her return within the due date specified u/s 139(1) of the Income-tax Act, 1961.

SOLUTION

Computation of gross total income of Ms. Pooja for the A.Y. 2026-27:

Particulars	₹	₹
Salary Income (computed)	2,20,000	
Less: As per sec 71(3A), loss from house property of 2,11,000 can be set-off, to the extent of	2,00,000	20,000
Income from House Property		Nil
Net Annual Value of House Property	1,50,000	
Less: Deduction u/s 24		
a) 30% of NAV	45,000	
b) Interest on housing loan	3,16,000	
Loss from house property	-2,11,000	
Less: loss eligible for set off against salary income restricted to	2,00,000	
Loss to be carried forward to A.Y 2026-27 for set-off against income from house property, if any, in that year.	-11,000	
Profits and gains of business or profession	-	Nil
Share of loss from firm [loss from exempt source cannot be setoff against profit from taxable source. Hence such loss can neither be set-off nor be carried forward]		
Loss from specified business u/s 35AD ₹ 20,000 [Can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y. 2024-25]	-	
Income from textile business	3,00,000	
Less: Current year depreciation	60,000	
	2,40,000	
Less: Brought forward loss of textile business	90,000	
	1,50,000	
Less: Unabsorbed depreciation (2,25,000) set-off to the extent of	1,50,000	
Capital Gains		
Long-term capital gains on sale of debentures	75,000	
Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid)	75,000	
Long-term capital gains on sale of listed equity shares (STT paid)	Nil	
Less: Set-off of balance long-term capital loss on sale of equity shares (STT not paid [₹1,00,000 - ₹ 75,000])	1,50,000	
	25,000	
Less: Set-off of balance unabsorbed depreciation [₹ 2,25,000 - 1,50,000 s/o against business income]	1,25,000	
	75,000	
Long-term capital gains on sale of listed equity shares (No tax is payable u/s 112A in respect of LTCG of 50,000, since the same is less than ₹ 1,00,000)		50,000
Income from Other Sources		5,000





Dividend from units of UTI [Taxable in hands of unit-holder]		
Gross Total Income		75,000

Losses to be carried forward to A.Y. 2027-28:

	Particulars	₹
i)	Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	20,000
ii)	Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	11,000

ILLUSTRATION 25

Losses set off and Computation of Total Income: Mr. Harsh furnishes the following details for the year ended on 31-03-2026:

Particulars	Amount ₹
Salary received from partnership firm (the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2018-19	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2026-27. If he has exercised the option of shifting default tax regime.

(4 Marks, May 2022)

SOLUTION

Computation of total income of Mr. Harsh for the A.Y. 2026-27

Particulars	₹	₹
Profits and gains from business and profession		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	
Less: Loss from house property 2,50,000 (can be set-off against income from any other head only to the extent of 2 lakh)	2,00,000	
	6,50,000	
Less: Set-off of brought forward business loss of A.Y. 2018-19 (since the eight year time period for set-off has not expired)	6,00,000	50,000
Capital Gains		
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such	5,00,000	-





set-off is permissible since it is a loss from a source of income taxable u/s 112A]		
Income from Other Sources		
Income from betting (gross) [No Loss can be set off against income from betting]		50,000
Loss of 35,000 from card games can neither be set-off nor be carried forward		-
Total Income		1,00,000
Losses to be carried forward to A.Y. 2027-28		50,000
Loss from house property (₹2,50,000 - ₹ 2,00,000)		
Loss from specified business covered u/s 35AD [Entire loss is to be carried forward, since there is no income from any specified business for A.Y. 2026-27. Such loss has to be carried forward for set-off against income from any specified business.		3,50,000
Long-term capital loss on sale of listed shares (STT paid) [₹6,00,000 - ₹5,00,000]		1,00,000

ILLUSTRATION 26

Unexplained money and tax liability: The assessee is found to be the owner of the gold (market value of which is ₹ 50,00,000) during the financial year ending 31-03-2026 but he recorded to have spent ₹ 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue. (2 Marks May 2022)

SOLUTION

As per section 69B, if the assessee is found to be the owner of gold (market value of which is 50 lakhs) during the financial year ending 31-3-2026 but he has recorded to have spent only 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and 10 lakhs i.e., 40 lakhs as the income of the assessee for A.Y. 2026-27, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @ 78% (@60% plus surcharge @ 25% and cess @ 4%).

ILLUSTRATION 27

Computation of total Income after adjustment of Losses: Simran, engaged in various types of activities, gives the following particulars of her income for the year ended 31-3-2026

Particulars	₹
i) Profit of business of consumer and household products	50,000
ii) Loss of business of ready-made garments	10,000
iii) Brought forward loss of catering business which was closed in A.Y 2025-26	15,000
iv) Short-term loss on sale of securities and shares	15,000
v) Profit of speculative transactions entered into during the year	12,500
vi) Loss of speculative transactions of A.Y. 2021-22 not set off till A.Y. 2025-26	15,000

Compute the total income of Simran if she has not opted for the provisions of Section 115BAC. (6 Marks, May 2007)

SOLUTION

Computation of total income of Simran



Particulars	₹	₹
Profits of business of consumer and household products	50,000	
Less: Loss of business of ready-made garments set-off as per section 70(1)	10,000	
Less: Brought forward loss of catering business closed in A.Y. 2022-23 shall be set-off against business income for the year as per section 72(1)	15,000	25,000
Profit of speculative transaction		12,500
Total Income		37,500

Working Notes:

- 1) Brought-forward speculation loss of A.Y. 2018-19 cannot be set-off as the period of 4 years as specified under section 73 has expired.
- 2) Short-term capital loss of the current year can be set-off only against capital gains, hence the same shall be carried forward.
- 3) Brought forward loss of catering business can be set-off against business income even after business is discontinued.

ILLUSTRATION 28

Computation of total Income after adjustment of Losses: Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2025-26:

Particulars	₹
Loss from let out house property	2,50,000
Loss from non-speculation business	3,20,000
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	4,10,000
Winnings from lotteries (Gross)	1,50,000
Winnings from bettings	90,000
Loss from card games	3,40,000

You are required to compute the total income of the assessee for the A.Y. 2026-27, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-07-2026. He has not opted for the provisions of Section 115BAC. (5 Marks, Nov. 2018-NS)

SOLUTION

Computation of total income of Mr. Rakesh Gupta

Income from House property:		
Loss from house property [WN-1]		
Profits and gains of business or profession:		
Income from speculation business	12,45,000	
Less: Loss from non-speculative business set-off as per section 72	(3,20,000)	
Less: Loss from house-property subject to maximum of 2,00,000	(2,00,000)	7,25,000
Loss from specified business covered under Section 35AD (to be c/f) [WN-2]	4,10,000	
Income from other sources:		
Loss from card games (cannot be allowed to be set off)	Nil	
Winnings from betting	90,000	



Winnings from lotteries (Gross)	1,50,000	2,40,000
Total Income		9,65,000
Losses to be carried forward to A.Y. 2027-28:		
Loss from house property[WN-1]	50,000	
Loss from specified business covered under Section 35AD	4,10,000	
Total amount of losses to be carried forward to A.Y. 2027-28		4,60,000

Working Notes:

- As per Section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.
As per section 71B, balance loss (₹50,000) not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years.
- Any loss computed in respect of any specified business referred under section 35AD can be setoff only against profits of any specified business carried on by the assessee.

ILLUSTRATION 29

Losses set-off and Computation of Total Income : Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2025-26 :

- Income from House property (computed) ₹ 2,00,000.
- Income from Proprietary Business ₹ 3,00,000.
- Short Term Capital Gain on sale of Land ₹ 2,00,000.
- Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) ₹ 75,000.
- Interest on Bank fixed deposit ₹ 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2024.
- Loss from Speculation Business ₹ 40,000.
- Loss from Owning and Maintenance of Race Horses ₹ 50,000.

Following are the brought forward losses :

- Brought forward House property loss of assessment year 2024-25 ₹ 2,50,000.
- Brought forward business loss of Proprietary business from assessment year 2017-18 ₹ 50,000.
- Unabsorbed Depreciation relating to assessment year 2015-16 ₹ 1,00,000.
- 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 2026-27 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A). (6 Marks, May 2024)

SOLUTION

Computation of total income of Mr. Joshi for the A.Y. 2026-27 :

Particulars	₹	₹
Income from house property	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2024-25 is allowed, since 8 years period not yet lapsed	2,00,000	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. 2017-18 not allowable as 8 years' time has already lapsed in the A.Y. 2025-26	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2014-15	1,00,000	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	75,000	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		Nil
Total Income		3,25,000

Items eligible for carried forward :

- 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.
- 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.
- 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.

ILLUSTRATION 30

Unexplained expenditure and tax liability: Mr. Ganesh is a wholesale trader and his total income for the last few years ranged between 7 lakh to 9 lakh. He celebrated his 50th birthday on a large scale on 19th June, 2023 by hosting a cruise party in the luxury cruise liner - "Silver Sea", for which he had spent 25 lakh. The Assessing Officer, in the course of scrutiny assessment of Mr. Ganesh, asked him to explain the source of such expenditure. The explanation offered by Mr. Ganesh that the same was out of his savings for the last few years, was not found satisfactory by the Assessing Officer, since a couple of years ago, he had spent to tune of 50 lakh on the wedding celebrations of his twin daughters at Seshmahal in Chennai. You are required to examine the tax consequences.

SOLUTION

As per Section 69C, If any expenditure is incurred by an assessee in any financial year in respect of which he is not able to offer explanation about the source of such expenditure or the explanation offered by him is not satisfactory in the opinion of the Assessing Officer, then the amount of such unexplained expenditure may be deemed as income of the assessee for such



financial year. Therefore, in this case, since the Assessing Officer is not satisfied with the explanation offered by Mr. Ganesh, the expenditure of 25 lakh incurred by him in the financial year 2023-24 in hosting a grand cruise party may be deemed as his income for such financial year as per section 69C. Further, such unexplained expenditure which is deemed as the income of Mr. Ganesh shall not be allowed as deduction under any head of income.

Here the total income of Mr. Ganesh includes such unexplained expenditure of 25 lakh, which is deemed as his income under section 69C, such deemed income would be taxed at the rate of 78% as per section 115BBE. Further, no basic exemption or allowance or expenditure or set off of any loss shall be allowed to him under any provision of the Income-tax Act, 1961 in computing such deemed income.

ILLUSTRATION 31

Computation of total Income after adjustment of Losses: Sanyasi, engaged in various types of activities, gives the following particulars of his income for the year ended 31-3-2026 (Amt ₹)

Particulars	₹
i) Profit of business of consumer and household products	6,32,000
ii) Loss of business of ready-made garments	1,00,000
iii) Loss from house property	2,80,000
iv) Short-term capital loss on sale of securities and shares	1,50,000

Compute the total income of Sanyasi for the assessment year 2026-27, assuming that -

- if he has not opted for the provisions of Section 115BAC.
- He pays tax under the default tax regime.

SOLUTION:

(a) Computation of total income of Sanyasi as per normal provision (amounts in ₹)

Particulars	₹	₹
Profits of business of consumer and household products	6,32,000	
Less: Loss of business of ready-made garments set-off as per section 70(1)	1,00,000	
	5,32,000	
Less: Loss from house property [WN-1]	2,00,000	
Short-term capital loss on sale of securities and shares [WN-1]		-
Total Income		3,32,000

Working Notes:

- Loss from house property can be set-off only to the extent of 2,00,000. Balance loss of house property amounting ₹ 80,000 shall be carried forward to be set-off from Income from house property.
- Short-term capital loss of the current year can be set-off only from Capital gains, hence the same shall be carried forward.

(b) Computation of total income of sanyasi under default tax regime -

Particulars	₹	₹
Profits of business of consumer and household products	6,32,000	



Less: Loss of business of ready-made garments set-off as per section 70(1)	1,00,000	
	5,32,000	
Less: Loss from house property [WN-1]	-	5,32,000
Short-term capital loss on sale of securities and shares [WN-2]		-
Total Income		5,32,000

Working Note:

- (1) Under default tax regime, loss from house property cannot be set-off against income under any other head. Therefore, the loss of ₹ 2,80,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (2) Short-term capital loss of the current year can be set-off only from capital gains, hence the same shall be carried forward.

ILLUSTRATION 32

Computation of gross total income: Mr. Jai, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26:

Particulars	₹
Income from the activity of owning and maintaining race horses	40,000
Income from crossword puzzle solving	30,000
Income from Agricultural land in Haryana	25,000
Dividend Income from domestic company (gross)	15,000
(Expenditure incurred in collecting the aforesaid dividend)	2,500
Income from cycling business	1,50,000
Loss from warehousing facility for storage of edible oils	1,00,000
Share of loss form PR associates, a firm (having 4 equal partners) in which he is a partner	23,000
The following items have been brought forward from the assessment year 2023-24:	
Brought forward loss form house property	1,00,000
Loss from the activity of owning and maintaining race horses	37,000
Loss from gambling	10,000
Unabsorbed depreciation	15,000
Speculation Loss	20,000

Mrs. Jai (wife of Mr. Jai) got a salary of 1,20,000 from PR associates during the year 2025-26. She is not qualified for the job.

Compute the gross total income of Mr. Jai for the assessment year 2026-27 ignoring the provisions of section 115BAC. (7 Marks, Nov. 2023)

SOLUTION

Computation of gross total income of Mr. Jai for the A.Y. 2026-27

Particulars	₹	₹



Income under the head "Salaries"		
Salary of Mrs. Jai from PR associates	1,20,000	
Less: Standard deduction under section 16 [Salary of Mrs. Jai would be includible in the income of Mr. Jai, since Mr. Jai has a substantial interest in PR associates by having 25% share of profit in it and Mrs. Jai is not qualified for the job]	50,000	70,000
Profits and gains from business and profession		
Income from cycling business	1,50,000	
Share of loss from PR associate [Exempt under section 10(2A)]	-	
Less: Set off of loss from warehousing facility for storage of edible oils	1,00,000	
	50,000	
Less: Set off of unabsorbed depreciation of A.Y. 2023-24	15,000	35,000
Income from Other Sources		
Income from crossword puzzle solving	30,000	
Income from agricultural land in Haryana [Exempt under section 10(1)]	-	
Dividend from domestic company (gross)	15,000	
[No deduction is allowed from dividend income other than interest expenses]		
Income from the activity of owning and maintaining race horses 40,000		
Less: Set-off of brought loss from the activity of owning a and maintaining race horses of A.Y. 2023-24, since four years has not lapsed 37,000	3,000	48,000
Gross Total Income		1.53.000

Notes:

1. Brought forward loss from house property can be set-off only against income of house property. Hence, such loss has to be carried forward to A.Y. 2027-28.
2. Loss from gambling can neither be set-off nor be carried forward.
3. Brought forward loss from speculative business can be set-off against income of any other speculative business. Hence, such loss has to be carried forward to A.Y. 2027-28.

ILLUSTRATION 33

Computation of Total Income: Mr. Sanju, an individual assessee, aged about 32 years, furnishes the following details for the year ended on 31st March, 2026:

- (i) Loss from Future & Option: ₹75,000
- (ii) Profit from restaurant business (computed): 2,21,000
- (iii) Share of profit in partnership firm M/s XL & Co. (19% share): 38,000
- (iv) Income from salary (computed): ₹3,15,000
- (v) Interest on loan paid for self-occupied house property: ₹ 1,75,000 (Principal amount paid: ₹ 1,20,000)
- (vi) Short-term capital gain : ₹ 82,000
- (vii) Long-term capital gain u/s 112A: ₹ 1,10,000



- (viii) Long-term capital loss u/s 112 : 68,000
 (ix) His wife received salary of 2,40,000 from a partnership firm XL & Co., where she is an accountant. She does not have any professional qualification related to accounting.
 (x) He paid 21,000 for medical insurance premium and 9,000 for preventive health check-up. Brought forward speculative business loss: 26,000 (this being 3rd year from the year of loss) and brought forward short-term capital loss: 52,000 (this being the 4th year from the year of loss). Compute total income of Mr. Sanju for the A.Y. 2026-27 if he exercises the option to shift out of default tax regime u/s 115BAC(1A). Also state the losses eligible to carry-forward. (6 Marks, May 2025)

SOLUTION

Computation of Total Income of Mr. Sanju for the A.Y. 2026-27 as per the optional tax regime under the Income-tax Act, 1961:

Particulars	₹	₹
Income from Salary		
Salary (computed)	3,15,000	
Add: Salary received by his wife from M/s XL & Co., partnership firm of 2,40,000 shall not to be clubbed in the income of Mr. Sanju even if his wife does not have any professional qualification since he does not have substantial interest in the firm as his share of profit in such firm is less than 20%	Nil	
	3,15,000	
Less: Loss from self-occupied house property	1,75,000	1,40,000
Income from House Property (Self-occupied Property)		
Annual Value	-	
Less: Deductions under section 24		
Interest on loan paid for self-occupied property	1,75,000	
	(1,75,000)	
Profit and gains of business or profession		
Profit from restaurant business	2,21,000	
Less: Loss from Future & Option	75,000	
	1,46,000	
Share of profit from M/s XL & Co., partnership firm [Exempt u/s 10(2A)]	Nil	1,46,000
Capital Gain		
Short term capital gain	82,000	
Less: Brought forward short-term capital loss	52,000	
Long-term capital gain u/s 112A	1,10,000	
Less: Long term capital loss u/s 112	68,000	72,000
Gross Total Income		3,58,000
Less: Deduction under Chapter VI-A		
U/s 80C - Repayment of housing loan	1,20,000	





U/s 80D - Medical premium for self of 21,000 and preventive health checkup fees of 9,000 restricted to ₹ 5,000 subject to overall limit of ₹ 25,000	25,000	1,45,000
Total Income		2,13,000
Losses to be carried forward to A.Y. 2027-28		
Loss from speculative business: As per section 73(4), brought forward loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2027-28 for set-off against income from speculation business of that year.		26,000

ILLUSTRATION 33

Losses set-off and Computation of Gross Total Income: Compute the gross total income of Mr. Prakhar for A.Y. 2026-27 and the losses to be carried forward from the information given below, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

(i) Income from House Property (computed)	₹3,60,000
(ii) Short term capital loss on shares of a company	(-) 18,700
(iii) Long term capital gain on sale of agricultural land	₹6,000
(iv) Income from rubber business (plants grown by Mr. Prakhar)	₹80,000
(v) Loss from garment business b/f discontinued in F.Y. 2023-24	(-) 70,000
(vi) Loss from betting	(-) 5,500
(vii) Income from lotteries (net)	5,460
	(4 Marks, Nov. 2022)

SOLUTION

Computation of gross total income of Mr. Prakhar for the A.Y. 2026-27:

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 × 35%] and the balance 65% is agricultural income]	28,000	
Less: Brought forward loss of 70,000 from garment business set-off to the extent of 28,000, set-off is permissible even if the business is discontinued	28,000	Nil
Capital Gains		
Long-term capital gain on sale of agricultural land (Exempt, assuming that the same is rural agricultural land)		-
Income from Other Sources		
Income from lotteries (5,460 × 100/70)		7,800
Gross Total Income		3,67,800
Losses to be carried forward to A.Y. 2027-28		
Loss from garment business pertaining to P.Y. 2023-24 (70,000 - ₹28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2026-27		18,700



Loss of 5,500 from betting can neither be set-off nor be carried forward.

Illustration 34 Repeated

ADDITIONAL QUESTIONS

ILLUSTRATION 35

Mr. Prakash furnishes the following information for the financial year 2025-26:

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	75,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-26	60,000
Brought forward loss of business of assessment year 2020-21	1,00,000

Compute the total income of Mr. Prakash for the assessment year 2026-27 also show the loss eligible to be carried forward. Assume that he has opted out of the default tax regime.

Answer

Computation of total income of Mr. Prakash for A.Y.2026-27

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	<u>50,000</u>	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	<u>(20,000)</u>	4,55,000
Income from house property		



Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	(2,00,000)	
	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading and manufacturing business	1,00,000	
Less: Brought forward business loss of A.Y. 2020- 21 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	(65,000)	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG	(60,000)	Nil
Income from Other Sources		
Interest on PPF deposit	75,000	
Less: Exempt	75,000	Nil
Gross Total Income		4,55,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2026	60,000	60,000
Total Income		3,95,000

Losses to be carried forward to A.Y.2027-28

Particulars	₹





Loss from speculation business X (₹ 85,000 - ¹ 45,000)

40,000

Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.

ILLUSTRATION 36

Mr. Jaji is a chartered accountant and his income from profession for the year 2025-26 is ₹ 10,00,000. He provides you with the following information for the year 2025-26.

Particulars	₹
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2024 out of her special talent	20,000
Gift received by Chitra on 30-09-2025 from friends of Mr. Jaji on winning National award	45,000
Short term capital loss of Mr. Jaji	6,00,000
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gains from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss under section 111A of Mr. Jaji	10,00,000

Compute the total income of Mr. Jaji for A.Y. 2026-27 and the losses to be carried forward. Mr. Jaji has opted out of the default tax regime.

Answer

Computation of Total Income of Mr. Jaji for A.Y. 2026-27

Particulars	₹	₹	₹
<u>Profits and gains from business and profession</u>			
Income from chartered accountancy profession			10,00,000
<u>Capital gains</u>			
Long term capital gains from STT paid shares		10,00,000	



Long term capital gain (other than above)		<u>4,00,000</u>	
		14,00,000	
Less: Short term capital loss set off against long-term capital gain as per section 74		(6,00,000)	
Less: Short term capital loss u/s 111A set off against long-term capital gain as per section 74 to the extent of		<u>(8,00,000)</u>	Nil
<u>Income from other sources</u>			
Income of minor son Biju			
Income from company deposit includible in the hands of Mr. Jaji as per section 64(1A)	1,50,000		
Less: Exemption in respect of income of minor child u/s 10(32)	<u>1,500</u>	1,48,500	
Income of minor daughter Chitra			
- Income of ₹ 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
- Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills	20,000		1,67,000
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	18,500	
Other incomes: ₹ Gift of ₹ 45,000 received by her from friends of Mr. Jaji is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed ₹ 50,000		Nil	
Total Income			11,67,000

Losses to be carried forward to A.Y.2027-28

Particulars	₹



Short term capital loss under section 111A	2,00,000

Note - Short-term capital loss under section 111A can be set-off against long-term capital gains first. In such a case the losses to be carried forward to A.Y.2027-28 would be as under -

Particulars	₹
Short term capital loss (other than u/s 111A)	2,00,000





CHAPTER – 10

DEDUCTION FROM GROSS TOTAL INCOME

STUDY MATERIAL

ILLUSTRATION 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

SOLUTION

- The statement is not correct.
- The statement is correct.

ILLUSTRATION 2

Compute the eligible deduction under section 80C for A.Y.2026-27 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2025-26, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2019	Spouse	1,50,000	20,000
(iii)	1/6/2022	Handicapped son (section 80U disability)	4,00,000	80,000

SOLUTION

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)	Deduction u/s 80C for A.Y. 2026-27 (₹)	Remark (restricted to % of sum assured) (₹)





(i)	30/3/2012	Self Spouse Handicapped son (section 80U disability)	8,00,000	48,000	48,000	20%
	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				1,23,000	

ILLUSTRATION 3

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

SOLUTION

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

ILLUSTRATION 4

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2025-26:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value ₹ 2,20,000)	25,000

What is the deduction allowable under section 80C for A.Y.2026-27 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

Computation of deduction under section 80C for A.Y.2026-27

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,20,000, as the policy is taken after 31.3.2012)	22,000
Total	1,72,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

ILLUSTRATION 5

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

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



**SOLUTION**

(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

(b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be -

Particulars	₹
Basic salary = ₹ 1,00,000 × 12	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

(c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

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

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to maximum of 14% of salary. Hence, he would be allowed deduction of ₹ 201600 (14% of ₹ 14,40,000) or ₹ 1,80,000 (15% of ₹ 12,00,000) whichever is less i.e. ₹ 1,80,000 under section 80CCD(2).

ILLUSTRATION 6

The gross total income of Mr. X for the A.Y.2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2025-26:

	Particulars	₹
(1)	Contribution to PPF	1,10,000





(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2026-27 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of deduction under Chapter VI-A for the A.Y.2026-27

Particulars	₹
Deduction under section 80C	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	1,05,000
- Contribution to approved pension fund of LIC	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2026-27	1,50,000

ILLUSTRATION 7

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Deduction allowable under section 80D

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000





B	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

ILLUSTRATION 8

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaime policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Deduction allowable under section 80D for the A.Y. 2026-27

Particulars	₹	₹
Deduction		75,000

ILLUSTRATION 9

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

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

ILLUSTRATION 10

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

SOLUTION

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

ILLUSTRATION 11

Mr. B has taken three education loans on April 1, 2024, the details of which are given below:



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

Compute the amount deductible under section 80E for the A.Y.2026-27 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.
Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

ILLUSTRATION 12

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2026 and he does not own any other house property.

SOLUTION

Particulars	₹
Interest deduction for A.Y.2026-27	
I. Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 24(b) ₹ 3,85,000	
Restricted to	2,00,000
II. Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE ₹ 1,85,000 (₹ 3,85,000 - ₹ 2,00,000)	
Restricted to	50,000

ILLUSTRATION 13

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2026-27 -

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019





Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for Self occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2026.

SOLUTION

Particulars	₹
Mr. A	
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property" " Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 - ₹ 2,00,000) Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C	
Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil



ILLUSTRATION 14

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

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2019) (Assured value ₹ 1,80,000) - ₹ 20,000.
- (ii) Medical Insurance premium for self - ₹ 12,000; Spouse - ₹ 14,000.
- (iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.
- (iv) LIC Pension Fund - ₹ 60,000.
- (v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
- (vi) Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- (viii) Deposit in PPF - ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Total Income of Mr. Shiva for A.Y. 2026-27

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund Prime Minister's Drought	25,000	100%	25,000
(ii)	Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion planning	40,000	100%, subject to qualifying limit	40,000





(iv)	Public Charitable Trust of family	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income - Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case. ₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case. Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

ILLUSTRATION 15

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

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

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

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

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

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

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

ILLUSTRATION 16

During the P.Y. 2025-26, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

SOLUTION

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the



expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

ILLUSTRATION 17

Mr. A has commenced the business of manufacture of computers on 1.4.2025. He employed 350 new employees during the P.Y. 2025-26, the details of whom are as follows -

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2025	Regular	24,000
(ii)	125	1.5.2025	Regular	26,000
(iii)	50	1.8.2025	Casual	25,500
(iv)	100	1.9.2025	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 2.16 crores. What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2025?

SOLUTION

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2026-27 and he has employed "additional employees" during the P.Y. 2025-26.

I If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2025, since they have been employed for more than 150 days in the previous year 2025-26.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000.

ILLUSTRATION 18

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2026 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2027. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Particulars	₹
Deduction u/s 80QQB	1,90,000

ILLUSTRATION 19

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2025-26. He also has interest on Fixed





Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

Computation of total income of Mr. A for A.Y.2026-27

Particulars	₹	₹
Total Income		1,20,000

ILLUSTRATION 20

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2026. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is ₹ 2,00,000.
- Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

SOLUTION

Computation of total income of Mr. Gurnam for the Assessment Year 2026-27

Particulars	₹
Total Income	4,79,000

ILLUSTRATION 21

Mr. Y furnishes you the following information for the year ended 31.3.2026:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2026	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20





Compute deduction under section 10AA for the A.Y. 2026-27, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2025-26 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\%$$

$$= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 50\% = ₹ 7.5 \text{ lakhs}$$

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

TEST YOUR KNOWLEDGE

ILLUSTRATION 22

Examine the following statements with regard to the provisions of the Income tax Act, 1961:

- (i) During the financial year 2025-26, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹44,000 irrespective of the tax regime.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2025, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2026-27.
- (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

- (i) The statement is correct.
- (ii) The statement is correct.





- (iii) The statement is not correct.
- (iv) The statement is not correct.
- (v) The statement is not correct.
- (vi) The statement is not correct.

ILLUSTRATION 23

Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- (i) Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- (ii) Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
- (iii) Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.

SOLUTION

- (i) The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

ILLUSTRATION 24

For the A.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 15,18,240 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 31.3.2026, in a tax efficient manner.

SOLUTION

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2026-27 under default tax regime**

Particulars	₹
Total tax liability	1,05,675
Total tax liability (Rounded off)	1,05,680

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2026-27 under the optional tax regime (i.e., the normal provisions of the Act)**





Particulars	₹
Total tax liability	1,55,060

ILLUSTRATION 25

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2025-26, furnishes you the following information:

- Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.
 - Five year post office time deposit - ₹ 20,000.
 - Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.
 - Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.
- Compute the total income of Mr. Rajmohan for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of total income of Mr. Rajmohan for the A.Y. 2026-27

Particulars	₹
Total Income	5,47,500

ILLUSTRATION 26

Compute the eligible deduction under Chapter VI-A for the A.Y. 2026-27 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2026-27 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2025-26:

Sl.No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

SOLUTION

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2025-26

Particulars	₹
Eligible deduction under Chapter VI-A	2,25,000

ILLUSTRATION 27

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2025-26.



Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2026 is ₹3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2026-27, in the following situations:

(i) If both the units were set up and start manufacturing from 22-05-2016.

SOLUTION

Computation of deduction u/s 10AA of the Income-tax Act, 1961

= Profits of Unit in SEZ $\times$ $\frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$ $\times$ 50%

= 60 lakhs $\times$ $\frac{300 \text{ lakhs}}{400 \text{ lakhs}}$ $\times$ 50% = ₹ 22.50 lakhs

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2026 which is ₹ 3,00,00,000.

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations. Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

PAST EXAM QUESTIONS

ILLUSTRATION 28

Deduction from Total Income: Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes -

- (i) A housing loan of ₹ 36,00,000/- taken on 15th March, 2022 for the purchase of a house to be used for self-residence at a cost of ₹ 47,00,000/-. The stamp duty value of the house was ₹ 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y. 2025-26 was:

(A) towards principal - ₹ 1,25,000/-

(B) towards interest - ₹ 3,65,000/-

This is the (B)first and only residential house owned by Mr. Ray.

- (ii) A vehicle loan of ₹ 16,00,000/- taken on 31st Oct 2022 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y. 2025-26 was:

(A) towards principal - ₹ 75,000

(B) towards interest - ₹ 1,90,000





- (iii) Besides these loans, he has also paid a sum of ₹ 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y. 2026-27 so that he gets the maximum benefits assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (4 Marks, May 2023)

SOLUTION

Computation of amount of deductions available to Mr. Ray for A.Y. 2026-27

		Amount (₹)	
(i)	Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) for interest on loan of ₹3,65,000 in respect of self-occupied property restricted to Deduction under Chapter VI-A from Gross Total Income		2,00,000
(ii)	Deduction u/s 80C : For repayment of loan of ₹ 1,25,000 to bank	1,25,000	
	Deduction u/s 80EEA : Since stamp duty value does not exceed ₹ 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto ₹ 1,50,000 in respect of such interest on loan since loan is sanctioned between 1-4-2019 and 31-3-2022. ₹ 3,65,000 - ₹ 2,00,000 [claimed as deduction u/s 24(b)] = ₹ 1,65,000 restricted to ₹ 1,50,000, being the maximum permissible deduction	1,50,000	
	Deduction u/s 80EEB : Deduction for interest on loan for purchase of electric vehicle of ₹ 1,90,000 restricted to ₹ 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1-4-2019 and 31-3-2023. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable	1,50,000	
	Deduction u/s 80GGC Contribution of ₹ 15,000 to political party not allowable since the sum is paid in cash	Nil	
	Deduction under Chapter VI-A from Gross Total Income		4,25,000

ILLUSTRATION 29

Deduction u/s 10AA in respect of undertaking located in SEZ: Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in the Financial Year 2018-19. In the Previous Year 2025-26, total turnover of the unit A is ₹ 180 lacs and total turnover of Unit B is ₹ 120 lacs. Export turnover of Unit A for the year is ₹ 150 lacs and the profit for the unit A is ₹ 60 lacs.

Calculate the deduction available, if any, to Mr. Suresh u/s 10AA of the Income-tax Act, 1961, for the Assessment Year 2026-27, if the manufacturing started in Unit A in the Financial Year 2018-19. (4 Marks, May 2016)

SOLUTION





As per section 10AA, in computing the total income of Mr. Suresh from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce any article or thing on or after 01-04-2005 but before 1-4-2020, there shall be allowed a deduction of 100% of the profit derived from export of such article or thing for the first 5 year period commencing from the year of manufacture or production of articles or things by the Unit in SEZ and 50% of such profits for further 5 years subject to fulfillment of other conditions specified in section 10AA. The relevant particulars are as under -

Particulars	Unit A In SEZ (₹ in lakhs)
Total turnover	180
Export turnover	150
Net Profit	60

If Unit in SEZ was set up and began manufacturing in F.Y. 2018-19 : Since it is the 6th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the profit of such unit assuming all the other conditions specified in section 10AA are fulfilled.

= Profits of Unit in SEZ × $\frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}}$ × 50%

= ₹ 60 lakhs × $\frac{\text{₹ 150 lakhs}}{\text{₹ 180 lakhs}}$ × 50% = ₹ 25 lakhs

Hence, amount of deduction under section 10AA = ₹ 25,00,000.

ILLUSTRATION 30

Deduction u/s 10AA in respect of undertaking located in SEZ: Nathan Aviation Ltd. is running two industrial undertakings, one in a SEZ (Unit S in 7th year of operation) and another in a normal area (Unit N). The brief summarized details for the year ended 31-3-2026 are as under -

Particulars	(₹ in Lakhs)	
	S	N
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less: Expenses and depreciation	7	6
Profits derived from the unit	13	4

The brought forward business loss pertaining to Unit N is ₹ 2 lakhs. Briefly compute the business income of the assessee. (5 Marks, May 2011)(4 Marks, Nov. 2013)

SOLUTION

Unit S located in Special Economic Zone is eligible for deduction under section 10AA of Act and such deduction is to be computed undertaking-wise. 100% of the profit derived therefrom will be eligible as deduction assuming that the previous year falls within the first 5 years commencing from the year of manufacture or production of articles or things or provisions of services by the Unit in the SEZ.

Computation of the business income :

Particulars	(₹ in lakhs)
Profits of Unit S :	
Profits derived	13
Less: Deduction u/s 10AA [WN]	6





Taxable Profits of Unit S	7
Profits of Unit N	4
Set-off of brought forward business loss pertaining to Unit N	-2
Income under the head 'Profits and Gains of Business or Profession'	9

Working Note:

Deduction eligible u/s 10AA = 50% of Profits × Export turnover of the Undertaking ÷ Total Turnover of the Undertaking = 50% of [13 × 120 ÷ 130] = ₹ 12 lakhs.

ILLUSTRATION 31

Computation of Total Income and AMT liability: Mr. Bhagat, an individual aged 50 years, set up a unit in Special Economic Zone (SEZ) in F.Y. 2018-19 for the production of computers. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During F.Y. 2024-25, he set up a hospital in a district of Maharashtra with 110 beds for patients. It fulfils all the conditions of section 35AD. Capital expenditure in respect of the said hospital amounted to ₹ 65 lakhs (comprising of cost of land ₹ 15 lakhs and the balance was the cost of construction of building). The hospital became operational with effect from 1st April, 2025 and the expenditure of ₹ 65 lakhs was capitalized in the books of accounts on that date. Relevant details for F.Y. 2025-26 are as follows:

Particulars	Amount (₹ in lakhs)
Profit of unit located in SEZ	36
Export sales of SEZ unit	75
Domestic sales of SEZ unit	25
Profit from operation of hospital facility (before considering deduction under Section 35AD)	90

Compute the income-tax (including AMT under section 115JC and AMT credit, if any, under section 115JEE) payable by Mr. Bhagat for A.Y. 2026-27 under regular provisions of the Income-tax Act i.e. ignoring the provisions of section 115BAC. Ignore marginal relief, if any. (7 Marks, May 2023)

SOLUTION

Computation of total income and tax payable of Mr. Bhagat for A.Y. 2026-27 (under the regular provisions of the Income-tax Act, 1961) :

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		36,00,000
Profit from operation of hospital	90,00,000	
Less: Deduction u/s 35AD	50,00,000	
In this case, since the capital expenditure of ₹ 50 lakhs (i.e., ₹ 65 lakhs - ₹ 15 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2024-25 and capitalized in the books of account on 1-4-2025, being the date when the hospital became operational, the said amount would be eligible for deduction u/s 35AD.		
Business income from hospital chargeable to tax		40,00,000
Gross Total Income		76,00,000
Less: Deduction u/s 10AA		13,50,000
Profit of SEZ unit × (Export turnover of SEZ unit ÷ Total turnover of SEZ unit) × 50%		





$= ₹ 36,00,000 \times (₹ 75,00,000 \div ₹ 1,00,00,000) \times 50\% = ₹ 27,00,000$ $\times 50\% = ₹ 13,50,000$ Deduction would be 50% of eligible profits, since P.Y. 2025-26 is the 6th year of operation		
Total Income		62,50,000
Computation of tax payable (under the regular provisions of the Act) Tax on ₹ 62,50,000 [₹ 1,12,500 plus 30% of ₹ 52,50,000] Add: Surcharge @ 10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		16,87,500 1,68,750
Add: Health and Education cess @ 4%		18,56,250 74,250
Total tax payable		19,30,500

Computation of adjusted total income of Mr. Bhagat for levy of Alternate Minimum Tax :

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		62,50,000
Add: Deduction u/s 10AA		13,50,000
		76,00,000
Add: Deduction u/s 35AD	50,00,000	
Less: Depreciation u/s 32 - On building @ 10% of ₹ 50 lakhs	5,00,000	45,00,000
Adjusted Total Income		1,21,00,000
Alternate Minimum Tax @ 18.5%		22,38,500
Add: Surcharge @ 15% (since adjusted total income > ₹ 1 crore but does not exceed ₹ 2 crores)		3,35,775
		25,74,275
Add: Health and education cess @ 4%		1,02,971
		26,77,246
Tax liability u/s 115JC (rounded off) Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus surcharge @ 15% and cess @ 4%. Therefore, tax payable as per section 115JC is ₹ 26,77,250. AMT Credit to be carried forward under section 115JEE		26,77,250
Tax liability under section 115JC	26,77,250	
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500	
Total	7,46,750	

ILLUSTRATION 32

Exemption u/s 10AA: Mr. Pranav is running two industrial undertakings, one in a SEZ (Unit A - 7th year of operation) and another in a DTA (Unit B). The brief details for the year ended 31-03-2026 are as under-

Particulars	(₹ in lakhs)





	Unit-A	Unit-B
Domestic turnover	10	100
Export turnover	120	Nil
Gross Profit	20	10
Less: Expenses and depreciation	7	5
Profits derived from the units	13	5

The brought forward business loss pertaining to assessment year 2022-23 for Unit B is ₹ 10 lakhs. Briefly compute the business income of the assessee.

SOLUTION

Computation of Business Income of Mr. Pranav :

Particulars	₹
Total Profit (A & B)	18,00,000
Less: Brought forward business loss of Unit B	10,00,000
Total Income before deduction u/s 10AA	8,00,000
Less: Deduction u/s 10AA [WN] (₹ 12,00,000 restricted to above)	6,00,000
Taxable Business Income	2,00,000

Working Note: The amount of deduction under section 10AA shall be allowed from the total income of the assessee computed in accordance with the provisions of this Act, before giving effect to the provisions of this section and the deduction under this section shall not exceed such total income of the assessee.

Deduction under Section 10AA - SEZ unit :

Particulars	₹
Domestic turnover	10,00,000
Export turnover	1,20,00,000
Total turnover	1,30,00,000
Profit derived from unit A	13,00,000
Deduction u/s 10AA - 100% of (₹ 13,00,000 × ₹ 1,20,00,000 / ₹ 1,30,00,000) [Since the SEZ unit is in 7 th year of operation - 100% of profits from export business shall be eligible for deduction.]	6,00,000

ILLUSTRATION 33

Computation of total income and tax liability - AMT applicability: Mr. A a resident individual having a unit located in special economic zone in 7th year of operation furnishes you with the following information for the year ended 31-3-2026:

Particulars	₹
Profit from unit located in SEZ	₹ 30,00,000
Export turnover of unit located in SEZ	₹ 72,00,000
Total Turnover of unit located in SEZ	₹ 1,00,00,000
Income from other sources	₹ 6,50,000
Investments in public provident fund	₹ 1,00,000

- (i) Determine his tax liability for assessment year 2026-27 after taking into account alternate minimum tax provisions.



- (ii) What would be your answer if profits derived from unit located in SEZ is ₹ 3,00,000 instead of ₹ 30,00,000 ?

SOLUTION

(i) Computation of total income of Mr. A for A.Y. 2026-27:

Particulars	₹	₹
Profits and Gains of Business or Profession :		
Profit from unit located in SEZ	30,00,000	
Less: Deduction u/s 10AA 50% of (₹ 30,00,000 × ₹ 72,00,000 ÷ ₹ 1,00,00,000)	10,80,000	19,20,000
Income from other sources		6,50,000
Gross Total Income		25,70,000
Less: Deduction u/s 80C (PPF investment)		1,00,000
Total Income		24,70,000
Computation of tax liability as per normal provisions of Act	5,53,500	
Alternate minimum tax (18.5% of ATI) i.e. 18.5% of ₹ 35,50,000 [WN]	6,56,750	
Since alternate minimum tax is higher than tax as per normal provisions of the Act, Mr. A shall be liable to be pay alternate minimum tax as per section 115JC		6,56,750
Add: HEC @ 4%		26,270
Total tax payable (rounded off)		6,83,020

Working Note : Computation of Adjusted Total Income :

Particulars	₹
Total Income	24,70,000
Add: Deduction u/s 10AA	10,80,000
Adjusted Total Income	35,50,000

(ii) If profits derived from unit located in SEZ is ₹ 3,00,000 instead of ₹ 30,00,000 :

Particulars	₹	₹
Profits and Gains of Business or Profession:		
Profit from unit located in SEZ	3,00,000	
Less: Deduction u/s 10AA 50% (₹ 3,00,000 × ₹ 72,00,000 ÷ ₹ 1,00,00,000)	1,08,000	1,92,000
Income from other sources		6,50,000
Gross Total Income		8,42,000
Less: Deduction u/s 80C (PPF investment)		1,00,000
Total Income		7,42,000
Computation of tax liability as per normal provisions of Act		60,900
Add: HEC @ 4%		2,436
Total Tax (rounded off)		63,340

Since the adjusted total income of such person does not exceed ₹ 20 lakhs, hence he is not liable to pay alternate minimum tax.





ILLUSTRATION 34

Computation of total income and tax liability - Section 35AD and AMT applicability: Mr. X, carrying on the business of operating a inland container depot, has a Gross total income of ₹ 96 lakh. In computing business income, he had claimed deduction under section 35AD to the extent of ₹ 75 lakh on investment in building (on 1-4-2025) for operating the inland container depot. He has made investment of ₹ 1,50,000 on 31-03-2026 in public provident fund. Compute his tax liability for A.Y. 2026-27. Also determine the amount of AMT credit under Section 115JD.

SOLUTION

Computation of Total income of Mr. X for A.Y. 2025-26 :

Particulars	₹	₹
Gross Total Income		96,00,000
Less: Deduction u/s 80C (PPF investment)		1,50,000
Total Income		94,50,000
Computation of tax liability as per normal provisions of Act	26,47,500	
Add: Surcharge @ 10%	2,64,750	
	29,12,250	
Add: HEC @ 4%	1,16,490	30,28,740
Tax payable u/s 115JC:		
Alternate minimum tax (18.5% of ATI) i.e. 18.5% of ₹ 1,62,00,000 [WN]	29,97,000	
Add: Surcharge @ 15%	4,49,550	
	34,46,550	
Add: HEC @ 4%	1,37,862	35,84,412
Total tax payable u/s 115JC (rounded off)		35,84,410
Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 1,62,00,000 shall be deemed to be the total income of Mr. X and tax is payable @ 18.5% thereof plus surcharge @ 15% and health and education cess @ 4%. Therefore, the tax liability is ₹ 35,84,410.		

Computation of Alternate Minimum Tax credit:

Particulars	₹
Total tax payable under Section 115JC	35,84,410
Less: Tax payable as per the normal provisions of the Act	30,28,740
AMT credit to be carried forward	5,55,670

Working Note: Computation of Adjusted Total Income :

Particulars	₹	₹
Total Income		94,50,000
Add: Deduction u/s 35AD	75,00,000	
Less: Depreciation under Section 32 [10% of ₹ 75,00,000]	7,50,000	67,50,000
Adjusted Total Income		1,62,00,000

Illustration 35

Computation of deduction admissible u/s 80C: Compute the eligible deduction u/s 80C for A.Y. 2026-27 in respect of life insurance premium paid by Mr. Balma during the P.Y. 2025-26, the details of which are given hereunder -



	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)
i)	15-04-2011	Self	2,50,000	52,000
ii)	10-05-2014	Spouse	1,80,000	18,500
iii)	01-06-2025	Handicapped minor Son (Section 80U disability)	4,50,000	72,000

Solution

Computation of deduction admissible under section 80C to Mr. Balma:

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2025-26 (₹)	Deduction u/s 80C for A.Y. 2026-27	Remark (restricted to % of sum assured)
i)	15-04-2011	Self	2,50,000	52,000	50,000	20%
ii)	10-05-2014	Spouse	1,80,000	18,500	18,000	10%
iii)	01-06-2025	Handicapped minor Son (Section 80U disability)	4,50,000	72,000	67,500	15%
Total					1,35,500	

ILLUSTRATION 36

Deduction under Section 80C and Section 80CCD: The following are the particulars of investments and payments made by Mr. A, employed with ABC Ltd., during the previous year 2025-26:

- (1) Deposited in Sukanya Samriddhi Yozna in name of his daughter: ₹ 15,000
- (2) Deposited 30,000 in public provident fund.
- (3) Paid Tuition fees of 24,000 for full time education for his child in India.
- (4) Paid life insurance premium of 25,000 on the policy taken on 01-05-2025 to insure his life (Sum assured 2,00,000).
- (5) Contributed 1,80,000, being 15% of his salary, to the NPS of the Central Government. A matching contribution was made by ABC Ltd.

Compute the deduction available to Mr. A under Chapter VI-A for assessment year 2026-27. If has exercised the option of shifting out of the default tax regime provided under section 115BAC(1).

Would your answer be different, if Mr. A contributed 1,20,000 (being, 10% of his salary) towards NPS of the Central Government?

SOLUTION

(i) Computation of admissible deduction under Chapter VI-A (amount in ₹) :

Particulars		₹
Deductions under Chapter VI A-		
(i) Deposit under Sukanya Samriddhi Yozna in name of his daughter. [Sec. 80C]	15,000	





(ii) Life insurance premium (10% of capital sum assured shall qualify for deduction) [Sec. 80C]	20,000	
(iii) Tuition fees for full time education of his child in India [Sec. 80C]	24,000	
(iv) Payment to Public provident Fund [Sec. 80C]	30,000	
(v) Employee's contribution to Pension Scheme of Central Government $1,80,000 \times 10\%/15\%$ [Sec. 80CCD(1)]	1,20,000	
Total [WN-2]	2,09,000	1,50,000
(vi) Employee's contribution to Pension Scheme of Central Government [Sec. 80CCD(1B)] [WN-1]		50,000
(vii) Employer's contribution to Pension Scheme of Central Government $[1,80,000 \times 10\%/15\%]$ [Sec. 80CCD(2)] [WN-3]		1,20,000
Total deduction admissible		3,20,000

Working Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. A to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of 1,30,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary i.e. 1,20,000.
- (2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed 1,50,000.
- (3) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary.
- (4) If the contribution towards NPS is 1,20,000, here again, it is beneficial for Mr. A to first claim deduction of 50,000 under section 80CCD(1B) and the balance of 70,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., 3,20,000.

ILLUSTRATION 37

Deduction u/s 80C & 80CCD: Determine the eligibility and quantum of deduction under Chapter VI-A in the following cases:

- (1) Subscription to notified long-term infrastructure bonds 30,000 paid by Mr. A, he also paid life insurance premium of 70,000 during the year. (Sum Assured 3,50,000 policy issued on 31-03-2011).
- (2) Contribution to notified pension scheme (referred to in section 80 CCD) by the employer 40,000 for an employee whose basic salary plus dearness allowance is ₹3,00,000 for the year. **(4 Marks, Nov. 2014)**

SOLUTION

Eligibility and quantum of deduction under Chapter VI-A is as under:

- (1) Subscription to long term infrastructure bonds shall not be eligible for deduction. Life insurance premium of 70,000 shall be eligible for deduction under Section 80C. Since the policy is taken before 01-04-2011, 20% of the capital sum assured will qualify for deduction under Section 80C.





- (2) Deduction in respect of employer's contribution to Pension Scheme of Central Government referred under Section 80CCD, shall not exceed 10% of salary (Basic salary + DA). Hence, 30,000 shall qualify for deduction under Section 80CCD.

ILLUSTRATION 38

Deduction in respect of certain payments: Mr. Shyam, a private sector employee, furnishes you the following information for the previous year 2025-26. Compute his total income if he has exercised the option of shifting out of the default tax regime.

	Particulars	₹
(1)	Basic Salary	4,00,000
(2)	Dearness Allowance	2,00,000
(3)	Servant Allowance	15,000
(4)	He has made the following payments in the previous year:	
	(a) Contribution towards Pension Fund of LIC	1,10,000
	(b) Life insurance premium (Policy taken on 01-04-2025 - capital sum assured ₹ 2,50,000)	30,000
	(c) Contribution to Pension Scheme of the Central Government (12% of Basic and DA). The employer also made an equal contribution	72,000
	(d) Medical insurance premium paid by cheque on life of dependant father (being a senior citizen) 47,000 and 25,000 on himself. Further, 5,000 paid in cash for preventive health check up of his father.	
	(e) Medical treatment of his dependant mother (resident individual of age 63 years) suffering from prescribed disease and disability (sum received from insurer 10,000 and sum reimbursed by employer ₹20,000)	1,50,000
	(f) Payment to Public Provident Fund	75,000

SOLUTION

Computation of total income of Mr. Shyam (amount in ₹)

Particulars	₹	₹
Basic Salary	4,00,000	
Dearness Allowance	2,00,000	
Servant Allowance	15,000	
Contribution by employer to Pension Scheme of Central Government [WN-1]	72,000	
Gross Salary	6,87,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Income/Gross Total Income		6,37,000
Less: Deductions under Chapter VI A-		
(i) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1B)] [WN-3]		50,000
(ii) Life insurance premium (10% of capital sum assured shall qualify for deduction) [Sec. 80C]	25,000	





(iii) Contribution towards Pension Fund of LIC [Sec. 80CCC]	1,10,000	
(iv) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1)] [WN 3]	22,000	
(v) Payment to Public provident Fund [Sec. 80C] Total [WN-2]	75,000	
Total [WN-2]	2,32,000	1,50,000
(vi) Employer's contribution to Pension Scheme of Central Government [Sec. 80CCD(2)] [WN-4]		60,000
(vii) Medical insurance premium [Section 80D] [WN-5]		75,000
(viii) Medical treatment of prescribed disease disabled of dependant mother [Sec. 80DD] [WN-6]		75,000
(ix) Medical treatment of prescribed disease of dependant mother being senior citizen [Section 80DDDB] [WN-7]		70,000
Total Income		1,57,000

Working Notes:

- (1) Contribution by employer to Pension Scheme of Central Government will be deemed to be income received in India under section 7 and hence taxable.
- (2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed 1,50,000.
- (3) The deduction under section 80CCD(1B) would not be subject to overall limit of 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. Shyam to claim deduction of 50,000 under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of 22,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary.
- (4) Deduction in respect of employer's contribution to pension scheme of Central Government, shall not exceed 10% of salary (Basic salary + DA). Also it is not covered by limit of 1,50,000 specified in section 80CCE.
- (5) Deduction in respect of health insurance premium paid shall be restricted to, in case of himself 25,000, and in case of his father (being a senior citizen) 47,000. Further, the deduction in respect of amount paid in cash for preventive health check up of his father shall be allowed to 3,000, since the total amount of deduction in case of senior citizen cannot be allowed in excess of 50,000. Therefore, total amount of deduction (25,000+ 47,000+ 3,000) = 75,000.
- (6) Since assessee has incurred expenditure on medical treatment of dependant mother suffering from disability, therefore, a fixed deduction of 75,000 irrespective of amount paid shall be allowed under section 80DD.
- (7) Deduction shall be allowed for expenditure incurred on medical treatment of dependant mother (being a senior citizen) to the extent of lower of following
 - (a) Sum actually paid i.e. 1,50,000; or
 - (b) ₹ 1,00,000;
 From the amount of deduction (i.e. 1,00,000), the sum received from insurer and employer shall be reduced. Hence, net amount of deduction (1,00,000-30,000) = ₹ 70,000.

ILLUSTRATION 39

Deduction in respect of rent paid: HRA v. Rent-free accommodation:

- (i) Mr. Khanna, an employee of IOL, New Delhi, a Private Sector Company, received the following:



Particulars	₹
(1) Basic pay	5,60,000
(2) House rent allowance	1,80,000
(3) Special allowance	70,000

Mr. Khanna was residing at New Delhi and was paying a rent of 15,000 a month. Compute eligible exemption under Section 10(13A) of Income-tax Act, 1961, in respect of house rent allowance received.

- If Mr. Khanna opts for rent free accommodation whereby IOL would be paying a rent of 15,000 per month, to the landlord and recovers a sum of 5,000 per month from Mr. Khanna which was in excess of his entitlement, what will be the perquisite value in respect of such rent free accommodation?
- Which of the above would be beneficial to Mr. Khanna i.e., House Rent Allowance or rent free accommodation if he does not opt for the provisions of Section 115BAC?

SOLUTION

The relevant calculations are as follows -

- Least of the following shall be exempt u/s 10(13A) in respect of HRA received -

Particulars	₹
Actual HRA received	1,80,000
Rent paid - 10% of salary i.e. 1,80,000 - 10% of basic pay	1,24,000
50% of salary i.e. 50% of basic pay	2,80,000
Taxable HRA = HRA Received - HRA Exempt = 1,80,000 - 1,24,000	56,000

- Perquisite value in respect of concessional accommodation:

10% of salary or rent paid, whichever is less as reduced by Rent recovered from employee
 10% of (5,60,000 + 70,000) or 15,000 × 12, whichever is less - (5,000 × 12)
 63,000 - 60,000 i.e. 3,000

- Beneficial option:** In order to determine beneficial option, the amount of net cash home pay of the employee is computed as under-

Particulars	Case (i) HRA	Case (ii)- Rent-free House
Basic pay and Special Allowance	6,30,000	6,30,000
House Rent Allowance	1,80,000	-
Total cash inflows (A)	8,10,000	6,30,000
Rent paid	1,80,000	60,000
Tax liability [WN]	41,290	29,910
Total cash outflows (B)	2,21,290	89,910
Net cash home pay [A - B]	5,88,710	5,40,090

Since the net cash home pay is higher in case (i), therefore, Mr. Khanna should opt for House rent allowance.

Computation of tax liability under both cases (amount in ₹) -

	Case (i)-HRA	Case (ii) - Rent-free House
Basic pay and Special allowance	6,30,000	6,30,000
Taxable HRA/Accommodation	56,000	3,000
	6,86,000	6,33,000
Less: Standard Deduction u/s 16(ia)	50,000	50,000





Gross Total Income	6,36,000	5,83,000
Less: Deduction u/s 80GG, being the least of -		
(a) 5,000 × 12 i.e. 60,000; or		
(b) 25% of 6,07,000 i.e. 1,51,750; or		
(c) 60,000 -10% of 5,83,000 i.e. ₹ 1,700	-	1,700
Total Income	6,36,000	5,81,350
Tax liability	39,700	28,760
Add: HEC @ 4%	1,588	1,150
Total Tax (including HEC) (rounded off)	41,290	29,910

ILLUSTRATION 40

Computation of total income: Mr. Rohan, a resident individual has Gross Total Income of 7,50,000 comprising of Income from Salary and Income from House Property for the assessment year 2026-27. He provides the following information:

- (1) Paid 70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability). Sum assured ₹ 4,00,000; and date of issue of policy 1-8-2025.
 - (2) Deposited ₹ 90,000 in tax saver deposit in the name of his major son in State Bank of India.
 - (3) Contributed 25,000 to the Clean Ganga Fund, set up by the Central Government.
- Compute the Total Income and deduction under Chapter VI-A for the A.Y. 2026-27 assuming that he does not opt for section 115BAC. (4 Marks, May 2017)

SOLUTION

Computation of Total Income and deduction under Chapter VI-A (amount in ₹):

Particulars	₹	₹
Gross total income [Income from Salary and Income from House Property]		7,50,000
Less: Deductions under Chapter VI-A-		
Premium on life insurance policy of his handicapped son u/s 80C [WN-1]	60,000	
Deposit of 90,000 in tax saver deposit in the name of major son in a nationalized bank [WN-2]		
Contribution to Clean Ganga Fund u/s 80G [WN-3]	25,000	85,000
Total Income		6,65,000

Working Note:

- (1) Life insurance premium paid in respect of handicapped child of the individual is eligible for deduction u/s 80C subject to maximum of 15% of capital sum assured. Hence, 15% of 4,00,000 shall qualify for deduction.
- (2) Tax saver deposit in the name of son does not qualify for deduction under section 80C.
- (3) Contribution to Clean Ganga Fund is eligible for 100% deduction under section 80G provided the sum is paid otherwise than by cash exceeding 2,000. It is assumed that donation is made by cheque, hence 100% of the amount donated i.e. 25,000 shall be eligible for deduction.

ILLUSTRATION 41





Computation of total income: Mr. Raman, aged 62 years, earned professional income (computed) of 5,50,000 during the year ended 31-03-2026. He has earned interest of 54,500 on the fixed deposit in bank account with State Bank of India during the year. Compute the total income of Mr. Raman for the assessment year 2026-27 (assuming that he does not opt for section 115BAC) from the following particulars:

- Life insurance premium paid to Birla Sunlife Insurance in cash amounting to 35,000 for insurance of life of his dependent parents. The insurance policy was taken on 15-07-2025 and the sum assured on life of his dependent parents is 1,55,000.
- Life insurance premium of 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is 1,75,000 and the life insurance policy was taken on 18-04-2011.
- Life insurance premium paid by cheque of 32,500 for insurance of his life. The insurance policy was taken on 08-09-2018 and the sum assured is 2,00,000.
- Premium of 46,000 paid by cheque for health insurance of self and his wife.
- 1,500 paid in cash (for his health check-up and 4,500 paid in cheque for health check-up for his parents.
- Paid interest of 6,500 on loan taken from bank for IIT course pursued by his daughter.
- A sum of 15,000 donated in cash to an institution approved for purpose of Section 80G for promoting family planning.
- Contribution 10,500 made in cash to an electoral trust.

SOLUTION

Computation of total income of Mr. Raman (amount in ₹)

Particulars	₹	₹	₹
Professional Income (Computed)			5,50,000
Interest on fixed deposit in bank			54,500
Gross Total Income			6,04,500
Less: Deduction under Chapter VIA			
Under section 80C:			
Life insurance premium paid for life insurance of-			
Dependent parents [WN-1]	Nil		
Major son [WN-2]	25,000		
self 32,500 restricted to 10% of 2,00,000 [WN-2]	20,000	45,000	
Under section 80D			
Premium paid for health insurance of self and wife by cheque [WN-3]	46,000		
Payment made for health check-up: Self 1,500+ His Parents 4,500 = 6,000 restricted to 5,000	5,000	51,000	
Under section 80E			
For payment of interest on loan taken from bank for IIT course of his daughter		6,500	
Under section 80G			
Donation for family planning [WN-6]		NIL	
Under section 80GGC			
Contribution to electoral trust [WN-4]		NIL	





Under section 80TTB			
Interest on fixed deposit in bank account 54,500 restricted to [WN-5]		50,000	1,52,500
Total Income			4,52,000

Working Notes:

(1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents whether they are dependent or not. Therefore, no deduction is allowable in respect of 35,000 paid as premium for life insurance of dependent parents of Mr. Raman.

(2) Deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01-04-2012. In case the insurance policy is issued before 01-04-2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore in the present case, deduction of 25,000 is allowable in respect of life insurance of Mr. Raman's son since the insurance policy was issued before 01-04-2012 and the premium amount is less than 20% of 1,75,000. However, in respect of premium paid for life insurance policy of Mr. Raman himself, deduction is allowable only up to 10% of 2,00,000, since, the policy was issued after 01-04-2012 and the premium amount exceeds 10% of sum assured.

(3) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to 50,000. Further, deduction up to 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, deduction of 46,000 is allowed in respect of premium paid for health insurance of self and wife, since Mr. Raman is a senior citizen and the payment is made by cheque. Also, the aggregate value of premium paid for health insurance and the payment for health check-up is 47,500 (46,000+1,500), which is less than 50,000. Further, deduction up to a maximum of 5,000 is allowable in respect of health check-up of self and his parents.

This implies that 3,500 is allowable for health check-up of parents which falls within the additional limit of 50,000 for mediclaim premium and expenditure on preventive health check-up of parents.

Thus, deduction admissible for self and his parents shall be 51,000 which is within the overall limit of 1,00,000.

(4) No deduction shall be allowed for contribution to an electoral trust which qualifies for deduction under section 80GGC in case the contributions are made in cash.

(5) As per Section 80TTB, deduction shall be allowed from the gross total income of an resident individual being senior citizen in respect of income by way of interest on fixed deposit in the bank account included in the assessee's gross total income, subject to a maximum of 50,000. Therefore, a deduction of 50,000 is allowable from the gross total income of Mr. Raman, though the interest fixed deposit in bank account is 54,500.

(6) Cash donation exceeding 2,000 for family planning expenditure will not be allowed as deduction u/s 80G.

ILLUSTRATION 42





Computation of Gross Total Income: From the following details furnished by Mr. Dinesh, a marketing manager of XL Corporation Ltd., Delhi. Compute the gross total income for the A.Y. 2026-27 assuming that he does not opt for section 115BAC.

Particulars	₹
Salary including Dearness Allowance	6,50,000
Conveyance allowance of 900 p.m	10,800
Bonus	50,000
Salary of servant provided by the employer	48,000
Bills paid by the employer for gas, electricity and water provided free of cost at the residence of Mr. Dinesh.	82,000

Dinesh purchased a flat in a co-operative housing society in Dwarka, Delhi for self occupation for 35,00,000 in April 2013, which was finance by a loan from Bank of India of 20,00,000 @ 11% interest and his own savings of 5,00,000 and a deposit of 10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for ten years. The rent payable by Bank of Baroda is 35,000 per month. Other relevant particulars are given below:

- Municipal taxes paid by Dinesh for his flat in Dwarka are 18,000 per annum and for his house in Rohini are 12,000 per annum.
- Principal loan amount outstanding as on 01-04-2025 was 18,50,000.
- He also paid ₹ 8,000 towards insurance of both the houses.
- In the financial year 2025-26, he had gifted ₹ 40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
- Mr. Dinesh's son is studying in a school run by the employer company throughout the F.Y. 2025-26. The education facility was provided free of cost. The cost of such education in similar school is 2,500 per month.
- Dinesh also received gifts of 45,000 each from his two friends during the F.Y. 2025-26.

SOLUTION

Computation of Gross Total Income of Mr. Dinesh:

Particulars	₹	₹
Income under the head Salary:		
Salary including dearness allowance	6,50,000	
Conveyance allowance (10,800-10,800) [WN-1]	-	
Bonus	50,000	
Salary of servant provided by the employer (Taxable as Perquisite)	48,000	
Bill paid by employer for gas, electricity and water provided free of cost at the residence of Dinesh (Taxable as perquisite)	82,000	
Education facility (2,500 × 12) [WN-2]	30,000	
Gross salary	8,60,000	
Less: Standard deduction u/s 16(ia)	50,000	8,10,000
Income from House Property:		
Flat at Dwarka (Self Occupied)		
Annual Value	Nil	
Less: Interest on borrowed capital (18,50,000 × 11% subject to maximum of 2,00,000)	-2,00,000	





House at Rohini (let out)		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) $[35,000 \times 12]$	4,20,000	
Less: Municipal taxes paid	12,000	
Net Annual Value (NAV)	4,08,000	
Less: Standard Deduction@ 30% of NAV	1,22,400	
	2,85,600	85,600
Income from Other Sources:		
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Dinesh as per Section 64(1A) $(40,000 \times 18\%) = 7,200$. However, as per Section 10(32) an exemption of 1,500 shall be available $(7,200 - 1,500)$	5,700	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per Section 64(1) $(40,000 \times 18\%)$	7,200	
Gift from two friends @ 45,000 each Since the aggregate amount exceeds 50,000, hence, whole of the sum will be taxable u/s 56(2)(x)	90,000	1,02,900
Gross Total Income		9,98,500

Working Notes:

- (1) Conveyance Allowance is exempt from tax to the extent expended for official purpose. Assuming that entire amount is expended the same is claimed as exempt from tax.
- (2) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of ₹ 2,500 per month is taxable as perquisite. In such a case, the value of the perquisite would be 30,000 (i.e. $2,500 \times 12$).

ILLUSTRATION 43

Computation of Total Income: Mr. X, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2017. Details of his income for the previous year 2025-26, are as follows:

- i) Basic salary: 3,80,000
- ii) Dearness allowance: 1,20,000 (40% forms part of pay for retirement benefits)
- iii) Both Mr. X and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD
- iv) Gift received by X's minor son on his birthday from friend: 70,000. (No other gift is received by him during the previous year 2025-26)
- v) During the year 2020-21, Mr. X gifted a sum of 6,00,000 to Mrs. X. She started a business by introducing such amount as her capital. On 1 April, 2025, her total investments in business was 10,00,000. During the previous year 2025-26, she has loss from such business 1,30,000
- vi) Mr. X deposited 70,000 in Sukanya Samridhi account on 23-01-2026. He also contributed 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.
- vii) He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid 15,000 as interest on such loan which includes 5,000 for the financial year 2023-24.

Determine the total income of Mr. X for the A.Y. 2026-27. Ignore provisions u/s 115BAC.





(6 Marks, Dec. 2021)

SOLUTION

Computation of Total Income of Mr. X for A.Y. 2026-27:

Particulars	₹	₹
Salaries		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of 3,80,000	76,000	
Less: Standard deduction [50,000 or 5,76,000, whichever is lower]	5,76,000	
	50,000	5,26,000
Profits and gains of business or profession		
Where the amount gifted by Mr. X (6 lakh, in this case) is invested by Mrs. X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1-4-2025 to the total investment in the business (10 lakh) would be included in the income of Mr. X [loss of 1,30,000 × 6/10]	-78,000	
Income from other sources		
All income of the minor son would be included in the income of the parent Mr. X, since his income is higher than the income of Mrs. X (loss of 52,000, based on the information given in the question). Accordingly, 70,000, being amount of gift received by minor son during the P.Y. 2025-26, would be included in the income of Mr. X as the amount of gift exceeds 50,000.	70,000	
Less: Exemption in respect of income of minor child included in Mr. X's income	1,500	
	68,500	
Less: Business loss of 78,000 set-off to the extent of (Balance business loss of 9,500 to be carried forward to the next year, since the same cannot be set-off against salary income)	68,500	Nil
Gross Total Income		5,26,000
Less: Deductions under Chapter VI-A		
U/s 80C-deposit in Sukanya Samridhi Account	70,000	
U/s 80CCC Contribution to LIC Annuity Plan	40,000	
U/s 80CCD(1) Employee contribution to NPS (76,000 - 50,000 deduction claimed u/s 80CCD(1B)), since it is lower than 42,800, being 10% of salary (3,80,000 + 48,000)	26,000	
Allowable in full, since less than 1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
U/s 80CCD(1B) - Employee contribution to NPS	50,000	
U/s 80CCD(2) Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% × (3,80,000 + 48,000)	59,920	
U/s 80E Interest paid on loan taken for higher education	15,000	2,60,920





Total Income	2,65,080

Notes: The following assumptions have been made while solving the question

- Loan is taken from a financial institution or approved charitable institution, and hence, interest paid on such loan qualifies for deduction under section 80E.
- The question mentions that gift of 6 lakhs is given by Mr. X to Mrs. X during the P.Y. 2020-21. However, the date of investment in business is not given. It has been assumed that it was invested between 2-4-2024 to 1-4-2025 for solving the problem, in the absence of other information in the question.

ILLUSTRATION 44

Repeated

ILLUSTRATION 45

Deduction in respect of re-payment of loan when house is under construction: Mr. Kalpesh borrowed a sum of 30 lakhs from the National Housing Bank towards purchase of a residential flat. The loan amount was disbursed directly to the flat promoter by the bank. Though the construction was completed in May 2026, repayments towards principal and interest had been made during the year-ended 31-3-2026. In the light of the above facts, state:

- Whether Mr. Kalpesh can claim deduction u/s 24 in respect of interest for assessment year 2026-27.
- Whether deduction under Section 80C can be claimed for the above assessment year, even though the construction was completed only after the closure of the year?

SOLUTION

- Interest on borrowed capital is allowed as deduction under section 24. Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction under section 24. Further, Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.
- It is stated that the construction is completed in May, 2026. Hence, deduction in respect of interest on housing loan cannot be claimed in the assessment year 2026-27.
- Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'.
However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2026-27, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for assessment year 2026-27.

ILLUSTRATION 46

Section 80CCD - Taxability on withdrawal: Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme ₹50,000 every year since 2016 and was claiming deduction under section 80CCD. In December 2025, he opted out of the pension scheme and withdrew a lump sum amount of ₹ 2,00,000 Is the amount so withdrawn taxable? If yes, how much is the taxable amount?
(5 Marks, Nov. 2017)

SOLUTION





Any payment from the National Pension System Trust to an employee on closure of his account or on his opting out of the pension scheme referred to in Section 80CCD, to the extent it does not exceed 60% of the total amount payable to him at the time of such closure or his opting out of the scheme shall be exempt from tax under Section 10(12A) of the Income tax Act.

Hence, out of 2,00,000 received by Mr. Srivastava, 60% of 2,00,000 = ₹ 1,20,000 shall be exempt from tax under Section 10(12A) and balance amount of 80,000 shall be taxable in his hands.

ILLUSTRATION 47

Deduction under Section 80CCD: Mr. X, Central Government employee, furnishes you the following information for the previous year 2025-26. Compute his total income.

	Particulars	₹
1.	Basic Salary	4,00,000
2.	Dearness Allowance (forming part of retirement benefit)	2,00,000
3.	Servant Allowance	15,000
4.	He has made the following payments in the previous year:	
	(a) Life insurance premium (Policy taken on 01-04-2025 - capital sum assured ₹ 2,50,000)	30,000
	(b) Contribution to Pension Scheme of the Central Government (14% of Basic Salary and DA). The employer also made an equal contributions	84,000
	(c) Payment to PPF account in his own name	1,00,000

SOLUTION

Computation of Total Income of Mr. X (amount in ₹)

Particulars	₹	₹
Basic Salary	4,00,000	
Dearness Allowance	2,00,000	
Servant Allowance	15,000	
Contribution by employer to Pension Scheme of Central Government [WN-1]	84,000	
Gross Salary	6,99,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Income/Gross Total Income		6,49,000
Less: Deductions under Chapter VIA -		
(i) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1B)] [WN-3]		50,000
(ii) Employee's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(1)] [WN-3]	34,000	
(iii) Life insurance premium (10% of capital sum assured shall qualify for deduction) [Sec. 80C]	25,000	
(iv) Payment to Public provident Fund [Sec. 80C]	1,00,000	
Total [WN-2]	1,59,000	1,50,000
(v) Employer's contribution to Pension Scheme of Central Govt. [Sec. 80CCD(2)] [WN-4]		84,000





Total Income	3,65,000

Working Notes:

- (1) Contribution by employer to Pension Scheme of Central Government will be deemed to be income received in India under section 7 and hence taxable.
- (2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed 1,50,000.
- (3) The deduction under section 80CCD(1B) would not be subject to overall limit of 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. X to claim deduction of 50,000 under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of 34,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary.
- (4) Deduction in respect of employer's contribution to pension scheme of Central Government, shall not exceed 14% of salary (Basic salary + DA). Also it is not covered by limit of 1,50,000 specified in section 80CCE.

ILLUSTRATION 48

Deduction in respect of health insurance premium: Mr. Abhik, an individual made payment of health insurance premium to GIC in an approved scheme. Premium paid on his health 15,000 and his spouse 18,000 during the previous year. He also incurred medical expenditure of 55,000 on his father's health who is a senior citizen and not dependant on him. The payments have not been made by cash. Compute the amount of deduction under Chapter VI-A, available to Mr. Abhik from his total income if he has exercised the option of shifting out of the default tax regime

(3 Marks, PCC June, 2009)

SOLUTION

Mr. Abhik will be eligible to claim deduction under section 80D on payment of health insurance premium to GIC in a medical insurance scheme approved by the Central Government. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. The expenditure incurred on health of his father who is a senior citizen shall also qualify for deduction since no health insurance premium is paid for him. Therefore, the amount of deduction under section 80D would be (amount in ₹):

Particulars	₹
On health insurance premium paid on the health of himself and his spouse [WN-1]	25,000
Medical expenditure incurred on the health of his father who is senior citizen [WN-2]	50,000
Total deduction under section 80D	75,000

Working Notes:

- (1) Deduction in respect of health insurance premium paid on the health of himself and his spouse shall be restricted to 25,000.
- (2) Since the father is a senior citizen (whether dependant or not), hence deduction in respect of medical expenditure shall be allowed to 50,000.

ILLUSTRATION 49

Deductions in respect of certain payments: Compute the eligible deduction under Chapter VI-A for the A.Y. 2026-27 of Ms. Roma, who has a gross total income of 15,00,000 for the A.Y. 2026-



27 and provide the following information about his investment/ payments during the year 2025-26:

	Particulars	₹
(i)	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is ₹ 1,50,000)	35,000
(ii)	Public Provident Fund contribution	90,000
(iii)	Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore	20,000
(iv)	Payment of L.I.C. Pension Fund	25,000
	Mediclaime Policy taken for self, wife and dependent children, premium paid	30,000
(v)	Medical Insurance premium paid for parents (Senior Citizen)	65,000

SOLUTION

Computation of eligible deduction under Chapter VI-A (amount in:

	Particulars	₹	₹
	Gross total income		15,00,000
	Less: Deductions under Chapter VI A-		
(i)	Life insurance premium (20% of capital sum assured shall qualify for deduction since policy is taken before 1-4-2012) [Section 80C]	30,000	
(ii)	Contribution towards Pension Fund of LIC [Section 80CCC]	25,000	
(iii)	Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore [Section 80C]	20,000	
(iv)	Payment to Public provident Fund [Section 80C]	90,000	
	Total [WN-1]	1,65,000	1,50,000
(v)	Medical insurance premium [Section 80D] [WN-2]		75,000
	Total Income		12,75,000

Working Notes:

- (1) As per Section 80CCE, the aggregate amount of deduction u/s 80C, 80CCC and 80CCD(1) shall not exceed 1,50,000.
- (2) Deduction in respect of health insurance premium paid shall be restricted to, in case of himself 25,000, and in case of his parents (being a senior citizens) 50,000. Therefore, total amount of deduction (25,000 + 50,000) = 75,000.

ILLUSTRATION 50

Deduction in respect of payments: Mr. Raghu, Marketing Manager of KL Ltd. based at Mumbai, furnishes you the following information for the previous year:

Particulars	₹
Basic salary	1,00,000 per month
Dearness allowance	50,000 per month
Bonus	2 Months basic salary
Contribution of employer to Recognised Provident Fund	@15% of Basic salary plus Dearness allowance





Rent free unfurnished accommodation was provided by the company at Mumbai (accommodation owned by the company) (amount in ₹):

Particulars	₹
(i) Recognised Provident Fund contribution made by Raghu	1,60,000
(ii) Health insurance premium for his family	30,000
(iii) Health insurance premium in respect of parents (senior citizens)	68,000
(iv) Medical expenses of dependent brother with 'severe disability' (covered by Section 2(0) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999).	60,000
(v) Interest on loan taken for education of his son studying B.Com (full-time) in a recognised college	24,000
(vi) Interest on loan taken for education of a student for whom Mr. Raghu is the legal guardian for pursuing B. Sc. (Physics) (full-time) in a recognised university.	20,000

Compute the total income of Mr. Raghu.

(8 Marks, Nov. 2010)

SOLUTION

Computation of total income of Mr. Raghu (amount in ₹)

Particulars	₹
Basic salary	12,00,000
Dearness allowance	6,00,000
Bonus	2,00,000
Employer contribution to RPF in excess of 12% [WN-1]	54,000
Rent free accommodation [WN-2]	2,00,000
Gross salary	22,54,000
Less: Standard Deduction u/s 16(ia)	50,000
Income chargeable under the head Salaries/GTI	22,04,000
Less: Deductions under Chapter VIA-	
(i) Contribution to RPF [Section 80C] [WN-3]	1,50,000
(ii) Health insurance premium [Section 80D] [WN-4]	75,000
(iii) Medical treatment of dependent brother with severe disability [Section 80DD] [WN-5]	1,25,000
(iv) Interest on loan taken for full-time education of his son studying B.Com and for a student studying B.Sc. for whom he is the legal guardian [Section 80E]	44,000
Total income	18,10,000

Working Notes:

(1) Employer's contribution to Recognised Provident Fund in excess of 12% of salary (Basic salary + DA) is taxable. Therefore, taxable amount = $18,00,000 \times 3\% = 54,000$. DA forms the part of salary for the purpose of retirement benefits being it is given that employer contributes @ 15% of basic salary plus DA.

(2) Since population of Mumbai exceeds 25 lakhs, therefore value of RFA = 10% of (basic salary + DA + bonus) = 2,00,000.

(3) Deduction in respect of contribution to RPF shall be restricted to 1,50,000.



(4) Deduction in respect of health insurance premium paid shall be restricted to, in case of his family 25,000, and in case of his parents (being senior citizens) 50,000. Therefore, total amount of deduction = (25,000+ 50,000)=75,000.

(5) A fixed deduction of 1,25,000, irrespective of expenditure incurred, shall be allowed.

ILLUSTRATION 51 Repeated

ILLUSTRATION 52

Section 80EEB: X, an individual, takes a loan of 25 lakh on April 10, 2022 from SBI to purchase an electric car. Car will be delivered in the month of March 2023. Interest liability for the previous year 2024-25 is 2,10,000. Determine the total income of Mr. X if his annual salary income (before standard deduction) is 40,50,000. He has made investment of 1,50,000 in public provident fund and health insurance premium paid for himself through account payee cheque is 25,000. As per normal provision.

SOLUTION

Computation of Total Income of Mr. X (amount in ₹)

Particulars	₹	₹
Gross Salary	40,50,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Income/Gross Total Income		40,00,000
Less: Deductions under Chapter VI A -		
(i) Payment to Public provident Fund [Section 80C]		1,50,000
(ii) Medical insurance premium [Section 80D]		25,000
(iii) Interest on loan taken for purchase of electric vehicle [Restricted to 1,50,000]		1,50,000
Total Income		36,75,000

ILLUSTRATION 53

Computation of Total Income: Compute total income of Mr. X from the following if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) if all the contributions and payments have been made through account payee cheque -

Particulars	₹
(a) Salary (computed)	5,50,000
(b) Short term capital gains u/s 111A	45,000
(c) Contribution to PPF	5,000
(d) Contribution to Swachh Bharat Kosh	7,500
(e) Contribution to Clean Ganga Fund	2,500
(f) Contribution to National Fund for control of drug abuse	5,000
(g) Contribution to National Children Fund	20,000
(h) Contribution to Prime Minister's Drought Relief Fund	10,000
(i) Donation to trust for benefit of particular religious community	7,500





(j) Payment to State Government for family planning	30,000
(k) Food packets given to approved charitable institution for distribution to poor	25,000
(l) Payment to approved charitable institution	25,000

SOLUTION

Computation of total income of Mr. X (amounts in ₹) -

Particulars	₹
Salary (computed)	5,50,000
Short term capital gains u/s 111A	45,000
Gross total income	5,95,000
Less: Deduction under Chapter VI-A	
(i) Contribution to PPF [Section 80C]	5,000
(ii) Donations [Section 80G][WN-1]	82,250
Total income	5,07,750

Working Notes:

(1) Calculation of amount eligible for deduction under section 80G (amounts in ₹) -

Donation to	Qualifying Sum	% Eligible	Deduction
(A) Donation where maximum limit is not applicable :			
(i) National Children Fund	20,000	100%	20,000
(ii) Contribution to Swachh Bharat Kosh	7,500	100%	7,500
(iii) Contribution to Clean Ganga Fund	2,500	100%	2,500
(iv) Contribution to National Fund for control of Drug Abuse	5,000	100%	5,000
(v) Prime Minister's Drought Relief Fund	10,000	50%	5,000
B) Donation where maximum limit is applicable i.e. 10% of Adjusted GTI:			
i) State Government for family planning	30,000	100%	30,000
ii) Approved charitable institution restricted to (54,500 - 30,000) = ₹ 24,500 or 25,000, whichever is lower	24,500	50%	12,250
Total deduction u/s 80G			82,250

(2) Donation to trust for benefit of particular religious community and food packets given to approved charitable institution for distribution to poor are not eligible for deduction under section 80G.

ILLUSTRATION 54

Deduction u/s 80GG: Anand is retired Government Officer aged 65 years, who derived the following income. He resides in Cochin (amounts in ₹):





Particulars	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

He has paid 50,000 as premium to effect an insurance on his health. He pays a rent of 8,000 p.m. in respect of furnished accommodation. What is his eligibility for deduction under section 80GG? Also, compute his total income assuming that he does not opt for section 115BAC.

SOLUTION

Computation of total income of Mr. Anand (amounts in ₹)

Particulars	₹	₹
Income from Salaries		
Pension	6,60,000	
Less: Standard deduction under Section 16(ia)	50,000	6,10,000
Income from other Sources [Interest from bank on fixed deposits (gross)]		55,000
Gross total income		6,65,000
Less: Deduction under Chapter VI-A-		
Deduction u/s 80D for medical insurance premium	50,000	
Deduction u/s 80TTB for interest from bank on fixed deposits since Anand is senior citizen	50,000	
Deduction u/s 80GG [WN]	50,000	1,39,500
Total Income		5,25,500

Working Note: Least of the following shall be allowed as deduction under section 80GG

- Rent paid - 10% of adjusted total income [96,000 - 10% (6,65,000 - 1,00,000)] = ₹ 39,500
- ₹ 5,000 per month = ₹ 60,000
- 25% of adjusted total income = ₹ 141,250 Adjusted Total Income = 6,65,000 - 50,000 (deduction u/s 80D) + 50,000 (deduction u/s 80TTB) = 5,65,000.

ILLUSTRATION 55

Computation of total income: Mr. Chaturvedi having gross total income of 6,35,000 for the previous year 2025-26 furnishes you the following information:

- Deposited ₹ 50,000 in tax saver deposit in the name of major son in a nationalized bank.
- Paid 25,000 towards premium on life insurance policy of his married daughter.
- Purchased units of UTI for 25,000 in January 2025.
- Contributed 10,000 to Prime Minister's National Relief Fund through account payee cheque.
- Donated 20,000 to a Government recognized institution for scientific research.

Note: Assume that the gross total income of Mr. Chaturvedi does not include any income under the head 'profits and gains of business or profession'. Compute the total income of Mr. Chaturvedi assuming that he does not opt for section 115BAC. (7 Marks, May 2011)

SOLUTION

Computation of total income of Mr. Chaturvedi (amounts in ₹)





Particulars	₹	₹
Gross Total Income		6,35,000
Less: Deductions under Chapter VI-A Deposit of 50,000 in tax saver deposit in the name of major son in a nationalized bank [WN-1]		
Purchase of units of UTI [Section 80C]	25,000	
Premium on life insurance policy of his married daughter [WN-2]	25,000	
Contribution to PM's National Relief Fund u/s 80G [WN-3]	10,000	
Payment to a Government recognized institution for scientific Research [WN-4]	20,000	80,000
Total Income		5,55,000

Working Notes:

- (1) Fixed deposit in the name of son does not qualify for deduction under section 80C.
- (2) Life insurance premium paid in respect of any child of the individual is eligible for deduction under section 80C.
- (3) Contribution to Prime Minister's National Relief Fund is eligible for 100% deduction under section 80G.
- (4) Since the assessee doesn't have any income under the head profits and gains of business or profession, hence the donation to Government recognized institution for scientific research is eligible for deduction u/s 80GGA.

ILLUSTRATION 56

Computation of deduction admissible u/s 80JJAA: Ms. XYZ & Co. partnership firm started its business on 01-04-2025. During the previous year 2025-26, it appoints the following Persons -

Date of appointment	No. of employees	Designation	Emoluments (in ₹ per person)
01-04-2025	4	Accounting Staff	20,000
01-06-2025	15	Technical Staff	25,000
01-07-2025	15	Supervisors	30,000
01-10-2025	25	Helpers	22,000
Total	59		

Determine the amount of deduction available under section 80JJAA for the assessment year 2026-27 if turnover of XYZ & Co. for the previous year 2025-26 is ₹ 4 crore and tax audit under section 44AB is applicable.

SOLUTION

Computation of admissible deduction under Section 80JJAA for AY 2026-27 (amount in ₹):

Particulars	Emoluments eligible for 80JJAA
Accounting Staff appointed on 01-04-2025 (20,000 × 4 × 12 months)	9,60,000
Technical Staff appointed on 01-06-2025 (25,000 × 15 × 10 months)	37,50,000
Supervisors appointed on 01-07-2025 (30,000 × 15 × 9 months) [WN 1]	
Helpers Staff appointed on 01-10-2025 (22,000 × 25 × 6 months) [WN 2]	
Total additional employee cost	47,10,000





Deduction admissible u/s 80JJAA [30% of 47,10,000]

14,13,000

Working Notes:

- (1) Deduction under section 80-JJAA is not available in respect of employees whose total emoluments are more than 25,000 per month.
- (2) 25 Helpers employed on 1-10-2025 do not qualify as additional employees for the P.Y. 2025-26, since they are employed for less than 240 days in that year.
- (3) 25 Helpers employed on 1-10-2025, they would be treated as additional employees for previous year 2026-27, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Ms. XYZ & Co. for the A.Y. 2027-28.

ILLUSTRATION 57

Deduction u/s 80QQB: Mr. Shiv had authored the following books and had received the following royalties pertaining to the previous year. Compute his total income in light of the following information if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

Book description	Art of Living	Text Book for Class X
Royalty earned on Books	2,00,000	13,00,000
Expenditure incurred on earning royalty	20,000	2,50,000
Royalty % (on value of books sold)	20%	14%

SOLUTION

Computation of total income (amounts in ₹)

Particulars	₹
Royalty from authorship of books	15,00,000
Less: Expenditure incurred on earning royalty	2,70,000
Gross total income	12,30,000
Less: Deduction u/s 80QQB[WN-2]	1,30,000
Total Income	11,00,000

Working Notes:

- (1) Text books are excluded from definition of books under section 80QQB. Hence, royalty from text books for Class X is not eligible for deduction.
- (2) Since the royalty from 'Art of living' is not received in lump sum consideration for transfer of all right, hence for the purpose of deduction the gross royalty income shall not exceed 15% of value of books sold and expenditure shall be deducted from such gross royalty income.

Computation of deduction under section 80QQB in respect of book 'Art of living' (amounts in ₹)

Particulars		₹
Royalty earned on books	[A]	2,00,000
Royalty computed @ 15% of value of books sold (2,00,000/20% × 15%)	[B]	1,50,000
Gross Eligible Income [Lower of (A) or (B)]	[C]	1,50,000
Less: Expenditure attributable to deductible income	[D]	20,000



Deduction under section 80QQB [C-D]	1,30,000

ILLUSTRATION 58

Computation of total income: Mr. X (blind from birth) furnishes you the following information for previous year 2025-26. Compute his total income assuming that he does not opt for section 115BAC. (amount in ₹)

	Particulars	₹
1.	Salary from a publishing house for working as an artist (no allowances received)	1,85,000
2.	Income from sale of paintings made by self	3,50,000
3.	Winnings from horse races (gross)	70,000
4.	Dividend from Indian Company (gross)	15,000
5.	Contribution to PPF	8,000
6.	Payment of rent of self-occupied house	72,000
7.	Donation to National Defense Fund	6,000
8.	Donation to registered political party in cash	12,000

Mr. X spent 80,000 for treatment of cancer, out of which 20,000 were reimbursed by his employer if he exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Total Income of X (amounts in ₹):

Particulars	₹	₹
Income from Salary (Computed)		1,35,000
Business Income (sale of paintings made by self)		3,50,000
Income from Other Sources:		
Winnings from horse races (gross)	70,000	
Dividend from Indian company (gross) [WN-1]	15,000	85,000
Gross Total Income		5,70,000
Less: Deductions under Chapter VIA -		
Contribution to PPF [Section 80C]	8,000	
Medical treatment of cancer [Section 80DDB] [WN-2]	20,000	
Donation to National Defence Fund [Section 80G] [WN-3]	6,000	
Rent of self-occupied house [Section 80GG] [WN-4]	37,900	
Donation to registered political party in cash [Section 80GGC] [WN-5]	Nil	
In respect of severe disability [Since he is blind] [Section 80U]	1,25,000	1,96,900
Total Income		3,73,100

Working Notes:

- (2) Dividend received from Indian Company is taxable in hands of shareholder.
- (3) Deduction shall be allowed for expenditure incurred on treatment of cancer to the extent of lower



(a) Sum actually paid i.e. 80,000

(b) ₹40,000.

From the amount of deduction (i.e. 40,000), the sum received from employer shall be reduced. Hence, net amount of deduction = (40,000 - 20,000) = ₹ 20,000.

(4) Contribution to National Defence Fund is eligible for 100% deduction under section 80G.

(5) Least of the following shall be allowed as deduction u/s 80GG:

(a) ₹ 5,000 per month = ₹ 60,000

(b) Rent paid-10% of Adjusted total income [72,000 -10% of 3,41,000] = ₹37,900

(c) 25% of Adjusted total income [25% of 3,41,000] = ₹ 85,250

Computation of Adjusted Total Income (amounts in ₹):

Particulars	₹	₹
Gross total income		5,70,000
Less: Winnings from horse races	70,000	
Deduction u/s 80C	8,000	
Deduction u/s 80DDB	20,000	
Deduction u/s 80G	6,000	
Deduction u/s 80U	1,25,000	2,29,000
Adjusted total income		3,41,000

(5) No deduction shall be allowed for contribution to a registered political party which qualifies for deduction under section 80GGC in case the contributions are made in cash.

ILLUSTRATION 59

Deduction in respect of medical insurance premium: Mr. A, aged 40 years, paid medical insurance premium of 22,000 during the previous year to insure his health as well as the health of his spouse. He also incurred medical expenditure on treatment of his father who is senior citizen amounting 47,000 who has not been insured. He contributed 2,400 to Central Government Health Scheme during the year. He has incurred 3,000 in cash on preventive health check-up of himself and his spouse and 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D if he has exercised option to shift out of default tax regime.

SOLUTION

Deduction allowable under section 80D:

Particulars	Amount in ₹	
	Actual Payment	Maximum deduction allowable
(A) Premium paid and medical expenditure incurred for self and spouse-		
(i) Medical insurance premium paid for self and spouse	22,000	22,000
(ii) Contribution to CGHS		
(iii) Expenditure on preventive health check-up of self & spouse	2,400 3,000	2,400 300
	27,400	25,000





(B) Premium paid and medical expenditure incurred for father, who is a senior citizen	47,000	47,000
(i) Medical treatment of his father who is not insured and a senior citizen	4,000	3,000
(ii) Expenditure on preventive health check-up of father	51,000	50,000
Total deduction u/s 80D (₹25,000+50,000)		75,000

Working Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 600, being (₹ 25,000-₹ 22,000- ₹ 2,400).
- (2) **The total deduction under B.** (i) and (ii) above should not exceed 50,000. Therefore, the expenditure on preventive health check-up for father would be allowed to 3,000 (Since the overall limit has been increased to 50,000 therefore the whole of the expenditure incurred would be allowable).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹3,600 (i.e., 600+3,000), which is less than the maximum permissible limit of ₹ 5,000.

ILLUSTRATION 60 Repeated

ILLUSTRATION 61

Deduction u/s 80TTB: Mr. A, a resident individual aged about 61 years, has earned business income (computed) of 1,35,000, lottery income of 1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of 30,000 with banks. He invested an amount of 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

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

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
Interest on Fixed Deposit with banks		30,000
Lottery income		1,20,000
Gross Total Income		2,85,000
Less :Deductions under Chapter VIA [See Note below]		
U/s 80C: Deposit in Public Provident Fund	1,50,000	
U/s 80TTB: Interest on fixed deposits with banks	30,000	
	1,80,000	





Restricted to		1,65,000
Total Income		1,20,000

Note: Though the value of eligible deductions is ₹ 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains taxable u/s 112 and section 112A, short-term capital gains covered u/s 111A and winnings of lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹2,85,000 - ₹1,20,000 = ₹1,65,000.

In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 under section 80TTB.

ILLUSTRATION 62

Computation of deduction admissible u/s 80JJAA: Mr. Satya is a manufacturer of goods in a factory located in Navi Mumbai. On 1st April 2025, there were 120 workmen engaged in his factory. Due to increase in demand of his products, he employed 140 new workmen during the previous year 2025-26 which included:

- (1) 15 casual workmen;
- (2) 25 contract labourers;
- (3) 40 workmen employed on 20th April, 2025;
- (4) 35 workmen employed on 1st May, 2025; and
- (5) 25 workmen employed on 8th August, 2025.

Compute the deduction under section 80JJAA, if available to Mr. Satya for Assessment Year 2026-27, if wages are paid to each worker @3,000 per month. His profit from the manufacture of goods for Assessment Year 2026-27 is 5.50 lakhs and his total turnover is 12.5 crore.

(4 Marks, Nov. 2016)

SOLUTION

Computation of admissible deduction u/s 80JJAA for A.Y. 2026-27:

	Particulars	Salary eligible for Section 80JJAA (₹)
(1)	Casual workmen - Not Eligible - Since they do not participate in RPF	Nil
(2)	Contract labourers - Not Eligible - Since they do not participate in RPF	Nil
(3)	40 workmen employed on 20th April, 2025 [(₹3,000×11/30)+(₹ 3,000×11)] × 40	13,64,000
(4)	35 workmen employed on 1st May, 2025 [₹ 3,000 × 11 × 35]	11,55,000
(5)	25 workmen employed on 8th August, 2025 (Additional Employee does not include Employee employed for a period less than 240 days during PY)	Nil





Total	25,19,000
Deduction admissible under Section 80JJAA	7,55,700

Working Note: Mr. Satya is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2026-27, as his total turnover from business exceeds 1 crore and he has employed "additional employees" during the previous year 2025-26.

As regards 25 workmen employed on 8-8-2025, they would be treated as additional employees for previous year 2026-27, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction u/s 80JJAA in the hands of assessee for the A.Y. 2027-28.

ILLUSTRATION 63

Deduction u/s 80G: Mr. Suraj, an Indian citizen, gives the following details of his income and expenses during the year 2024-25:

Particulars	₹
Income from profession	11,70,000
Winning from lottery	70,000
Contribution to ULIP 1971 plan for spouse	70,000
Cheque donation to National Defence Fund	60,000
Cheque donation to Government for promoting family planning	35,000
Cheque the deduction to approved public charitable institute	1,20,000

Compute the deduction u/s 80G allowable to him for the assessment year 2026-27. (3 Marks, Nov. 2023)

SOLUTION

Computation of deduction available to Mr. Suraj under section 80G for A.Y. 2026-27:

Particulars	₹
(i) Donation to National Defence Fund by cheque [100% of ₹ 60,000 is allowed as deduction without any qualifying limit]	60,000
(ii) Donation to Government for promoting family planning by cheque 100% of ₹ 35,000, subject to qualifying limit of 1,17,000 [See Note below] is allowed as deduction	35,000
(iii) Donation to approved public charitable institute by cheque is to be restricted to lower of- 60,000 (50% of ₹ 1,20,000); or 41,000 [50% of qualifying limit after adjusting donation for family planning i.e., 82,000 (1,17,000-35,000)]	41,000
Deduction under section 80G	1,36,000





Note - Qualifying limit is ₹ 1,17,000 (10% of ₹ 11,70,000, being adjusted total income)
Adjusted total income = ₹ 11,70,000 (11,70,000, being income from profession + ₹ 70,000, being winnings from lottery - ₹ 70,000, being deduction under section 80C)

ILLUSTRATION 64

Deduction u/s 80C & 80CCD: Ms. Madhvi, a resident individual and self-employed industrial designer, furnished the following particulars for the year ended 31-03-2026:

	Particulars	₹
(i)	Gross total income	5,00,000
(ii)	Housing loan principal repayment. The property is under construction at Jaipur as on 31-03-2026.	1,10,000
(iii)	Principal repayment of housing loan from a relative. This property is self-occupied situated at Jodhpur.	50,000
(iv)	Contribution to Public Provident Fund in the name of her mother.	70,000
(v)	She deposited 10,000 per month in her account under a pension scheme notified by the Central Government	

Compute total income of Ms. Madhvi for Assessment Year 2026-27 stating reasons for the deduction eligible under appropriate provisions of Chapter VI-A.

SOLUTION

Computation of total income of Ms. Madhvi -

Particulars	₹	₹
Gross total income		5,00,000
Less: Deductions under Chapter VI-A		
Section 80C:	Nil	
Principal repayment for housing loan taken for house property at Jaipur [WN-1]		
Principal repayment for housing loan taken for property at Jodhpur [WN-2]	Nil	
Contribution to public provident fund in the name of mother [WN-3]	Nil	
Section 80CCD:	1,20,000	1,20,000
Contribution to pension scheme notified by the Central Government [WN-4]		
Total income		3,80,000

Working Notes:

- (1) Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'.



However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2026-27, there is no such income chargeable under this head, hence, deduction u/s 80C cannot be claimed for assessment year 2026-27.

- (2) The deduction for principal repayment of housing loan under section 80C is provided only in respect of the loan taken from the institutions mentioned under section 80C (like banks, Life Insurance Corporation of India, National Housing Bank, specified employer etc.). However, loan from a relative does not qualify for deduction u/s 80C. Since, in the present case, the loan is taken from a relative, no deduction would be available u/s 80C for the repayment of the principal in respect of self-occupied property at Jodhpur.
- (3) The contribution to public provident fund is allowed as deduction only if it is in the name of specified persons mentioned in section 80C, namely, self, spouse or any child of such individual. Since mother of the individual is not a specified person as per section 80C, no deduction would be available for the contribution to public provident fund in the name of the mother.
- (4) The deduction u/s 80CCD(1) shall be an amount not exceeding 20% of the gross total income in case of a self-employed individual. Therefore, the deduction in respect of deposit by Ms. Madhvi to the pension scheme notified by the Central Government 1,20,000 shall be limited to ₹ 1,00,000, being 20% of 5,00,000. Besides this 20,000 shall be allowed as deduction u/s 80CCD(1B).

ILLUSTRATION 65

Determination of Residential Status and Computation of GTI: Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of 65,500 in India. On June 1, 2025 he purchased one residential house property in Mumbai for 18,00,000 in his individual capacity. The market value of the property is 32,00,000 and value for the purpose of charging stamp duty is 23,00,000. On August 31st, 2025 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2025. The overseas branch paid him a salary of \$ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.

He had also gone out of India for 99 days and 201 days in previous years 2025-26 and 2024-25, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2026 to January 15, 2026 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.

Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2025. The market value is 45,100.





Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the assessment year 2026-27 assuming he opted out of the default tax regime. The value of one USD (\$) may be taken as 70. (4 Marks, Sep. 2024)

SOLUTION

Residential Status of Mr. Madan: Mr. Madan, an Indian citizen who left India on 1st September 2025 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days ($30 + 31 + 30 + 31 + 31 + 1 + 15$) only during the P.Y. 2025-26 which is less than 182 days.

Residential Status of HUF: Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India. Hence, the HUF would be resident in India for the P.Y. 2025-26.

A HUF is said to be "Resident and ordinarily resident" in India during the previous year 2025-26, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2025-26 and P.Y. 2024-25, respectively, the HUF would be ROR in India.

Computation of Gross Total Income of Mr. Madan for the A.Y. 2026-27:

Particulars	Amount in ₹
Income under the head "Salaries"	
Salary earned in India: [$65,500 \times 5 + 65,500 \times 15/31$]	3,59,194
Salary paid in USA: [Not taxable as Mr. Madan is a non-resident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction	50,000
	3,09,194
Income from other sources	
Difference between the consideration of 18 lakhs and stamp duty value of 23 lakhs of the residential property acquired [Taxable, since the difference of ₹ 5 lakhs exceed ₹1,80,000, being the higher of 10% of the consideration and 50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value does not exceed 50,000]	Nil
Gross Total Income	8,09,194

ILLUSTRATION 66



Computation of Total Income and Tax liability: Mr. X, age 83 years, a resident individual, gives the following particulars of his receipts for A.Y. 2026-27:

	Particulars	₹
1	Installment received from the bank under reverse mortgage arrangement	1,50,000
2	Interest on bank term deposits	2,00,000
3	Interest on bank saving A/c	45,000
4	Pension from Central Government	4,50,000
5	STCG on sale of dining table and chairs	1,00,000
6	Income from dairy farming on his rural agricultural land	50,000

Compute his total income and Income Tax thereon for A.Y. 2026-27 considering that assessee has opted out of Default tax regime. (4 Marks, Jan. 2025)

SOLUTION

Computation of total income and tax liability of Mr. X for A.Y. 2026-27

Particulars	₹	₹
Income from Salaries:		
Pension from Central Government	4,50,000	
Less: Standard deduction u/s 16 [Actual salary or 50,000, whichever is less]	50,000	4,00,000
Capital Gains:		
STCG on sale of dining table & chairs [Not a capital asset since it is personal effects]		Nil
Income from Other Sources:		
Installment received under reverse mortgage [Exempt u/s 10(43)]	Nil	
Interest on bank term deposits	2,00,000	
Interest on bank saving A/c	45,000	
Income from dairy farming on agricultural land	50,000	2,95,000
Gross Total Income		6,95,000
Less: Deduction under section 80TTB		50,000
Total Income		6,45,000
Tax liability		
On 6,45,000 (Since he is very senior citizen, basic exemption limit = 5,00,000)		29,000
Add: Health and education cess @ 4%		1,160
Tax liability		30,160

ILLUSTRATION 67 Repeated





ILLUSTRATION 68 Repeated

ILLUSTRATION 69 Repeated

ILLUSTRATION 70 Repeated

ILLUSTRATION 71 Repeated

ILLUSTRATION 72 Repeated

ILLUSTRATION 73 Repeated

ILLUSTRATION 74 Repeated

ILLUSTRATION 75 Repeated

ILLUSTRATION 76 Repeated

ILLUSTRATION 77 Repeated

ILLUSTRATION 78 Repeated

ILLUSTRATION 79 Repeated

ILLUSTRATION 80 Repeated



CHAPTER – 11

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STUDY MATERIAL

ILLUSTRATION 1

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

SOLUTION

Particulars	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16(ia)	50,000
	8,00,000
Tax Liability	75,400
Average rate of tax ($\text{₹ } 75,400 / \text{₹ } 8,00,000 \times 100$)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under - Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310 Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

ILLUSTRATION 2

Examine the TDS implications under section 194A in the cases mentioned hereunder-

- On 1.10.2025, Mr. Harish made a six-month fixed deposit of ₹ 15 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2026.
- On 1.6.2025, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2026.
- On 1.10.2025, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026.

SOLUTION





- (i) ABC Co-operative Bank has to deduct tax at source @10% on the interest of ₹45,000 ($9\% \times ₹ 15 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 6,750.
- (ii) XYZ Bank has to deduct tax at source @10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 50,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 50,000, tax has to be deducted @10% u/s 194A.
- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2026 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 50,000.

ILLUSTRATION 3

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y. 2025-26 -

₹ 20,000 on 1.5.2025

₹ 25,000 on 1.8.2025

₹ 28,000 on 1.12.2025

On 1.3.2026, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

SOLUTION

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2025-26 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2026, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 - ₹ 1,030) has to be paid to Mr. X.

ILLUSTRATION 4

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

SOLUTION

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic mode

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3). Under section 194C,

tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case. However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a



contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

ILLUSTRATION 5

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

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

SOLUTION

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

ILLUSTRATION 6

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2024. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2025?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

SOLUTION

Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @ 2% of such rent. The tax is to be deducted in last month of P.Y. 2025-26 i.e., March 2026 or in the last month of tenancy, if the property is vacated the year. Since property is not vacated during the year ₹ 11000 [$₹ 55,000 \times 2\% \times 10$] has to be deducted from rent payable for March, 2026.

If Mr. X vacated the premises in December, 2025, then tax of ₹ 7700 [$₹ 55,000 \times 2\% \times 7$] has to be deducted from rent payable for December, 2025.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 5%.

In case 1 above, this would amount to ₹ 1,10,000 [$₹ 55,000 \times 20\% \times 10$], but the same has to be restricted to ₹ 55,000, being rent for March, 2026.

In case 2 above, this would amount to ₹ 77,000 [$₹ 55,000 \times 20\% \times 7$], but the same has to be restricted to ₹ 55,000, being rent for December, 2025.

ILLUSTRATION 7



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XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

SOLUTION

TDS provisions under section 194J would not get attracted, since the limit of ₹ 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2025-26.

ILLUSTRATION 8

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2024-25
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000 in November 2025
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house (made during the period January - March, 2026)	₹ 20 lakhs in January, 2026, ₹ 15 lakhs in Feb 2026 and ₹ 20 lakhs in March 2026.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2026	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2025 for reconstruction of residential house	₹ 48 lakhs

SOLUTION

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2025-26	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25	Contract Payment for repair of residential house	₹ 5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the



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				payee in the P.Y.2025-26 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes , u/s 194H 2%, since the payment exceeds ₹ 20,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2024-25.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2024-25	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes , u/s 194M @ 2%, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹ 50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2024-25, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2025-26.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying A residential house	₹ 51 lakhs	Yes , u/s 194M @ 2% , since the payment of ₹ 51 lakhs made in March 2026 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj since is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

ILLUSTRATION 9

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases

- Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.06.2025 towards maturity proceeds of LIC policy taken on 1.7.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2025 on LIC policy taken on 1.1.2012, for which the sum assured is ₹ 3.5 lakhs and the annual premium is ₹ 26100.



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- (iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2025 towards maturity proceeds of LIC policy taken on 31.7.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.

SOLUTION

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2024 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

ILLUSTRATION 10

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2024 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

SOLUTION

(i)	Tax implications in the hands of Mr. X
	As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh - ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2026-27. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
(ii)	Tax implications in the hands of Mr. Y
	In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh - ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.
(iii)	TDS implications in the hands of Mr. Y

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Since the sale consideration of house property or the stamp duty value of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs or ₹ 85 lakhs).
TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

ILLUSTRATION 11

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 82,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹ 40 lakh with the said bank. Out of the deposit of ₹ 40 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2025. Interest on savings bank credited to his SBI savings account for the P.Y.2025-26 is ₹ 9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2026-27, if tax deductible at source has been fully deducted? Examine.
- (3) Is Mr. Sharma required to file his return of income for A.Y. 2026-27, if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

SOLUTION

1. Computation of total income of Mr. Sharma for A.Y.2026-27

Particulars	₹	₹
Salaries		
Pension (₹ 82,000 × 12)	9,84,000	
Less: Standard deduction u/s 16(ia) II	50,000	
		9,34,000
Income from Other Sources		
Interest on fixed deposit (₹ 40 lakh × 8%)	3,20,000	
Interest on savings account	9,500	3,29,500
Gross total income		12,63,500
Less: Deductions under Chapter VI-A		
Section 80C Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
Section 80TTB Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		10,63,500

Computation of tax liability for A.Y.2026-27

Particulars	₹
Tax payable [₹ 63,500 × 20% + ₹ 10,000]	1,29,050
Add: Health and Education Cess@4%	5,162
Tax liability	1,34,212
Tax liability (rounded off)	1,34,210



2. SBI, being a specified bank, is required to deduct tax at source u/s 194P and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
3. If the fixed deposit of ₹ 40 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen". In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

ILLUSTRATION 12

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2024-25 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2025-26 was ₹ 95 lakh (₹ 20 lakh on 1.6.2025, ₹ 25 lakh on 12.8.2025, ₹ 22 lakh on 23.11.2025 and ₹ 28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date.

- ✚ Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- ✚ Would your answer be different if Mr. Gupta's turnover for F.Y.2024-25 was ₹ 8 crores, all other facts remaining the same?
- ✚ Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

SOLUTION

- (1) Since Mr. Gupta's turnover for F.Y.2024-25 exceeds ₹ 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2025-26, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner -
No tax is to be deducted u/s 194Q on the payments made on 1.6.2025 and 12.8.2025, since the aggregate payments till that date i.e. ₹ 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.
Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/credit of ₹ 22 lakh on 23.11.2025 [₹ 22 lakh - ₹ 5 lakhs, being the balance unexhausted threshold limit].
Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/credit of ₹ 28 lakhs on 25.3.2026.
- (2) If Mr. Gupta's turnover for the F.Y.2024-25 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted.
- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2025 and 25.3.2025, respectively.

TEST YOUR KNOWLEDGE

ILLUSTRATION 13

Ashwin doing manufacture and wholesale trade furnishes you the following information:
Total turnover for the financial year

Particulars	₹
2024-25	1,05,00,000



CHAPTER - 11

TDS, TCS & ADVANCE TAX



CA VARDHAMAN DAGA

2025-26	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2025-26:

Particulars	₹
Interest paid to UCO Bank on 15.8.2025	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2025	24,000
Shop rent paid (one payee) on 21.1.2026	40,000 per month
Commission paid to Balu on 15.3.2026	7,000

SOLUTION

As the turnover of business carried on by Ashwin for F.Y. 2024-25, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2025-26, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

each TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee - Tax has to be deducted @10% under section 194-I would not be attracted since the rental payment does not exceed ₹50,000 per month or part of the month.

Commission paid to Balu - No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 20,000.

ILLUSTRATION 14

Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2025-26 as per the provisions of the Income-tax Act, 1961.

S.No.	Date	Nature of Payment
(i)	1-10-2025	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2025	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2025	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2026	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2026	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2026	Payment of commission of ₹ 14,000 to Mr. Y.

SOLUTION

- (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:



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- (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 50,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 50,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2025 to M/s X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of "work" does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for 'sale'.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000. In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 5,00,000.
- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 20,000.
Since the commission payment made to Mr. Y does not exceed ₹ 20,000, the provisions of section 194H are not attracted.

ILLUSTRATION 15

Examine the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent of ₹55,000 per month was paid for hire of machinery by B Ltd. to Mr. Raman in F.Y 2025-26.
- (b) Fee paid on 1.12.2025 to Dr. Srivatsan by Sundar (HUF) ₹ 55,000 for surgery performed on a member of the family.
- (c) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2026.

SOLUTION

- (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 50,000 per month or part of the month, the provisions of section 194-I for deduction of tax at source are attracted.
The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.
Therefore, the amount of tax to be deducted at source: = ₹ 6,60,000 × 2% = ₹ 13,200.
Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 6,60,000, by virtue of provisions of section 206AA.
- (b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and

such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2025 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2025-26. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 × 10% = ₹ 1,900

ILLUSTRATION 16

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2024-25:

- (1) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2026.
- (2) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (3) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

SOLUTION

- (1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000. Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200
- (2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%. Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.
- (3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000. In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 5,00,000.

ILLUSTRATION 17

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

SOLUTION



The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income. Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year. No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B, 194BA and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is 10,000 or more.

PAST EXAM QUESTIONS

ILLUSTRATION 18

TDS Implications: Examine the TDS implications in the following cases along-with reasons thereof

- (i) Ms. Varsha received a sum of 95,000 on 31 December 2025 towards maturity proceeds of LIC taken on 1st October 2020 for which sum assured was 80,000 and annual premium was 10,000.
- (ii) Mr. Deepak transferred a residential house property to Mr. Karan for 45 lacs. The stamp duty value of such property is 55 lacs-
- (iii) XYZ Private Limited pays the following amounts to Mr. Narayan during previous year 2025-26:
 - ₹ 22,000 towards fee for professional services
 - ₹ 18,000 towards royalty
- (iv) Payment of 1,75,000 made to Mr. Vaibhav for purchase of calendar according to specifications of M/s. ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr. Vaibhav.
- (v) Talent Private Limited pays 12,000 to Ms. Sudha, its director, towards sitting fee which is not taxable u/s 192.
- (vi) Radha Limited is engaged for Shyam Limited only in the business of operation of call centre. On 18-3-2026, the total amount credited by Shyam Limited in the ledger account of Radha Limited is 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2026 by Shyam Limited.

(7 marks, May 2020-NS)

SOLUTION

The TDS implications are as under

- (i) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of 95,000 would not be exempt under section 10(10D) in the hands of Ms. Varsha the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than 1 lakh.
- (ii) Since the stamp duty value of residential house property exceeds 50 lakh, Mr. Karan is required to deduct tax at source@1% of the stamp duty value i.e. 1% of 55 lakhs 55,000 under section 194-IA.

- (iii) TDS provisions under section 194J would not get attracted, since the limit of 30,000 is applicable for fees for professional services and royalty, separately. It is assumed that there is no other payment to Mr. Narayan towards fees for professional services and royalty during the P.Y. 2025-26.
- (iv) According to section 194C, the definition of "work" does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer. Therefore, there is no liability to deduct tax at source in respect of payment of 1,75,000 to Mr. Vaibhav, since the contract is a contract for 'sale'.
- (v) Section 194J provides for deduction of tax at source @ 10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every payment covered under section 194J is, however, not applicable in respect of sum paid to a director.
Therefore, tax @ 10% has to be deducted at source under section 194J in respect of the sum of 12000 paid by Talent Private Limited to its director Ms. Sudha. Amount of TDS = $12,000 \times 10\% = 1200$
- (vi) According to Section 194J, in case of a payee, engaged only in the business of operation of call centre, the tax shall be deducted at source @ 2% if the amount credited to the account of the payee exceeds ₹ 30,000.
Thus the amount of tax to be deducted at source = $70,000 \times 2\% = 1,400$.

ILLUSTRATION 19

Liability for TDS: Discuss the liability for tax deduction at source in the following cases

- (1) Mr. Anand has been running a sole proprietary business whose accounts are audited under section 44AB(a) of Income-tax Act, 1961. He pays a monthly rent of 15,000 for the office premises to Mr. R, an individual who himself has taken the same on rent. Besides, Anand also pays service charges of 10,000 per month to Mr. R towards the use of furniture, fixtures and vacant land appurtenant thereto.
- (2) XYZ real estate investment trust has given its directly owned property on rent at rate 1,00,000 p.m to PQR Ltd.
- (3) By virtue of an agreement with Nationalised Bank, a Catering Organisation [Pvt. Ltd. Co.] receives 50,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of bank.

SOLUTION

The above mentioned cases have been discussed hereunder

- (1) As per Section 194-I, if payer is an individual or HUF whose turnover of business exceed 1 crore in preceding year, then he shall be liable to deduct tax at source. Here, since accounts of Mr. Anand are audited u/s 44AB(a), his turnover exceeds 1 crore, he is liable to deduct tax at source @ 10% if rental income exceeds ₹50,000 per month or part thereof.
Further, Section 194-I provides that rent includes any payment by whatever name called, for the use of land or building together with furniture, fittings etc, and service charges of 10,000 p.m will not liable to TDS.
- (2) As per the provision of section 194-I, no deduction shall be made if the income by way of rent is credited or paid to a business trust, being a real estate investment trust, in respect of any real estate asset, referred to in section 10(23FCA), owned directly by such business trust. Thus PQR Ltd is not liable to deduct tax at source.

- (3) Explanation to section 194C provides that catering services are covered under the expression "work" for the purpose of tax deduction at source under this section and the catering organisation will have to be treated as contractor. As the payment exceeds 30,000, the nationalised bank is required to deduct tax at source at 2% on the payments made to catering organisation under 194C.

Therefore, tax to be deducted at source = $(50,000 \times 12) \times 2\% = 12000$.

ILLUSTRATION 20

Liability for TDS: Discuss the applicability of provisions of Tax Deduction at Source, the rate and amount of tax deduction to be made in the following cases for the financial year 2025-26.

- (A) Mr. Bobby, a resident whose turn over during the previous financial year is 205 lakhs and for the current year 2025-26 it is 80 lakhs.
- (i) Shop rent paid to Mr. Rajsekharan, a resident 20,000 per month.
 - (ii) On 1-11-2025 paid towards fee for technical services ₹ 25,000 and royalty of 20,000 to Mr. Swamy, a resident who is having PAN. No other payment made to Mr. Swamy.
 - (iii) On 01-10-2025 payment of 2,00,000 made to Mr. A for purchase of dairies according to specifications. However, no material was supplied for such dairies.
 - (iv) Contract payments made to Mr. Satheesan on 01-05-2025 for painting 25,000 and another contract for interior furnishing on 22-03-2026 for ₹ 20,000.
- (B) Mr. Thrilok an individual not assessed to tax pays towards Rent 60,000 per month.

(5 Marks, May 2018)

SOLUTION

- (A) As the turnover of Bobby for financial year 2024-25, i.e. 205 lakhs, has exceeded the monetary limit of 100 lakhs, he has to comply with the tax deduction provisions during the financial year 2025-26, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.
- (i) **Shop rent paid to Mr. Rajsekharan:** Tax is required to be deducted under section 194-I @ 10% if the rental payment exceeds ₹ 50,000 per month or part thereof. Since the amount of shop rent does not exceed therefore no TDS.
 - (ii) TDS provisions under section 194J would not get attracted, since the limit of 50,000 is applicable for fees for professional services and fees for technical services, separately. Hence, no tax is required to be deducted at source on payment made to Mr. Swamy.
 - (iii) Payment for purchase of dairies according to specifications: The definition of "work" does not include the manufacturing or supply of product according to the specification by customer, in case the material is purchased from a person other than the customer. Therefore, there is no liability to deduct tax at source under section 194C in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for 'sale'.
TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.
- (B) Since Mr. Thrilok, an individual, pays rent exceeding 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @ 2% of such rent for F.Y. 2025-26. Thus, tax of 14,400 $[60,000 \times 2\% \times 12]$ has to be deducted under section 194-IB from rent payable for March, 2026

ILLUSTRATION 21

Liability for TDS: The following issues arise in connection with the deduction of tax at source under Chapter XVII-B. Discuss the liability for tax deduction in these cases:

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- (1) An employee of the Central Government receives arrears of salary for the earlier 3 years. He inquires whether he is liable for deduction of tax on the entire amount during the current year.
- (2) AT.V. Channel pays 10 lakhs as prize money to the winner of a Quiz Programme.
- (3) State bank of India pays 50,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (4) A television company pays ₹ 50,000 to a cameraman for shooting of a documentary film.
- (5) State Government pays 30,000 as commission to one of its agent on sale of lottery tickets.
- (6) A Turf Club awards a jack-pot of 5 lakhs to the winner of one of its races.

SOLUTION

The aforesaid cases have been dealt with as follows-

- (1) As per Section 192, tax is deductible at source by any person who is responsible for paying any income chargeable under the head "Salaries". However, under section 192(2A), the employee will be entitled to relief u/s 89 and consequently he will be required to furnish to the person responsible for making the payment such particulars in such form and verified in such manner as may be prescribed and therefore the person responsible for making the payment shall compute the relief and take it into account while making deduction of tax at source from salary.
- (2) As per Section 194B, the person responsible for paying by way of winnings from any card game and other game in an amount exceeding 10,000 shall at the time of payment deduct tax @ 30%. Hence, TDS = $10,00,000 \times 30\% = 3,00,000$.
- (3) As per Section 196, payments made to Central Government are not liable for tax deduction at source.
- (4) If the cameraman is an employee of the T.V. Company, the provisions of Section 192 will apply. But if he is a professional man, Section 194-J will apply. Herein, it is assumed that he is a professional person. Since the amount paid does not exceeds 50,000 therefore there will be no TDS.
- (5) Under section 194G, the person responsible for paying to any person stocking, distributing, purchasing or selling lottery tickets, shall at the time of credit of the commission or payment thereof, whichever is earlier, deduct income-tax @ 2%. Such deduction shall be made only if the amount of commission exceeds 20,000. Therefore, TDS liability in the given case = $30,000 \times 2\% = 600$.
- (6) The payment by way of winnings from any horse race is governed by section 194BB. Under this section, the person responsible for payment shall, at the time of payment, deduct tax @ 30% if the amount exceeds 10,000.
Hence, TDS liability in the given case = $5,00,000 \times 30\% = 1,50,000$.

ILLUSTRATION 22

Liability for TDS : State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2025-26:

- (1) Rent of 1,70,000 paid by a partnership firm for use of plant and machinery.
- (2) Winning from horse race ₹ 1,50,000.
- (3) ₹ 5,00,000 paid to Mr. A, a resident individual on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (4 Marks, Nov. 2014)

SOLUTION

- (1) No deduction shall be made under section 194-I where the amount of rental income credited or paid or likely to be credited or paid does not exceed ₹50,000 per month or part thereof. Since Rent of ₹ 1,70,000 was paid by a partnership firm for use of plant and machinery, therefore no tax shall be deducted at source.





- (2) The payment by way of winnings from any horse race is governed by section 194BB. Under this section, the person responsible for payment shall, at the time of payment, deduct tax @ 30% if the amount exceeds 10,000. Hence, TDS liability in the given case = $1,50,000 \times 30\% = 45,000$.
- (3) As per section 194-LA, any person responsible for paying to a resident any sum, being in the nature of compensation or the enhanced compensation or the consideration or the enhanced consideration on account of compulsory acquisition, under any law for the time being in force, of any immovable property (other than agricultural land), shall be liable to deduct tax at source @ 10% if the amount of such payment or, as the case may be, the aggregate amount of such payments to a resident during the financial year exceeds 5,00,000. Hence, no tax shall be required to be deducted at source on 5,00,000 paid to Mr. A, on compulsory acquisition of his urban land.

ILLUSTRATION 23

Liability for TDS: State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2025-26 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) Mr. Mahesh has paid ₹ 6,00,000 on 15-10-2025 to M/s. Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of 3 Crores during the previous year 2024-25.
- (ii) Mr. Ramu, a salaried individual, has paid rent of 60,000 per month to Mr. Shiv Kumar from 1st July, 2025 to 31st March, 2026. Mr. Shiv Kumar has not furnished his Permanent Account Number.

(4 Marks, Dec. 2021)

SOLUTION

- (i) The arrangement between Mr. Mahesh, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of 6 lakh paid by Mr. Mahesh to the cold storage company. Accordingly, tax has to be deducted @ 2% on Rs 6 lakh.
 $\text{TDS u/s 194C} = 2\% \times 6 \text{ lakh} = 12,000$
- (ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 2% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2025), since the rent paid by him exceeds 50,000 p.m.
 Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 2%. However, the same cannot exceed 60,000, being rent for March, 2026.
 $\text{TDS u/s 194-IB} = 60,000 \times 20\% = 1,20,000$, but restricted to 60,000, being rent for March, 2026.

ILLUSTRATION 24

Liability for TDS: Ashwin a resident Individual carrying on business, furnishes you the following information:

Turnover during financial year	₹
2024-25	1,20,00,000
2025-26	98,00,000



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State whether tax deduction at source provisions are attracted for the under-mentioned expenses incurred during the financial year 2025-26:

Particulars	₹
Commission paid to Babloo	22,500
Payment to Vijay for repair of office building	23,000
Payment of fees for technical services, to Vivek	55,000

All payments are made to residents.

If tax has to be deducted at source, state the amount of tax to be deducted at source.

(4 Marks, May 2016)

SOLUTION

Since the turnover of Ashwin for financial year 2024-25, i.e. 120 lakhs, has exceeded the monetary limit of ₹ 100 lakhs therefore, he has to comply with the tax deduction provisions during the financial year 2025-26, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

- (1) **Commission paid to Babloo:** Tax is to be deducted under section 194H @ 2% as the commission exceeds 20,000. Amount of Tax deducted at source = 2% of 22,500 = 450
- (2) **Payment of 23,000 to Vijay for repair of office building:** TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed 30,000 in a single payment or 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.
- (3) **Payment of fees for technical services, to Vivek:** Tax is to be deducted under section 194-J @ 2% as the fees for technical services exceeds 50,000. Amount of Tax deducted at source = 2% of 55,000 = 1,100.

ILLUSTRATION 25

Liability for TDS u/s 194-J: An individual practising as a chartered engineer is in receipt of fees from a company, which had retained him for purposes of valuation of properties. Total fee agreed upon between the parties was 50,000 and the engineer was also to be reimbursed of all expenses incurred by him to visit the various locations where properties are situated. The engineer was paid following amounts by company:

20th July 2025	20,000 (advance of fees)
25th July 2025	20,000 (towards expenses incurred)
5th August 2025	40,000 (balance of fees on completion of work)
10th August 2025	25,000 (in total settlement of claim for reimbursement of expenses).

Discuss the liability of the company in regard to tax deduction at source on these payments.

SOLUTION

As per Section 194J tax is to be deducted on any sum paid by way of fees for professional services @ 10%, if the aggregate of such sum exceeds 50,000. It has been clarified by CBDT, that if the claim of fees and reimbursement of expenses is made in a single bill, then such reimbursement will come under the ambit of expression 'any sum by way of fees for professional services'. However, if such claim was made under separate bills, then such reimbursement will not come under the ambit of said expression.

Thus, total fees = 20,000 + 40,000 = 60,000; TDS = 60,000 × 10% = 6,000.

ILLUSTRATION 26

Liability for TDS and disallowance under section 40(a): M/s. Arora Ltd., submits the following details of expenditure pertaining to the financial year 2025-26:



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- (i) Payment of professional fees to Mr. Man 50,000 Tax not deducted at source.
- (ii) Interior works done by Mr. Hari for 2,00,000 on a contract basis. Payment made in the month of March 2026. Tax deducted in March 2026 was paid on 30-06-2026.
- (iii) Factory Rent paid to Mrs. Rao 15,00,000. Tax deducted at source and paid on 01-12-2026
- (iv) Interest paid on Fixed Deposits 2,00,000. Tax deducted on 31-12-2025 and paid on 28-09-2026.
- (v) Payment made to M/s. Green & Co. towards import of raw materials 25,00,000. No tax was deducted at source. The supplier Green & Co. is located in London.

Examine the above with reference to allowability of the same in the assessment year 2025-26 under the Income-tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions. (5 marks, Nov 2010)

SOLUTION

Allowability of expenses of M/s. Arora Ltd for the assessment year 2026-27:

- (i) Payment of professional fees is subject to TDS under section 194J, if the amount thereof exceeds 50,000 during a financial year. no tax is deducted at source.
- (ii) Since the tax deducted at source was paid on or before the due date of filing the return (i.e., on or before 31st October, 2026), the expenditure on interior works will be allowed as deduction. Hence, disallowance u/s 40(a) is not attracted.
- (iii) The maximum time allowable for deposit of tax deducted at source is upto the due date of filing of return i.e., 31st October, 2026. In this case, since tax deducted under section 194-I was paid after the due date of filing the return, the expenditure can be claimed only in the subsequent year i.e., P.Y 2026-27. Hence, for the P.Y. 2025-26 relevant to the assessment year 2026-27, 30% of such expenditure i.e. 4,50,000 shall be disallowed under section 40(a). The same will be allowed in financial year 2026-27.
- (iv) Since the tax deducted at source was paid on or before the due date of filing the return (i.e., on or before 31st October, 2026), the expenditure by way of interest on deposit will be allowed as deduction. Hence, disallowance under section 40(a) is not attracted.
- (v) Since payment towards import of raw materials does not attract provisions of TDS, the expenditure will be allowed as deduction. Hence, no disallowance is attracted under section 40(a).

ILLUSTRATION 27

Liability for TDS and disallowance under section 40(a): During the financial year 2025-26, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31-3-2025 was 99 lakhs):

- (i) Interest of 12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) Interest of 4,000 was paid as interest to Mr. R.D. Burman, a non-resident, without deduction of tax at source;
- (iii) ₹ 5,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iv) He had sold goods worth 5 lakhs to Mr. Deva. He gave Mr. Deva a cash discount of 12,000 later. Commission of 20,000 was paid to Mr. Vidyasagar on 02-7-2025. In none of these transactions, tax was deducted at source.

Briefly discuss whether any disallowance arises under the provisions of Section 40(a)(i)/40(a) (ia) of the Income-tax Act, 1961. (4 marks, May 2011)

SOLUTION

Disallowance under section 40(a)(i)/40(a) (ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at



source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

The assessee is a resident individual, whose turnover does not exceed 100 lakhs in the immediately preceding previous year i.e., previous year 2024-25 (as his turnover is less than 100 lakhs in that year) and the TDS obligations have to be considered bearing this in mind.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, only where his turnover exceeded 100 lakhs in the preceding financial year i.e., previous year 2024-25. From the data given, it is clear that his turnover from business does not exceed 100 lakh in previous year 2024-25. Hence, disallowance under section 40(a) (ia) is not attracted in this case.
- (ii) In the case of interest paid to a non-resident, there is obligation to deduct tax at source under section 195, hence non-deduction of tax at source will attract disallowance under section 40(a)(i).
- (iii) Disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salaries. Hence, 30% of 5,00,000 i.e. 1,50,000 shall be disallowed.
- (iv) The obligation to deduct tax at source under section 194H from commission paid in excess of 20,000 to a resident arises in the case of an individual, only where his turnover from business exceed ₹ 100 lakh in the immediately preceding previous year. From the data given, it is clear that his turnover did not exceed 100 lakh in the previous year 2024-25. Hence, there is no obligation to deduct tax at source under section 194H during the previous year 2025-26. Therefore, disallowance under section 40(a) (ia) is not attracted in this case.

ILLUSTRATION 28

Liability for TDS: What are the provisions relating to tax deduction at source in respect of:

- (A) ABC and Co. Ltd. paid 19,000 to one of its Directors as sitting fees on 01-01-2026.
- (B) Mr. X sold his House to Mr. Y on 01-02-2026 for 60 lacs?

SOLUTION:

- (A) As per section 194-J, a company shall be liable to deduct tax at source @ 10% on any remuneration or fees or commission paid to a director, on which the tax is not deductible under section 192. The limit of 50,000 under section 194-J is not applicable on any remuneration or fees or commission payable to director of a company. Tax deductible under section 194-J = $19,000 \times 10\% = 1,900$.
- (B) Since the sale consideration of house property exceeds 50 lacs, Mr. Y is required to deduct tax at source under section 194-IA at the time of credit of such sum to the account of Mr. X or at the time of payment, whichever is earlier. Tax @ 1% of the sale consideration or stamp duty value, whichever is higher, is required to be deducted by Mr. Y under section 194-IA. Tax deductible under section 194-IA = $60 \text{ lacs} \times 1\% = 60,000$.

ILLUSTRATION 29

Tax deduction at source: Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Mr. Tandon received a sum of 1,75,000 as per-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill health.
- (ii) A sum of 84,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).
- (iii) Ms. Kaul won a lucky draw prize of 21,000. The lucky draw was organized by M/s. Maximus Retails Ltd. for its customer.





- (iv) Finance Bank Ltd. sanctioned and disbursed a loan of 10 crores to Borrower Ltd. on 31-03-2026. Borrower Ltd. paid a sum of 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.
- (v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2025 to February, 2026) at Hyderabad where he pays a monthly house rent of 52,000 for those three months, totalling to 1,56,000. Rent is paid by him on the first day of the relevant month.
- (7 Marks, Nov. 2019)

SOLUTION

The TDS implications are as under

- (i) **No TDS liability:** Section 192A provides for deduction of tax @ 10% on premature taxable withdrawal from employees provident fund scheme. Accordingly, in a case where the accumulated balance due to an employee participating in a recognized provident fund is includible in his total income, tax is to be deducted at source. In given case the amount received on pre-mature withdrawal from EPF on account of termination of employment due to ill health of Mr. Tandon is exempt from tax in his hands. Hence no tax is required to be deducted at source under Section 192A of the Act.
- (ii) **No TDS liability:** As per Section 194A, tax has to be deducted under section 194A @ 10% of the interest income on recurring deposit as "recurring deposit" is included in the definition of "time deposit". However, as per the third proviso to section 194A(3), no tax is required to be deducted at source in the case of senior citizens where the amount of interest or the aggregate of the amount of interest credited or paid during the financial year by a banking company, co-operative society engaged in banking business or post office does not exceed ₹ 1,00,000.
- Since in this case Mr. Hasan is senior citizen and the amount on interest credit to RD account is 84,000, tax is not required to be deducted at source.
- (iii) **TDS liability @ 30%:** In respect of lucky dip conducted by M/s. Maximus Retails Ltd., the provisions of Section 194B would apply. As per Section 194B, winning from lottery or crossword puzzle or card game of any sort exceeding 10,000 payable by any person to any other person, is subject to tax deduction @ 30%. Since the value of prize is 21,000, therefore, tax is deductible at source @ 30% of 21,000 = 6,300
- (iv) **No TDS liability:** Even though service fee is included in the definition of "interest" as defined under section 2(28A), no tax is deductible at source under section 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.
- (v) **TDS liability @ 2%:** Since Mr. Ashok pays rent exceeding ₹ 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @ 2% of such rent for F.Y. 2025-26 under section 194-IB. Thus, 3,120 [$52,000 \times 2\% \times 3$] has to be deducted from rent payable for February, 2026.

ILLUSTRATION 30

Tax deduction at source: State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2025-26 under the Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) Sanjay, a resident Indian individual, not deriving any income from business or profession makes payments of 12 lakh in January, 2026, 20 lakh in February, 2026 and 20 lakh in March, 2026 to Mohan, a contractor for reconstruction of his residential house.
- (ii) ABC Ltd. makes the payment of 1,50,000 to Ramlal, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN.

(5 Marks, Nov. 2020)

SOLUTION

- (i) **On payments made to contractor:** Tax is deductible @ 2% under section 194M, since payments to Mr. Mohan, a contractor, for reconstruction of his residential house exceeds 50 lakhs in aggregate during the F.Y. 2023-24. Amount of tax to be deducted = 2% of 52 lakhs = 1,04,000
- (ii) **Payment to transporter who has not furnished PAN:** Under section 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum. However, in this case, this exemption from TDS would not be available, since Ramlal has not furnished his PAN to ABC Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @ 1% provided under section 194C. Amount of tax to be deducted = $1,50,000 \times 20\% = 30,000$

ILLUSTRATION 31

Tax deduction at source: Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.

- (i) On 1-5-2025, Mr. Brijesh made three fixed deposits of nine months each of 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31-01-2026.
- (ii) Mr. Marwah, aged 80 years, holds 6.5% Gold Bonds, 1977 of 2,00,000 and 7% Gold Bonds 1980 of 3,00,000. He received yearly interest on these bonds on 28-02-2026.
- (iii) M/s. AG Pvt. Ltd. took a loan of 50,00,000 from Mr. Hari das. It credited interest of 79,000 payable to Mr. Haridas during the previous year 2025-26. M/s. AG Pvt. Ltd. is not liable for tax audit during previous years 2024-25 and 2025-26.
- (iv) Mr. Prabhakar is due to receive ₹ 6 lakh on 31-3-2026 towards maturity proceeds of LIC policy taken on 1-4-2022, for which the sum assured is 5.75 lakhs and the annual premium is 1,40,000, (8 Marks, Jan. 2021)

SOLUTION

- (i) CBZ Bank has to deduct tax at source @ 7.5% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is 60,750 [$3.00.000 \times 9\% \times 3 \times 9 / 12$] which exceeds the threshold limit of 50,000.
Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered.
Tax to be deducted at source = $60,750 \times 10\% = ₹ 6075$
- (ii) Tax @ 10% under section 193 is to be deducted on interest on $6\frac{1}{2}$ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., 5,00,000 exceed ₹ 10,000.
Interest on $6\frac{1}{2}$ Gold Bonds, 1977 = $2,00,000 \times 6.5\% = 13,000$
Interest on 7% Gold Bonds 1980 = $3,00,000 \times 7\% = 21,000$
Tax to be deducted at source = $34000 \times 10\% = 3,400$
- (iii) M/s. AG Pvt. Ltd. has to deduct tax at source @ 10% under section 194A, since the interest on loan payable is 79,000 which exceeds the threshold limit of 10,000.
M/s. AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2024-25 and 2025-26.
Tax to be deducted at source = $79000 \times 10\% = 7,900$
- (iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-3-2012, the maturity proceeds of 6 lakhs due on 31-3-2026 are not exempt under section

10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on 40,000 [6,00,000, being maturity proceeds 5,60,000], being the amount of insurance premium paid. Tax to be deducted at source = $40000 \times 2\% = 800$

ILLUSTRATION 32

Tax deduction at source: 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. 2026-27.

- (i) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth 26,50,000 to M/s. Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
- (ii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2025-26 as under:

Bill No	Date	Amount ₹
1	30-04-2025	27,000
57	30-06-2025	25,000
105	30-09-2025	28,000
151	30-12-2025	32,000

(6 marks, May 2022)

SOLUTION

- (i) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C.

Therefore, in such circumstances, the TDS provisions would not be attracted on 1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

- (ii) In this case, the individual contract payments (through the bills dated 30-4-2025, 30-6-2025 and 30-9-2025) made by ABC LLP to XYZ does not exceed 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2025-26 exceeds 1,00,000 (on account of the last payment of 32,000, due on 30-12-2025, taking the total from ₹ 80,000 to 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of 1,12,000.

Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of 1,12,000, from the last payment of 32,000 on 30-12-2025.

Hence, TDS u/s 194C = ₹ 2,240.

ILLUSTRATION 33

Examine the applicability and the amount of TDS to be deducted in the following cases for Financial Year 2025-26:

- (i) S and Co. Ltd. paid ₹ 25,000 to one of its Directors as sitting fees on 02-02-2026.
- (ii) ₹ 4,80,000 paid to Mr. Mohan, a resident individual, on 28-02-2026 by the State of Haryana on compulsory acquisition of his urban land.
- (iii) Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2024-25. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2025-26 on various dates is ₹ 80 lakhs which are as under -

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10-06-2025	₹ 25,00,000
20-08-2025	₹ 27,00,000
12-10-2025	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2026 ₹ 80 lakh. Mr. Agarwal's turnover for the F.Y. 2024-25 is ₹ 20 crores.

(6 Marks, Nov. 2022)

SOLUTION

- (i) Tax @ 10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹ 25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.
The amount of tax to be deducted at source = ₹ 25,000 × 10% = ₹ 2,500
- (ii) There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed ₹ 5,00,000.
- (iii) Since Mr. Purushotham's turnover for F.Y. 2024-25 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y. 2025-26, he is liable to deduct tax @ 0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.
On 10-6-2025 = Nil (No tax is to be deducted u/s 194Q on the purchases made on 10-6-2025 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs)
On 20-8-2025 = 0.1% of ₹ 2 lakhs (amount exceeding ₹ 50 lakhs) = ₹ 200
On 12-10-2025 = 0.1% of ₹ 28 lakhs = ₹ 2,800.

ILLUSTRATION 34

TDS Applicability: Answer the following:

- (i) 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 2025 XYZ 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.
- (ii) 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, 2025 and ₹ 30,00,000 on 22nd November, 2025.
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.
- (iii) 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.

(7 Marks, May 2023)

SOLUTION

- (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 XYZ 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 @ 2%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹ 50 lakhs during the P.Y. 2025-26.

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. 2024-25], 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.

- (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 × 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.

ILLUSTRATION 35

Interest payable u/s 234A, 234B & 234C: Ms. Priya, aged 61 years, has total income of ₹ 17,50,000, including income from profession, for A.Y. 2026-27, and has paid advance tax of ₹ 10,000 on 13-12-2025. She has filed her return of income on 15-06-2026.

Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any, by Ms. Priya if she has exercised the option of the default tax regime provided under section 115BAC(1A). (4 Marks, Nov. 2022)

SOLUTION

Self assessment tax payable	₹
Tax on ₹17,50,000	
Upto ₹ 4,00,000	Nil
₹ 4,00,001 - ₹ 8,00,000 @ 5%	20,000
₹ 8,00,001 - ₹ 12,00,000 @ 10%	40,000
₹ 12,00,001 - ₹ 16,00,000 @ 15%	60,000
₹ 17,50,000 - ₹ 16,00,000 @ 20%	30,000
	1,50,000
Add: Health and education cess @ 4%	6,000
	1,56,000
Less: Advance tax Tax payable	10,000

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Add: Interest under section 234A [Interest u/s 234A would not be attracted, since Ms. Priya has furnished her return of income on 15-06-2026 which is before the due date of filing return of income]					1,46,000 -
Add: Interest under section 234B would be levied on ₹ 1,46,000 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to ₹ 4,380					4,380
Add: Interest under section 234C					7,478
Date of Instalment	Specified % of estimated	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%	
15 th June 2025	15%	23,400 [15% of ₹ 1,56,000]	3 months	702	
15 th September 2025	45%	70,200 [45% of ₹ 1,56,00]	3 months	2,106	
15 th December 2025	75%	1,07,000 [(75% of ₹ 1,56,000) - ₹ 10,000]	3 months	3,285	
15 th March 2025	100%	52,400	1 month	1,460	
				7,553	
Self assessment tax payable and interest thereon					1,57,933
Self assessment tax payable and interest thereon (rounded off)					1,57,830

ILLUSTRATION 36

TDS on Rent: Mr. A owns a building situated at New Delhi which is given on monthly rent of 75,000. to Mr. B w.e.f. 01-06-2025. Rent is paid by Mr. B on first day of every month. Discuss whether TDS provisions are applicable for the financial year 2025-26 in the following cases

Case 1: Mr. B is carrying on business having annual turnover of business amounting ₹ 2.5 crores in preceding financial year. However, building is used by him for his residential purposes.

Case 2: Mr. B is carrying on business having annual turnover of business amounting 0.5 crores in preceding financial year.

Case 3: Mr. B is a salaried employee. He gets house rent allowance from the employer. On the basis of rent paid to Mr. A, he claims exemption under section 10(13A) pertaining to house rent allowance.

SOLUTION

The TDS provisions in three independent cases are discussed as under:

Case 1: In this case since the turnover of Mr. B exceed 1 crore, he is liable to deduct tax at source under Section 194-1 @ 10%. Hence, the amount of tax to be deducted at source = $75,000 \times 10 \times 10\% = 75,000$.

Case 2: In this case since the turnover of Mr. B does not exceed 1 crore, he is not liable to deduct tax at source under Section 194-I. However, Mr. B is required to deduct tax at source under section 194-IB. Tax is deductible at the time of payment/ credit of rent for the last month during the financial year 2023-24. The amount of tax deductible on 1 March, 2025 is as under: $75,000 \times 10 \times 2\% = ₹ 15,000$

Case 3: The answer will remain same as of case 2.

ILLUSTRATION 37



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Computation of Total income, tax liability and advance tax:

Balamurugan furnishes the following information for the year ended 31-03-2026:

Particulars	₹
Income from business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	3,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,60,000
Long term capital gain	70,000

Compute his total income, tax liability and advance tax obligations. (6 Marks, PCC May 2011)

SOLUTION

Computation of Total income of Balamurugan for the year ended 31-3-2026 (amounts in ₹)

Particulars	₹	₹
Income from salaries (Computed)		2,60,000
Income from house property: Loss from house property	15,000	
Less: Set-off against LTCG [WN-1]	15,000	Nil
Business Income: Loss from normal business	1,35,000	
Less: Income from speculation business	1,00,000	
Less: Set off against long-term capital gains [WN-2]	35,000	Nil
Capital gains: Long-term capital gains	70,000	
Less: Business loss set-off	35,000	
Less: House property loss set-off	15,000	20,000
Income from other sources: Lottery Winnings [WN-3]		3,00,000
Total Income (rounded off)		5,80,000

Computation of tax liability (amounts in ₹)

Particulars	₹
On LTCG of 20,000 @ 12.5%	2,500
On other Income of 2,60,000	500
On lottery winnings of 3,00,000 @ 30%	90,000
Total Tax	93,000
Add: HEC@4%	3,720
Total tax liability	96,720
Less: TDS ₹ 3,00,000 @ 30%	90,000
Tax payable (rounded off)	6,720

Applicability of Advance Tax: The assessee need not pay advance tax since his tax liability is less than 10,000.

Working Notes:

- (1) Long term capital gains are chargeable to tax @ 20% and Chapter VIA deduction are not available from such gains, hence loss from house property is set off against long term capital gains.



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- (2) Business loss cannot be set-off against salary income.
- (3) No set off is allowed against lottery income. Further, no benefit of basic exemption limit is allowed from lottery winnings and chargeable to tax@ 30%.

ILLUSTRATION 38

Computation advance tax installments:

Mr. Barun provides you the following information and requests you to determine the Advance Tax liability with due dates for the financial year 2025-26.

Estimated tax liability for the financial year 2025-26 = ₹ 65,000

Tax deducted at source for this year = ₹ 5,000

(2 marks, Nov 2016)

SOLUTION

The assessee has to deposit advance tax of 60,000 i.e. 65,000-5,000.

Instalment date	Total tax Due ₹	Amount payable	Cumulative Instalments (₹)	Net Instalment Payable (₹)
15-06-2025	60,000	15% of advance tax	9,000	9,000
15-09-2025	60,000	45% of advance tax Less advance tax paid in earlier installment	27,000	18,000
15-12-2025	60,000	75% of advance tax Less advance tax paid in earlier installments	45,000	18,000
15-03-2025	60,000	100% of advance tax Less advance tax paid in earlier installments	60,000	15,000

ILLUSTRATION 39

Computation of Total income, tax liability and advance tax: Mr. Subramany is engaged in the business of producing and selling toys. During the previous year 2025-26 his turnover was 2.80 crores (received through account payee cheque). He opted for paying tax as per presumptive taxation scheme laid down in Section 44AD. He has no other income during the previous year. Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax? He has not exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

(3 Marks, Nov. 2017)

SOLUTION

An assessee who declares profits and gains in accordance with the provisions of Section 44AD(1) shall be liable to pay advance tax. Hence, Mr. Subramanyam will be liable to pay advance tax to the extent of the whole amount of such advance tax during on or before the 15th March of that financial year.

The tax liability of Mr. Subramanyam and amount of advance tax to be deposited is as under:

Profit & gains of business or profession as per provisions of Sec. 44AD [6% of 2,80,00,000]	16,80,000
Tax on total income	1,36,000
Add: HEC@ 4%	5,440



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Total tax (including HEC) (Rounded off) i.e. the minimum amount of Advance tax to be deposited by 15th March, 2026 [Being due date of payment of such advance tax]	1,41,440

ILLUSTRATION 40

Interest payable u/s 234B: Mr. Sachal, a resident individual aged 54, furnishes income details as under

- Wholesale Cloth business, whose turnover is 150 lakhs, for which accounts are audited u/s 44AB. Income from such business 8,10,000.
- Income from other sources 2,70,000.
- Tax deducted at source 25,000.
- Advance tax paid 1,04,000 on 14-3-2026.

Return of income will be filed on 11-12-2026. The assessee is willing to pay the requisite self-assessment tax. Calculate the interest payable under section 234B of the Income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return.

(4 Marks, May 2017)

SOLUTION

An assessee shall be liable to pay interest u/s 234B(1) where the advance tax paid by the assessee is less than 90% of the assessed tax. Assessed tax means tax on assessed income - TDS.

The tax liability shall be computed as under (amount in ₹)

Particulars	₹
Total Income	10,80,000
Tax on total income	1,36,500
Add: HEC@4%	5,460
Tax payable	1,41,960
Less: Tax deducted at source	25,000
Assessed tax	1,16,960
90% of assessed tax	1,05,264
Advance tax deposited	1,04,000
Since advance tax deposited falls short off 90% of assessed tax, assessee shall be liable to pay interest under Section 234B	
Amount on which interest payable = Assessed tax - Advance tax paid	12,960
Period for which interest is to be paid = 01-04-2024 to 11-12-2024 (Number of months)	9
Rate of interest (per month or part thereof)	1%
Interest payable under Section 234B	1,166

ILLUSTRATION 41

TDS in various cases : Explain in the context of provisions contained in Chapter XVII of the Act and also work out the amount of tax to be deducted by the payer of income in the following cases :

- Payment of ₹ 5 lacs made by JCP & Co. to Pingu Events Co. Ltd. for organization of a debate competition on the subject "Preservation of Rural Heritage of Rajasthan".



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- (ii) "Profit Commission" paid by a re-insurance company of ₹ 1 lac to the insurer company after the expiry of the term of insurance where there was no claim during the treaty.
- (iii) KD, a part time director of DAF Pvt. Ltd. was paid an amount of ₹ 2,25,000 as fees which was actually in the nature of commission on sales for the period 01-04-2025 to 30-06-2025.

SOLUTION

As per the relevant provisions contained in Chapter XVII of the Act, tax to be deducted by the payer of income in the above stated cases are as under -

- (i) Payment of ₹ 5 lacs made by JCP & Co. to Pingu Events Co. Ltd. for organization of a debate competition on the subject "Preservation of Rural Heritage of Rajasthan" shall be liable for tax deduction under Section 194C of the Income-tax Act, 1961. The same will not be covered in Section 194-J. As per Explanation to section 194-J, professional services includes, inter alia, services rendered by a person in the course of carrying on such other profession as is notified by the CBDT for the purpose of section 194-J. Accordingly, the CBDT has, in exercise of the powers conferred by Explanation to section 194-J, notified the services rendered by, event managers in relation to the sports activities as professional services for the purpose of section 194-J. Since debate competition is not a sports event the service provided by event managers will not be covered under Section 194-J but will be covered under Section 194C and liable for tax deduction under that section. Thus, amount of tax to be deducted at source = ₹ 5,00,000 × 2% = ₹ 10,000.
- (ii) "Profit Commission" paid by a re-insurance company of ₹ 1 lac to the insurer company after the expiry of the term of insurance where there was no claim during the treaty will not be liable for tax deduction at source, since the same does not fall within category of remuneration or reward for soliciting or procuring insurance business under section 194D of the Act. Thus, amount of tax to be deducted at source shall be NIL.
- (iii) According to Section 194-J of the Act, any remuneration or fees or commission by whatever name called, other than those on which tax is deductible under section 192, to a director of a company shall be liable for tax deduction at source @ 10%. Hence, on ₹ 2,25,000 the company will be liable for tax deduction at source @ 10% i.e. ₹ 22,500.

ILLUSTRATION 42

Advance tax on assessee's own accord : Mr. Ramesh, 42 years of age resident in India, had the following particulars during the financial year 2025-26. Compute the advance tax payable by him and the instalments thereof -

	Amount (₹)
Rent per month [TDS @ 10%]	1,80,000
Income from sale of block rubbers manufactured from rubber plants grown in India	5,00,000
Brought forward loss of last year of the discontinued business	15,000
Winning from crossword puzzles (Gross) [TDS @ 30%]	44,000
Bank interest [Fixed deposit interest ₹ 50,000 (Gross) + Saving bank interest ₹ 10,000] [TDS @ 10%]	60,000
Dividend from Indian company (Gross) [TDS @ 10%]	1,00,000

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Assume that all incomes given above are in gross amounts, on which relevant tax deductible at source has been deducted and assessee has opted for of default tax regime

SOLUTION

Computation of Total income of Mr. Ramesh —

Particulars	₹
Income from house property [WN-1]	15,12,000
Income from business [₹ 1,75,000 - ₹ 15,000] [WN-2]	1,60,000
Income from other sources [₹ 44,000 + ₹ 50,000 + ₹ 10,000 + ₹ 1,00,000] [WN-3]	2,04,000
Gross Total Income	18,76,000
Less: Deduction u/s 80TTA	Nil
Total Income	18,76,000

Working Notes :

- (1) Income from house property = Annual Rent less standard deduction @ 30% = (₹ 1,80,000 × 12) - 30% = ₹ 15,12,000.
- (2) Out of total income from sale of block rubbers : Business income = 35% of ₹ 5,00,000 = ₹ 1,75,000; and agricultural income = 65% of ₹ 5,00,000 = ₹ 3,25,000. Brought forward loss of business discontinued shall be allowed as set-off from business income.
- (3) Dividend from Indian company is taxable.

Computation of advance tax payable :

Particulars	₹	₹
Total income including agricultural income (₹ 18,76,000 + ₹ 3,25,000)		22,01,000
Tax thereon : On winnings from crossword puzzles (₹ 44,000 @ 30%)	13,200	
On balance income (₹ 21,57,000 - ₹ 44,000)	2,39,250	2,52,450
Less: Tax on basic exemption limit + agricultural income (₹ 4,00,000 + ₹ 3,25,000)		16,250
Balance Tax		2,36,200
Add: HEC @ 4%		9,448
Gross tax liability		2,45,648
Less: Tax deducted at source on - Rent @ 10% (₹ 21,60,000 × 10%) u/s 194-I	2,16,000	
Winnings from crossword puzzles @ 30% (₹ 44,000 × 30%) u/s 194B	13,200	
Dividend from Indian company @ 10% (₹ 1,00,000 × 10%) u/s 194	10,000	2,39,200
Amount payable as advance tax (rounded off)		6,450

ILLUSTRATION 43

Interest u/s 234C : Mr. X has opted for provisions of Section 44AD for financial year 2025-26. His turnover for financial year 2025-26 was ₹ 1,80,00,000 (cash sales) and Tax deducted at source amounted to ₹ 5,535. He has not paid advance tax during financial year 2025-26. Calculate



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interest payable under section 234C for assessment year 2026-27 if he has opted out of default tax regime.

SOLUTION

The tax liability of Mr. X for assessment year 2026-27 is as under -

Particulars	₹
Profit & gains of business or profession as per provisions of section 44AD [8% of ₹ 1,80,00,000]/Total income	14,40,000
Tax on total income	2,44,500
Add: HEC @ 4%	9,780
Total tax (including HEC)	2,54,280
Less: TDS	5,535
Advance tax to be deposited by 15th March, 2026	2,48,745

Since, Mr. X has not deposited advance tax by 15th March 2026 he will be liable to pay interest as under -

Computation of interest under section 234C (amount in ₹):

Date of instalment	Total tax due	Advance tax due	Amount payable	Amount paid	Shortfall	Rate	Month	Interest
15 th March 2025	2,48,745	100%	2,48,745	Nil	2,48,745	1%	1	2,487
Total interest under section 234C								2,487

ILLUSTRATION 44

TDS & TCS : Examine the applicability of Tax Deduction at Sources (TDS) or Tax Collection at Source (TCS) as per the Income-tax Act, 1961 for the assessment year 2026-27 in the following independent situations.

- ABC Limited paid rent of ₹ 75,000 + 18% GST per month of Mr. Ram for the office premises from 01-04-2025 to 31-03-2026. Mr. Ram has furnished his PAN and also filed his return of income before due date regularly.
- XYZ Pvt. Ltd. sells two cars to Mrs. Anju costing ₹ 4,00,000 and ₹ 12,00,000 respectively on 01-05-2025 and 25-12-2025. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date.

(4 Marks, May 2024)

SOLUTION

- ABC Limited is required to deduct tax at source under section 194-I @ 10% on rent of ₹ 75,000 per month exclusive of GST component, since the aggregate rent of ₹ 9,00,000 during the financial year exceeds the threshold limit of ₹ 50,000 per month or part thereof. Tax has to be deducted at the time of payment or credit, whichever is earlier.
- XYZ Pvt. Ltd. is not required to collect tax at source on sale of car of ₹ 4,00,000 to Mrs. Anju since its value does not exceed ₹ 10 lakhs. However, it is required to collect tax at source u/s 206C(1F) @1% on the total sale consideration of ₹ 12 lakhs since the value of this car exceeds ₹ 10 lakhs. Tax has to be collected at the time of receipt of ₹ 12 lakhs.

ILLUSTRATION 45



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Computation of TDS on salaries: Rajkumar is employed in a company in Ahmedabad. He received salary of 18,00,000 (Computed) from his employer during financial year 2025-26. During financial year 2025-26, he made payments of 1,50,000 eligible for deduction under section 80C.

Compute the amount of tax deductible at source per month from the salary of Mr. Rajkumar, if he has intimated his employer of his intent not to exercise the option of shifting out of the default tax regime provided under section 115BAC(1A). Mr. Rajkumar has following other incomes, as reported to the employer company:

Loss under the head House property	₹ 60,000
Loss from business	₹ 50,000
Professional fees gross income	₹ 1,00,000 (TDS deducted 10,000)
(expenses incurred to earn professional income ₹ 80,000)	

SOLUTION

Amount of tax to be deducted from salary income: Higher of the amount arrived at in (A) or (B) below

A) Computation of tax due on salary income after deducting loss from house property (amount in ₹)

Particulars	₹
Income from salary (Computed)	18,00,000
Less: Loss from house property	-
Gross total income (GTI)	18,00,000
Less: Deduction u/s 80C	-
Total income	18,00,000
Tax due	1,60,000
Add: HEC@4%	6,400
Tax to be deducted at source	1,66,400

B) Computation of tax due on salary income including other incomes (not loss) but excluding loss from house property (amount in ₹)

Particulars	₹
Income from salary (Computed)	18,00,000
Loss from house property	-
Professional Income (1,00,000-80,000)	20,000
Gross total income (GTI)	18,20,000
Less: Deduction u/s 80C	-
Total Income	18,20,000
Tax due	1,64,000
Add: HEC@ 4%	6,560
Total tax	1,70,560
Less: Tax deducted at source under other sections	10,000
Tax to be deducted at source	1,60,560



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Therefore, amount of tax to be deducted at source = 1,66,400. Monthly installment of TDS=13,867

ILLUSTRATION 46

TDS u/s 194A: Examine the TDS implications under section 194A in the cases mentioned hereunder

- (1) On 1-10-2025, Mr. Paresh made a 6 month fixed deposit of 12 lakh @ 10% p.a. with XYZ Cooperative Bank. The fixed deposit matures on 31-3-2025.
- (2) On 1-07-2025, Mr. Suresh made three nine month fixed deposits of 5,00,000 each carrying interest @ 8% p.a. with Bapu Nagar Branch, Malviya Nagar Branch and Ambey Nagar Branches of PNB Bank, a bank which has adopted CBS. The fixed deposits mature on 31-03-2026.
- (3) On 1-07-2025, Mr. Rajesh started a 9 months recurring deposit of 1,80,000 per month @ 6.25% p.a. with TP Bank. The recurring deposit matures on 31-03-2026.

SOLUTION

- (1) XYZ Co-operative Bank has to deduct tax at source @ 10% on the interest of 60,000 [12 lakhs $\times$ 10% $\times$ 6/12] under section 194A. The tax deductible at source under section 194A from such interest is, therefore, 6,000.
- (2) PNB Bank has to deduct tax at source @ 10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is 90,000 [5,00,000 $\times$ 3 $\times$ 8% $\times$ 9/12], which exceeds the threshold limit of 50,000. Since PNB Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of 90,000 exceeds the threshold limit of 50,000, tax has to be deducted @ 10% under section 194A.
- (3) Tax has to be deducted under section 194A by TP Bank on the interest of 42,590 falling due on recurring deposit on 31-03-2025 Mr. Rajesh, since such interest exceeds the threshold limit of 50,000.

ILLUSTRATION 47

TDS u/s 194E: Calculate the amount of tax to be deducted at source (TDS) on payment made to Ricky Ponting, an Australian cricketer, by a newspaper for contribution of articles ₹ 25,000.

SOLUTION

Under section 194E, the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @ 20%. Further, since Ricky Ponting is a non-resident, health and education cess @ 4% on TDS would also be added. Therefore, tax to be deducted = $25,000 \times 20.8\% = 5,200$.

ILLUSTRATION 48

TDS w/s 194-IA: Mr. Dhanapal wishes to purchase a residential house costing 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area from 65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably. (2 Marks, Nov. 2018-NS)

SOLUTION

As per Section 194-IA, Any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property [i.e. any land





(other than rural agricultural land) or any building or part of a building, shall be liable to deduct tax at source @ 1% of consideration or the stamp duty value of such property, whichever is higher. Tax is not required to be deducted at source where the total amount of consideration for the transfer of immovable property and the stamp duty value of such property, are both less than 50 lakh. Since the sale consideration of house property exceeds 50 lakh, Mr. Dhanpal is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be 60,000, being 1% of 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

ILLUSTRATION 49

TDS on Rent: Mr. X, a salaried individual, pays rent of 60,000 per month to Mr. Y from June, 2025. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st December, 2024? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

SOLUTION

Since Mr. X pays rent exceeding 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @ 5% of such rent for F.Y. 2025-26 under section 194-IB. Thus, 30,000 [60,000 × 5% × 10] has to be deducted from rent payable for March, 2026.

If Mr. X vacated the premises in December, 2025, then tax of 21,000 [60,000 × 5% × 7] has to be deducted from rent payable for December, 2025.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 5%.

In case 1 above, this would amount to 1,20,000 [60,000 × 20% × 10] but the same has to be restricted to 60,000 being rent for March, 2026.

In case 2 above, this would amount to 84,000 [60,000 × 20% × 7] but the same has to be restricted to 60,000, being rent for December, 2025.

ILLUSTRATION 50

Section 194J: XYZ Ltd. makes a payment of ₹ 29,000 to Mr. Ganesh on 1-10-2024 towards fees for professional services and another payment of 22,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

SOLUTION

TDS provisions under section 194J would not get attracted, since the limit of 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y. 2024-25.

ILLUSTRATION 51

TDS u/s 194M: X is a salaried employee. He makes the following payments to a resident contractor for a work contract for personal purpose. Amount of payment is 25,00,000 on 10 August, 2025 and 30,00,000 on 22 November, 2025. Determine the amount of tax to be deducted at source if any. Would your answer be different if X is a businessman and his books are not audited in the immediately preceding financial year and payment to contractor is for business purposes.

SOLUTION



Mr X has made the payment to the contractor for personal purposes. Hence, tax is not deductible u/s 194C. Aggregate payment to the recipient during the financial year 2025-26 is 55,00,000 (more than the threshold of 50,00,000 u/s 194M). Tax is deductible u/s 194M. The amount of TDS is 2% of 55,00,000. In case X is businessman and whose turnover does not exceed 1 crore, he is not required to deduct tax at source u/s 194C but will be required to deduct tax at source u/s 194M and the answer shall remain same.

ILLUSTRATION 52

TDS u/s 194N: X Ltd. is a manufacturing company (having head office at Delhi and branch office at Jaipur). X Ltd. has a current account with SBI Delhi and overdraft account with SBI Jaipur. The two accounts are separately operated by head office and branch office. Head office and branch office have separate TAN and GSTIN, Cash withdrawn by head office and branch office from these two accounts is as follows

- ★ from SBI Delhi by head office on 10 July, 2025: 15 lakh
- ★ from SBI Jaipur by branch office on 10 October, 2025: 70 lakh
- ★ from SBI Delhi by head office on 10 January, 2026: 40 lakh

Determine the amount of tax to be deducted at source. X Ltd. has always submitted the return before the due date.

What would be your answer if X Ltd. has filed the returns for the three preceding years after the due date of furnishing the return of income.

SOLUTION

Total cash payment to X Ltd. (head office and branch office) during the F.Y. 2025-26 is 1.25 crore. Cash payment by SBI up to 9th January, 2026 does not exceed ₹ 1 crore. It exceeds ₹ 1 crore only after cash payment of 40 lakh on 10th January, 2026. Tax deductible by SBI on 10th January, 2026 is ₹ 50,000 (being 2% of the sum paid of 25,00,000).

X Ltd. has filed the returns for the three preceding years after the due date of furnishing the return of income: First proviso is applicable to a recipient, who has not filed his returns of income for all 3 assessment years relevant to the 3 previous years [in respect of which time-limit to file the return of income under section 139(1) has expired] immediately preceding the previous year in which the payment is made. In such a case, the modified threshold limit of 20 lakhs would apply; and the banker will have to deduct tax at the differential rates as specified, namely:

- ★ 2% of the sum paid, where it exceeds ₹ 20 lakhs but does not exceed 1 crore; and
- ★ 5% of the sum paid in cash exceeding 1 crore.

Thus, the amount of TDS shall be as under:

Date of cash Withdrawal	Amount of cash withdrawal in lakh)	Cumulative Amt (in lakh)	Amount of TDS
10th July 2025	15	15	Nil
10th October 2025	70	85	2% of 65 lakh = 1,30,000
10th January 2026	40	125	2% of 15 lakh and 5% of 25 lakh = 30,000+1,25,000 = ₹ 1,55,000.

ILLUSTRATION 53

Tax deduction at source u/s 194P: Mr. Verma, a resident Indian aged 77 years, gets pension of ₹ 1,10,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @ 8% on fixed deposit of 20 lakh with the said bank. Out of the deposit of 20 lakh, 2 lakh represents five year term deposit made by him

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on 1-4-2025. Interest on savings bank credited to his SBI savings account for the P.Y. 2025-26 is 9,500.

- From the above facts, compute the total income and tax liability of Mr. Verma for the A.Y. 2026-27, assuming that he has opted for section 115BAC.
- What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Verma required to file his return of income for A.Y. 2026-27, if tax deductible at source has been fully deducted? Examine.
- Would your answer to Q. 2 be different if the fixed deposit of 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

SOLUTION

(1) Computation of Total income and tax liability of Mr. Verma (amount in ₹)

Particulars	₹	₹
Income from Salary		
Pension (1,10,000 × 12)	13,20,000	
Less: Standard Deduction u/s 16(ia)	75,000	12,45,000
Income from Other Sources		
Interest on fixed deposit (20 lakh × 8%)	1,60,000	
Interest on savings account	9,500	1,69,500
Gross Total Income		14,14,500
Less: Deductions under Chapter VIA -		Nil
Total Income		14,14,500
Tax on total income		92,175
Add: Health and Education cess @ 4%		3,687
Total Tax (rounded off)		95,860

- SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Verma would not be required to file his return of income u/s 139.
- If the fixed deposit of 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Verma would not qualify as a "specified senior citizen", consequent to which SBI would not be liable to deduct tax under section 194P. In this case, Mr. Verma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax @ 10% under section 194-A on interest on fixed deposit, since the same exceeds 1,00,000.

ILLUSTRATION 54

Liability for TDS: Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

(2*4 = 8 marks, July 2021)

	Particulars of the Payer	Nature of Payment	Aggregate of payments made in the F.Y. 2025-26



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A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2025 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
B)	Mr. Rahul, a wholesale trader of spices whose turnover was 5 crores in F.Y. 2024-25	Contract payment for construction of Office godown during January to March, 2026 to Mr. Akhilesh, an individual	5,00,000
C)	Mr. Golu, an individual carrying on garment trading business with turnover of 95 lakhs in F.Y. 2024-25	Payment of commission to Mr. Vinay for securing a contract from a big Business House in November 2025.	1,20,000
D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting 1.2 crores during Financial year 2025-26. ABC & co.. has filed his tax returns for the last 3 financial years with in time.	1,20,00,000

SOLUTION

- (i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source u/s 194C. However, he has to deduct tax at source @ 2% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of 50,00,000.
Therefore, TDS u/s 194M would be = $52,50,000 \times 2\% = ₹ 1,05,000$.
- (ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the F.Y. 2024-25, being the financial year immediately preceding F.Y. 2025-26 in which such sum is paid, exceeds 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual.
Therefore, TDS u/s 194C would be = $50,00,000 \times 1\% = 50,000$
- (iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds 50 lakhs.
In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y. 2025-26 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2024-25.
Further, Mr. Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr. Vinay since the commission paid does not exceed 50 lakhs during the P.Y. 2025-26.
- (iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an



amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding 1 crore (1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y. 2025-26, the bank is required deduct tax at source @2% of such sum.

Therefore, TDS u/s 194N would be $20,00,000 \times 2\% = 40,000$.

ILLUSTRATION 55

Liability for interest u/s 201: An amount of 40,000 was paid to Mr. X on 01-07-2025 towards fees for professional services without deduction of tax at source. Subsequently, another payment of 50,000 was due to Mr. X on 28-02-2026, from which tax @ 10% (amounting to 9,000) on the entire amount of 90,000 was deducted. However, this tax of 9,000 was deposited only on 22-06-2026.

Compute the interest chargeable under section 201(1A).

SOLUTION

Interest under section 201(1A) would be computed as follows (amount in ₹):

1% on tax deductible but not deducted i.e. 1% on 4,000 for 8 months	320
1.5% on tax deducted but not deposited i.e. on 9,000 for 4 months	540
Total interest	860

ILLUSTRATION 56 Repeated

ILLUSTRATION 57 Repeated

ILLUSTRATION 58 Repeated

ILLUSTRATION 59

Interest payable u/s 234B: ABC Ltd. whose due date of filing the return for the assessment year 2025-26 was 30-11-2025 failed to file his return. The Assessing Officer completed his assessment on 25-12-2026 and determined a tax liability of 2,20,000 (without giving credit for advance tax or TDS). ABC Ltd. had paid an advance tax of 40,000 and a TDS of 18,000. Determine the interest payable by 'ABC Ltd.' under section 234B.

SOLUTION

Period for which interest is to be paid = 01-04-2025 to 25-12-2026 = 21 months. Assessed Tax (2,20,000 - 18,000) = 2,02,000.

Amount on which interest payable = Assessed tax - Advance tax Paid $2,02,000 - 40,000 = ₹1,62,000$. Rate of interest = 1% p.m or part thereof.

Interest payable under section 234B = $1,62,000 \times 1\% \times 21 = 34,020$.

ILLUSTRATION 60

Section 194DA: Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases-

- (1) Mr. X, a resident, is due to receive 4.50 lakhs on 31-03-2026, towards maturity proceeds of LIC policy taken on 01-04-2023, for which the sum assured is 4 lakhs and the annual premium is 1,25,000.



- (2) Mr. Y, a resident, is due to receive 3 lakhs on 31-03-2026 on LIC policy taken on 31-03-2012, for which the sum assured is 2.8 lakhs and the annual premium is 18,000.
- (3) Mr. Z, a resident, is due to receive 95,000 on 01-08-2025 towards maturity proceeds of LIC policy taken on 01-08-2017 for which the sum assured is 90,000 and the annual premium was 12,000.

SOLUTION

- (4) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-03-2012, the maturity proceeds of ₹4,50,000 due on 31-03-2026 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 2% under section 194DA on the amount of income comprised therein i.e., on ₹75,000 (4,50,000, being maturity proceeds - 3,75,000, being the entire amount of insurance premium paid).
- (5) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01-04-2012, the sum of 3 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (6) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-03-2012, and consequently, the maturity proceeds of 95,000 due on 01-08-2025 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than 1,00,000.

ILLUSTRATION 61

TDS u/s 194H: Discuss the following issues in the context of the provisions of the Income-tax Act, 1961, with specific reference to clarification given by the Central Board of Direct Taxes

- (i) Moon TV, a television channel, made payment of 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.
Also, examine whether the provisions of tax deduction at source 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.
- (ii) Mudra Adco Ltd., an advertising company, has retained a sum of procuring and canvassing advertisements, from payment of ₹ 15 lakhs, towards charges for 1 crore due to Cloud TV, a television channel, and remitted the balance amount of 85 lakhs to the television channel. Would the provisions of tax deduction at source under section 194H be attracted on the sum of ₹ 15 lakhs retained by the advertising company?

SOLUTION

- (i) In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.
If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.
- (ii) The issue of whether fees/ charges taken or retained by advertising companies from media companies for canvassing/ booking advertisements (typically 15% of the billing) is



'commission' or 'discount' to attract the provisions of tax deduction at source has been clarified by the CBDT vide its Circular No. 5/2016 dated 29-2-2016.

The relationship between the media company and the advertising agency is that of a 'principal-to-principal' and, therefore, not liable for TDS under section 194H. In view of the same, the CBDT has clarified that no liability to deduct tax is attracted on payments made by television channels to the advertising agency for booking or procuring of or canvassing for advertisements.

Accordingly, in view of the clarification given by CBDT, no tax is deductible at source on the amount of 15 lakhs retained by Mudra Adco Ltd., the advertising company, from payment due to Cloud TV, a television channel.

However, the Supreme Court, in **Prasar Bharti v. CIT [2018] 403 ITR 161 (SC)** has held that if the relationship between Doordarshan and its accredited agencies is that of a principal and agent, then TDS provisions under section 194H would get attracted in respect of retentions by accredited advertising agencies from payments remitted to Doordarshan. Therefore, the applicability or otherwise of the CBDT Circular will depend on the facts of the specific case.

ILLUSTRATION 62

Mr. Ganesh whose Professional Receipts for the year ended 31-03-2025 were ₹ 1.25 crores has made payment to Mr. Rajesh (a Chartered Accountant) during P.Y. 2025-26 who has multi faced activities.

Examine whether TDS Provisions re applicable for following payments made by Mr. Ganesh to CA Rajesh :

- (i) Professional Fee for consultation - 52,450 on 15-06-2025 including GST paid @18%.
- (ii) Royalty payment for use of Computer Software by various clients of Mr. Rajesh - 2,50,000 on 3-3-2026.
- (iii) Fee for Technical services related to Business of Mr. Ganesh - 40,000 on 15-12-2025.
- (iv) Fees for teaching accountancy to his Son - 40,000 on 31-10-2025. (4 Marks, Jan. 2025)

SOLUTION

- (i) **Professional Fees for consultation:** As per section 194J, tax is required to be deducted at source @ 10% on fees for professional services, if the amount paid exceeds 50,000.
In the present case, since the amount of professional fees of 44,449 ($52,450 \times 100/118$) excluding GST is not exceeding 50,000, no tax is required to be deducted at source on such payment by Mr. Ganesh.
- (ii) **Royalty payment for use of computer software:** No tax is deductible at source by Individuals and HUFs on royalty payment by Individuals and HUF. Hence this payment is not liable for TDS under section 194J.
- (iii) **Fee for technical services related to business of Mr. Ganesh:** As per section 194J, tax is required to be deducted at source 2% on fees for technical services, if the amount paid exceeds ₹ 50,000.
Since in the present case, the amount of fees for technical services of 20,000 is not exceeding ₹ 50,000, no tax is required to be deducted at source on such payment by Mr. Ganesh.

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- (iv) **Fees for teaching accountancy to his son:** No tax is required to be deducted at source u/s 194J in respect of fees for teaching, since it does not fall within the scope of professional services. Moreover, TDS also not required to be deducted at source since such fees is paid by Mr. Ganesh for his personal purposes.

ILLUSTRATION 63

TDS Provisions: 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. 2026-27. (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. 2025-26 are as given:

Particulars	Date of Payment	Amount (₹)
Advance payment	01-04-2025	40,00,000
Payment for supplies	02-07-2025	20,00,000
Advance payment	04-08-2025	12,00,000

XYZ achieved gross turnover of 12 crore from the business during the financial year 2024-25 and the gross business turnover for financial year 2025-26 turns out to be 9 crores. Gross business turnover of ABC for the financial year 2024-25 was 6 crores.

Will your answer be same, if the gross turnover of XYZ during the financial year 2024-25 includes 4 crore towards supply of material for charitable purposes? **(3 Marks, Nov. 2023)**

- (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 01-04-2025 to 31-03-2026. **(1 Mark, Nov. 2023)**

- (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. 2025-26. 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 01-07-2025. He has no other income. He has opted out of default tax regime under section 115BAC.

Discuss requirement of filing of income tax return also. **(3 Marks, Nov. 2023)**

SOLUTION

- (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. 2024-25 exceeds 10 crores and it has purchased goods exceeding 50 lakhs in the F.Y. 2025-26. 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 2-7-2025 of ₹ 1,000, being @ 0.1% on ₹ 10 lakhs exceeding 50 lakhs (₹ 40,00,000 on 1-4-2025 + 20,00,000 on 2-7-2025).



On 4-8-2025 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. 2024-25, 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 2,49,000 paid to MJ, a part time

- (ii) ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @ 10% on director, as commission, which is not in the nature of salary on which tax is deductible u/s 192. Therefore, 24,900 ($2,49,000 \times 10\%$) 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 opting out of default tax regime u/s 115BAC and tax liability for A.Y. 2026-27:

	Particulars	₹	₹
	Salaries		
	Pension ($72,000 \times 12$)	8,64,000	
	Less: Standard deduction u/s 16(ia)	50,000	8,14,000
	Income from Other Sources		
	Interest on savings account	15,000	
	Interest on fixed deposit ($10 \text{ lakh} \times 7\% \times 9/12$)	52,500	67,500
	Gross total income		8,81,500
	Less: Deductions under Chapter VI-A		
	U/s 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		50,000
	Total Income		8,31,500
	Computation of tax liability for A.Y. 2026-27		
	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%		2,652
	Tax Liability (Rounded off)		68,950

Accordingly, Bank of Baroda is required to deduct tax at source of 68,950 for the P.Y. 2025-26. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2026-27.

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 37750.

ILLUSTRATION 64

TDS and TCS: Answer the following:

- (1) M/s. PQR & Co., a proprietary firm of Mr. Yogesh, paid an amount of 50,500 to Mr. Amit, a resident individual aged 45 years, on June 1, 2025 towards fees for professional services. Subsequently, another payment of 60,000 was due to Mr. Amit on January 30, 2026. Tax was not deducted from both the transactions. Mr. Amit has filed his return of income for assessment year 2026-27 on May 2, 2026, taking into account professional fees from M/s. PQR & Co. and paid the taxes due on the income declared in the return of income. What are the tax obligations in the hands of M/s. PQR & Co. on the assumption that the accounts of the firm are audited under section 44AB of the Income-tax Act 1961?
- (2) M/s. Fastest Ltd. is an Indian car manufacturer. During the F.Y. 2025-26, it sold cars for 150 lakhs to M/s. Race LLP, a distributor of cars where the sale price of each car was 7.5 lakhs. The turnover for the F.Y. 2024-25 of M/s. Fastest Ltd. was 15 crores and M/s. Race LLP was 8 crores. What shall be the TCS/TDS implications on M/s. Fastest Ltd. and M/s. Race LLP?
- (6 Marks, Sept. 2024)

SOLUTION

- (1) M/s PQR & Co. is required to deduct tax at source under section 194J @ 10% on the professional fees paid to Mr. Amit of ₹ 50,500 and 60,000 on 1st June 2025 and 30th January 2026, PQR & Co. turnover/gross receipts exceeds the prescribed threshold limit. However, M/s PQR & Co. has not deducted the tax at source during the P.Y. 2025-26, disallowance of 33,150, being 30% of ₹ 1,10,500 would be attracted u/s 40(a)(ia) though Mr. Amit has filed his return of income considering the professional fees from M/s PQR & Co. and paid taxes on the same.

In such a case, M/s PQR & Co. would not be deemed as assessee in default by virtue of the first proviso to section 201(1) and the amount disallowed i.e., 33,150 would be allowed as deduction in A.Y. 2027-28.

For non-deduction of tax at source, interest @ 1% would be leviable under section 201(1A)(i) for every month or part of the month on the amount of tax from the date on which such tax was deductible to the date such tax was paid by the payee i.e., 02-05-2026 as under:

Particulars	₹
1% on tax deductible but not deducted i.e. 1% on 5,050 (10% of ₹ 50,500) (from June 2025 to May 2026)	606
1% on tax deductible but not deducted i.e. 1% on ₹ 6,000 (10% of ₹ 60,000) (from January 2026 to May 2026)	300
Total interest payable by PQR & co.	906

- (2) M/s. Fastest Ltd. is not required to collect tax at source u/s 206C(1F) on sale of cars of 150 lakhs to M/s. Race LLP, since such sale is to a distributor and sale price of each car does not exceed 10 lakhs.

M/s. Race LLP is also not required to deduct tax at source u/s 194Q, since its turnover, being a buyer in the P.Y. 2024-25 does not exceed 10 crores.

M/s Fastest Ltd. is also not required to collect tax at source u/s 206C(1H) as the provisions have been omitted w.e.f. 01-04-2025.

ILLUSTRATION 65

TDS Provisions: Discuss the relevant provisions of Income-tax Act, 1961 with respect to tax deduction at source (TDS) and calculate amount of TDS also for the A.Y. 2026-27 in the following independent situations:

- (i) Marks Pictures Ltd. is a movie and short films production house having turnover of 15.22 crores during the previous year 2024-25. Solar Varanasi LLP also produces short films and clippings and it has already produced a short film namely 'Maha Kumbhi'. On 16-10-2025 Marks Pictures Ltd. acquired television rights in consideration of 52 lakhs from Solar Varansi LLP. (Both have valid PAN)
- (ii) Mr. Mayank, a salaried individual, paid rent for his residential house at Mumbai to the house owner Mr. Nikhil in the following manner:
- | | |
|---------------------------------------|-----------------------|
| From April, 2025 to September, 2025 : | 75,000 per month; and |
| From October, 2025 to March, 2026 : | 1,00,000 per month |
- (4 Marks, May 2025)

SOLUTION

- (i) Acquisition of television rights: Payment made by Marks Pictures Ltd. for acquisition of television rights of the content already produced by the Solar Varanasi LLP, a production house would not be liable for tax deduction at source under section 194C, since there is no contract for "carrying out any work", as required in section 194C. However, consideration for acquiring television right in respect of film would fall within the definition of royalty as defined in Explanation 2 to section 9(1)(vi). Accordingly, tax is required to be deducted u/s 194J @ 10% on 52 lakhs or 5,20,000.
- (ii) Rent paid by a Salaried individual: Since Mr. Mayank pays rent exceeding 50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source u/s 194-IB @ 2%. The tax is to be deducted in the last month of the P.Y. 2025-26 i.e., March 2026 or in the last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, ₹21,000 ₹10,50,000 [(75000 * 6)+(1,00,000*6)]*2%] has to be deducted from rent payable for March 2026.

ILLUSTRATION 66

Computation of TDS on salaries: Rajkumar is employed in a company in Ahmedabad. He received salary of 8,00,000 (Computed) from his employer during financial year 2024-25. During financial year 2024-25, he made payments of 1,50,000 eligible for deduction under section 80C.

Compute the amount of tax deductible at source per month from the salary of Mr. Rajkumar, if Mr. Rajkumar has following other incomes, as reported to the employer company:

Loss under the head House property	₹ 60,000
Loss from business	₹ 50,000
Professional fees gross income	₹ 1,00,000 (TDS deducted 10,000)
(expenses incurred to earn professional income ₹ 80,000)	

Assessee has not opted for the provisions of Section 115BAC.

SOLUTION



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Amount of tax to be deducted from salary income: Higher of the amount arrived at in (A) or (B) below

A) Computation of tax due on salary income after deducting loss from house property (amount in ₹)

Particulars	₹
Income from salary (Computed)	8,00,000
Less: Loss from house property	60,000
Gross total income (GTI)	7,40,000
Less: Deduction u/s 80C	1,50,000
Total income	5,90,000
Tax due	30,500
Add: HEC@4%	1,220
Tax to be deducted at source	31,720

ILLUSTRATION 67

TDS u/s 194A: Examine the TDS implications under section 194A in the cases mentioned hereunder

- On 1-10-2024, Mr. Paresh made a 6 month fixed deposit of 12 lakh @ 10% p.a. with XYZ Cooperative Bank. The fixed deposit matures on 31-3-2025.
- On 1-07-2024, Mr. Suresh made three nine month fixed deposits of 5,00,000 each carrying interest @ 8% p.a. with Bapu Nagar Branch, Malviya Nagar Branch and Ambey Nagar Branches of PNB Bank, a bank which has adopted CBS. The fixed deposits mature on 31-03-2025.
- On 1-07-2024, Mr. Rajesh started a 9 months recurring deposit of 1,80,000 per month @ 6.25% p.a. with TP Bank. The recurring deposit matures on 31-03-2025. Interest on such deposit amount is 42,590.

SOLUTION

- XYZ Co-operative Bank has to deduct tax at source @ 10% on the interest of 60,000 [12 lakhs x 10% x 6/12] under section 194A. The tax deductible at source under section 194A from such interest is, therefore, 6,000.
 - PNB Bank has to deduct tax at source @ 10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is 90,000 [5,00,000 x 3 x 8% x 9/12], which exceeds the threshold limit of 40,000. Since PNB Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of 90,000 exceeds the threshold limit of 40,000, tax has to be deducted @ 10% under section 194A.
 - Tax has to be deducted under section 194A by TP Bank on the interest of 42,590 falling due on recurring deposit on 31-03-2025 Mr. Rajesh, since
 - "recurring deposit" has been included in the definition of "time deposit"; and
 - such interest exceeds the threshold limit of 40,000.
- (4) **Illustration 4 - TDS w/s 194-IA:** Mr. Dhanapal wishes to purchase a residential house costing 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area from 65 lakhs. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably. (2 Marks, Nov. 2018-NS)



- (5) **Solution:** As per Section 194-IA, Any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property [i.e. any land (other than rural agricultural land) or any building or part of a building, shall be liable to deduct tax at source @ 1% of consideration or the stamp duty value of such property, whichever is higher. Tax is not required to be deducted at source where the total amount of consideration for the transfer of immovable property and the stamp duty value of such property, are both is less than 50 lakh. Since the sale consideration of house property exceeds 50 lakh, Mr. Dhanpal is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be 60,000, being 1% of 60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

ILLUSTRATION 68 Repeated

ILLUSTRATION 69 Repeated

ILLUSTRATION 70 Repeated

ILLUSTRATION 71 Repeated

ILLUSTRATION 72 Repeated

ILLUSTRATION 73 Repeated

ILLUSTRATION 74

TCS Applicability: Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations. (2 Marks, Nov. 2018-NS)

SOLUTION

To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding ₹ 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors. Thus, XYZ Ltd. selling cars to Rahil & Co. will not be required to collect tax at source. However, when Rahil & Co. sells car to individual buyers, it will be required to collect tax at source @ 1% of the amount of the sale consideration of car.

ILLUSTRATION 75

TCS: Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the Assessment year 2024-25.

- (ii) Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹ 5 lakhs on 01-11-2024 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.

SOLUTION



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CA VARDHAMAN DAGA

- (i) Tax @ 5% is required to be collected u/s 206C by the seller of an overseas tour programme package, from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque. Accordingly, tax has to be collected @ 5% on 5 lakh. TCS = 5% x 5 lakh 25,000

ILLUSTRATION 76

Computation of Total income and advance tax: Mr. John commenced a proprietary business in the year 2002. His capital as on 1-4-2023 was 6,00,000. On 10-4-2023 his wife gifted 2,00,000 which he invested in the business of the same date. Mr. John earned profit from his proprietary business as given below.

Previous year 2023-24 = Profit ₹ 3,00,000

Previous year 2024-25 = Profit ₹ 4,40,000

Compute the income from business chargeable to tax in the hands of Mr. John for the assessment year 2025-26. During the financial year 2024-25, he sold a vacant site which resulted in chargeable long-term capital gain of 5,00,000 (computed). The vacant site was sold on 20-12-2024. Compute the total income and tax liability of Mr. John and the instalments of advance tax payable for the financial year 2023-24 if he has not opted for the provisions of Section 115BAC.

(8 Marks, PCC May 2010)

SOLUTION

Computation of business income of Mr. John for the assessment year 2025-26 (amount in ₹)

Particulars	₹
Capital as on 01-04-2023	6,00,000
Add: Gift from wife (10-04-2023)	2,00,000
	8,00,000
Add: Profit for the year ended 31-03-2024	3,00,000
Capital as on 01-04-2024	11,00,000
Profit for the year ended 31-03-2025	4,40,000
Income proportionately assessable in the hands of Mr. John ($4,40,000 \times 9,00,000 \div 11,00,000$)	3,60,000
Amount of income taxable in the hands of Mrs. John by virtue of clubbing ($4,40,000 \times 2,00,000 \div 11,00,000$)	80,000

Computation of total income and tax liability of Mr. John (amounts in ₹)

Profits and gains of business or profession :		
Income from the business		3,60,000
Long-term Capital Gains		5,00,000
Total Income		8,60,000
Tax: Tax on LTCG @ 20%	1,00,000	
Tax on balance income	5,500	1,05,500
Add: HEC @ 4%		4,220
Net tax payable (rounded off)		1,09,720

Installments of Advance tax: Since the vacant plot was sold on 20-12-2023, hence, advance tax on LTCG arising from such sale will be included in the installment due after that date i.e. in the

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CA VARDHAMAN DAGA

last installment on 15-3-2024. Advance tax shall be payable in 4 installments in the following manner (all amounts in ₹)

Installment date	Total tax due (₹)	Amount payable	Cumulative Instalments (₹)	Net Instalment Payable ₹
15-06-2024	5,720	15% of advance tax	858	858
15-09-2024	5,720	45% of advance tax Less advance tax paid in earlier installment	2,574	1,716
15-12-2024	5,720	75% of advance tax Less advance tax paid in earlier installments	4,290	1,716
15-03-2025	1,09,720	100% of advance tax Less advance tax paid in earlier installments	1,09,720	1,05,430

ILLUSTRATION 77 Repeated

ADDITIONAL QUESTIONS

ILLUSTRATION 78

Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the A.Y 2026-27 in the following situations

- Mr. Raja paid ₹ 12 lakhs on 1.11.2025 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹ 13 lakhs on 28.3.2026, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday.
- Mr. Rohit and Mr. Raj are the joint owners of a house property. They sold the house property on 31.12.2025 for ₹ 60 lakhs, receiving ₹ 30 lakhs each as their respective shares. However, the stamp duty value (SDV) of the property on the date of transfer is ₹ 75 lakhs. The property was jointly purchased by Ms. Shashi and Ms. Sujata.
- XYZ Ltd. provided a luxury car worth ₹ 15 lakh to its distributor, Mr. A, as an incentive for achieving high sales targets.

Answer

- M/s. Thomas Cook, being a seller of an overseas tour programme package has to collect tax at source @5% till ₹ 10 lakhs and 20% thereafter under section 206C(1G) from Mr. Raja on receiving amount for purchase of package. M/s Thomas Cook has to collect tax of ₹ 90,000, being ₹ 50,000 (5% of ₹ 10 lakhs) and ₹ 40,000 (20% of ₹ 2 lakhs). Bank of India, being an authorized dealer has to collect tax at source under section 206C(1G) @20% on amount in excess of ₹ 10 lakhs remitted under the LRS since the remittance of ₹ 13 lakhs is not for the purpose of education and medical treatment. Bank of India has to collect tax of ₹ 60,000 i.e., 20% of ₹ 3 lakhs, being the amount remitted in excess of ₹ 10 lakhs.



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- (ii) As per section 194-IA, if a person (transferor) transfers any immovable property whose consideration for transfer or stamp duty value is not less than ₹ 50 lakh to a person (transferee), then transferee is required to deduct tax at source @1% of consideration for transfer or stamp duty value, whichever is higher. In case there are multiple transferee or transferor in respect of any immovable property, consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property. Accordingly, in the present case, Ms. Shashi and Ms. Sujata are required to deduct tax at source @1% on ₹ 75 lakhs, being the amount higher of consideration of ₹ 60 lakhs and stamp duty value of ₹ 75 lakhs.
- (iii) As per section 194R, if any person (other than an individual or HUF whose total sales or gross receipts does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding previous year) provides any benefit or perquisite to a resident arising from his business or profession and the total value of such benefits exceeds ₹ 20,000 in a financial year, then such person is required to deduct tax at source @10% of the total value of the benefit or perquisite. Where the benefit or perquisite is in kind, the person has to ensure before releasing such benefit or perquisite that the tax required to be deducted has been paid in respect of such benefit or perquisite. In the present case, XYZ Ltd. provided a luxury car worth ₹ 15 lakh to Mr. A, as an incentive which qualifies as a perquisite u/s 194R. Therefore, XYZ Ltd. has to ensure before releasing the car that the tax of ₹ 1,50,000 i.e., 10% of ₹ 15 lakhs has been paid by Mr. A.

ILLUSTRATION 79

Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2025-26.

Estimated tax liability for the financial year 2025-26	₹ 80,000
Tax deducted at source for this year	₹ 12,000

Answer

Determination of Advance Tax Liability of Mr. Sameer

Particulars	₹
Estimated tax liability for the financial year 2025-26	80,000
Less: Tax deducted at source	<u>12,000</u>
Tax payable	<u>68,000</u>

Due Date of installment	Amount payable	₹
On or before 15 th June, 2025	Not less than 15% of advance tax liability	10,200
On or before 15 th	Not less than 45% of advance	20,400



September, 2025	tax liability <i>less</i> amount paid in earlier installment	(₹ 30,600, being 45% of ₹ 68,000 - ₹ 10,200)
On or before 15 th December, 2025	Not less than 75% of advance tax liability <i>less</i> amount paid in earlier installment(s)	20,400 (₹ 51,000, being 75% of ₹ 68,000 - ₹ 30,600)
On or before 15 th March, 2026	Whole of the advance tax liability <i>less</i> amount paid in earlier installment(s)	17,000 (₹ 68,000, being 100% of ₹ 68,000 - ₹ 51,000)



CHAPTER – 12

PROVISION FOR FILING OF RETURN

STUDY MATERIAL

ILLUSTRATION 1

Paras aged 55 years is a resident of India. During the F.Y. 2025-26, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

SOLUTION

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2026-27).

Computation of total income of Mr. Paras for A.Y. 2026-27

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	
Total Income	33,000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2026-27, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2026-27.

Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving



effect to, inter alia, the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 4,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y. 2026-27.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

ILLUSTRATION 2

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

SOLUTION

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier.

Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

ILLUSTRATION 3

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2026 audited under section 44AB. Her total income for the A.Y. 2026-27 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2026-27 through a tax return preparer. Can she do so?

SOLUTION

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y. 2026-27 through a Tax Return Preparer.

TEST YOUR KNOWLEDGE

ILLUSTRATION 4

State with reasons whether you agree or disagree with the following statements:



- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
(b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2026 whether or not declaring presumptive income under section 44AD, is 31st October, 2026.

SOLUTION

- (a) Disagree
(b) Disagree

ILLUSTRATION 5

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-07-2026 for A.Y 2026-27 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2026, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2027?

SOLUTION

Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2026-27 under section 139(1), in his case, is 31st July, 2026. Since Mr. Vineet had submitted his return only on 12.7.2026, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2026, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2026. However, he cannot revise return had he discovered this omission only on 21-03-2027, since it is beyond 31.12.2026.

ILLUSTRATION 6

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

SOLUTION

- (i) True:
(ii) False

ILLUSTRATION 7

Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

SOLUTION



Discussed in class

ILLUSTRATION 8

Mr. Aakash has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents -

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

SOLUTION

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse	No
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No
5.	Applied to SBI for issue of credit card.	Yes

PAST EXAM QUESTIONS

ILLUSTRATION 9





Provisions relating to filing of return of income: In the following cases relating to P.Y. 2025-26, 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. 2026-27 in each of the following independent situations:

(1) 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. (1½ Marks, July 2021)

SOLUTION

(1) 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 u/s 139(1). In this case, since the total income without giving effect to exemption u/s 54EC is 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2026-27 on or before the due date u/s 139(1).

ILLUSTRATION 10

(2) Archana was born in Germany and married in India. Her residential status u/s 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.

(1.5 Marks, July 2021)

SOLUTION

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. 2026-27 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.

ILLUSTRATION 11

Sudhakar has incurred an expenditure of 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. (1 Marks, July 2021)

SOLUTION



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. 2025-26 towards consumption of electricity, he has to file his return of income for A.Y. 2026-27 on or before the due date under section 139(1).

ILLUSTRATION 12

Revised Return: Mr. Vineet submits his return of income on 12-09-2025 for AY 2025-26 consisting of income under the head house property and other sources. On 21-12-2025, he realized that he had not claimed deduction under section 80 TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since the assessment year has not elapsed. Discuss. Would your answer be different if he discovered this omission on 21-01-2026?

(2 Marks, May 2014)

SOLUTION

If any person, having furnished a return under section 139(4) discovers any omission or any wrong statement therein, then, he may furnish a revised return at any time,

- before 3 months prior to the end of the relevant assessment year; or
 - Before the completion of the assessment,
- whichever is earlier.

A belated return filed under section 139(4) can be revised. Since Mr. Vineet has filed the return under section 139(4), such return can be revised under Section 139(5) upto 31-12-2025. However, he cannot revise return had he discovered this omission only on 21-01-2026, since it is beyond 31-12-2025, being the last date for furnishing the revised return.

ILLUSTRATION 13

PAN: State whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2026-27:

- (i) Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of 50,000 against the bill raised by the hotel.
- (ii) Mr. Abhishek, in a single transactions, makes contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- (iii) Payment to Mutual Funds of 70,000 for purchase of its units. Your answers must be supported with reasons.

(3 Marks, May 2018-NS)

SOLUTION

- (i) No, since payment in cash of an amount exceeding 50,000 requires quoting of PAN.
- (ii) Yes, since quoting of PAN is necessary for an amount exceeding 1 lakh per transaction.
- (iii) Yes, since quoting of PAN is necessary for an amount exceeding 50,000 per transaction.

ILLUSTRATION 14

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- (i) What is the consequence for him if he has linked the Aadhar with PAN?
- (ii) Are there any exceptions provided under section 139AA from quoting of Aadhar number?

(4 Marks, Nov. 2022)



SOLUTION

Since, Mr. A fails to link his Aadhar number with PAN, consequently, at the time of linking his Aadhaar number with PAN, he would be liable to pay fee of ₹ 1,000 as per section 234H. Yes, the following are the exceptions -

An individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

ILLUSTRATION 15

Updated return: What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished. (4 Marks, May 2023)

SOLUTION

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Circumstances in which updated return cannot be furnished :

No updated return can be furnished by any person for the relevant assessment year, where

- (a) an updated return has been furnished by him for the relevant assessment year
- (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- (d) an updated return is a loss return
- (e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- (f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5)/original or revised return.

ILLUSTRATION 16

A person other than a company or a firm who is otherwise not required to furnish the return of income, needs to furnish return of income provided they fulfil certain conditions prescribed. Enumerate. (4 Marks, May 2023)

SOLUTION

A person, other than a company or a firm, who is not required to furnish a return under section 139(1), has to furnish their return of income on or before the due date if they fulfill any of the following conditions -

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more.

- (iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.



ILLUSTRATION 17

Belated return and revised return: Mr. Sachin filed return on 30th September, 2026 related to Assessment Year 2026-27. In the month of October 2026, his tax consultant found that the interest on fixed deposit was omitted in the tax return.

- (i) What is the time limit for filing a belated return?
- (ii) Can Mr. Sachin file a revised return?

Justify the above with the relevant provisions under section 139. Assume that the due date for furnishing return of income was 31 July, 2026 and the assessment was not completed till the month of October 2026. **(5 Marks, Nov. 2017)**

SOLUTION

- (i) **Belated return [Section 139(4)]:** Any person who has not furnished a return within the time allowed to him under Section 139(1), may furnish the return for any previous year at any time
- ✚ before 3 months prior to the end of the relevant assessment year; or
 - ✚ before the completion of the assessment, whichever is earlier.

Hence, for A.Y. 2026-27, belated return can be furnished upto 31-12-2026.

- (ii) **Yes**, Mr. Sachin can revise the return. As per Section 139(5), if any person, having furnished a return u/s 139(1) or 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time
- ✚ before 3 months prior to the end of the relevant assessment year; or
 - ✚ before the completion of the assessment, whichever is earlier.

Hence, belated return filed u/s 139(4) by Mr. Sachin can be revised u/s 139(5) upto 31-12-2026.

ILLUSTRATION 18

Revised Return and its consequences: Mr. Mukesh born on 1-4-1965 furnished his original return for Assessment Year 2026-27 on 30-07-2026. He has shown salary income of 7.30 lakhs (computed) and interest from his savings bank of 12,700 and from his fixed deposits of 43,000. He also claimed deduction under section 80C of ₹ 1.50 lakhs. He had claimed deduction u/s 80D of 25,000. He also claimed deduction u/s 80TTA of 10,000. His employer had deducted TDS of 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of 38,000 by account payee cheque for self and wife. He paid 1,500 in cash for his health check-up and 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy.

He seeks your advice about possibility of revising his return and if possible file his revised return. Analyse the above narrated facts as per applicable provisions of the Income-tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the Assessment Year 2026-27. If he has opted out of the default tax regime. **(9 Marks, Nov. 2020)**

SOLUTION

Computation of total income of Mr. Mukesh for A.Y. 2026-27 [As per the original return filed by him]

Particulars	₹	₹



Salaries (Computed)		7,30,000
Income from Other Sources:		
• Interest on savings bank account	12,700	
• Interest on fixed deposits	43,000	55,700
		7,85,700
Less: Deductions under Chapter VI-A		
(i) Deduction u/s 80C	1,50,000	
(ii) Deduction u/s 80D	25,000	
(iii) Deduction u/s 80TTA	10,000	1,85,000
Total Income		6,00,700

Computation of tax liability of Mr. Mukesh for A.Y. 2026-27 (As per original return)

Tax on total income [20% of 1,00,700 (i.e., 6,00,700-5,00,000) + 12,500]	32,640
Add: HEC@4%	1,306
Tax payable on total income	33,946
Tax payable on total income (rounded off)	33,950
Less: Tax deducted at source u/s 192	33,950
Tax Payable	Nil

Need for filing revised return - Analysis:

Since Mr. Mukesh's birthday falls on 1-4-2026, he would be treated as having completed 60 years of age in the P.Y. 2025-26, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of up-to 50,000 u/s 80TTB (instead of 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of 3,00,000 in the P.Y. 2025-26 itself while computing his tax liability. Also, he would be entitled to deduction in respect of medical insurance premium paid to insure the health of his mother and medical expenses incurred on his father who is not covered under any Mediclaim policy. Accordingly, having discovered such omissions in the original return, he has to file his revised return of income u/s 139(5) on or before 31-12-2026 to avail these benefits which he has not availed while filing his original return of income. The computation of total income and tax liability (refund due) as per the revised return are worked out hereunder

Computation of Total Income of Mr. Mukesh for the A.Y. 2026-27 [As per the Revised Return]

	Particulars	₹	₹
i)	Salaries (Computed)		7,30,000
ii)	Income from Other Sources		
	✚ Interest on savings bank account	12,700	
	✚ Interest on fixed deposits	43,000	55,700
	Gross Total Income		7,85,700
	Less: Deductions under Chapter VI-A		
	(i) Deduction u/s 80C	1,50,000	
	(ii) Deduction u/s 80D		
	Medical insurance premium for self and spouse 38,000		
	Preventive health check-up for self 1,500 (allowable even if paid in cash)		
	Fully allowed as it is within the overall limit of		



	₹50,000 for family	39,500		
	Medical insurance premium for mother	33,000		
	Medical expenditure for father not covered under any policy	25,000		
	Preventive health check-up for parents (4,000, restricted to 3,500, being 5,000 -1,500 claimed for self and spouse)	3,500		
		61,500		
	Restricted to maximum of 50,000 for parents	50,000	89,500	
iii)	Deduction u/s 80TTB			
	Interest on savings bank account	12,700		
	Interest on fixed deposits	43,000		
	55,700			
	Restricted to maximum of 50,000		50,000	2,89,500
	Total Income			4,96,200

Computation of tax liability of Mr. Mukesh for A.Y. 2026-27 [As per the Revised Return]

Tax on total income [5% of 1,96,200 (i.e., 4,96,200-3,00,000 basic exemption limit)]	9,810
Less: Rebate u/s 87A (Since his total income does not exceed 5 lakh) - 12,500 or tax on total income whichever is lower	9,810
Tax payable on total income	Nil
Less: Tax deducted at source u/s 192	33,950
Refund due	33,950

Therefore, Mr. Mukesh has to file a revised return showing the above revised computation of total income and tax liability on or before 31-12-2026 to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income-tax of 33,950 deducted at source by his employer.

Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the A.Y. 2026-27 before due date prescribed u/s 139(1). Advise Mr. Kailash as a tax consultant.

ILLUSTRATION 19

Belated return and carry forward of business loss and unabsorbed depreciation: M/s. Shiv Traders, a partnership firm, sustained business loss of ₹ 2 lakhs, inclusive of admissible depreciation of ₹ 1.15 lakhs (u/s 32 of the I.T. Act) for the year-ended 31-3-2025. The firm did not file its return, for that year. The Assessing officer issued a notice u/s 142(1) on 1st December 2025, in compliance to which the firm filed its return for the said year declaring the loss of ₹ 2 lakhs, and sought carried forward for next year. Is the firm's claim justified?

SOLUTION

M/s. Shiv Traders failed to file its return of loss within the time allowed under section 139(1) and the same was filed by it in response to notice issued under section 142(1). The provisions of Section 80 read with Section 139(3) clearly specify that the return filed by the assessee in response to notice issued under section 142(1) is a belated return and therefore, the benefit of



carry forward of business loss shall not be available. However, the assessee shall be entitled to carry forward the unabsorbed depreciation of ₹ 1.15 lakhs as per the provisions of Section 32(2) of the Act. The unabsorbed depreciation shall be added to the depreciation allowance for the following previous year and will be deemed to be part of that allowance.

ILLUSTRATION 20

Belated return and carry forward of loss from house property : An assessee sustained a loss under the head "Income from house property" in the previous year relevant to the assessment year 2025-26, which could not be set off against income from any other head in that assessment year. The assessee did not furnish the return of loss within the time allowed under section 139(1) in respect of the relevant assessment year. However, the assessee filed the return within the time allowed under Section 139(4). Can the assessee carry forward such loss for set off against income from house property of the assessment year 2026-27 ?

SOLUTION

Under section 139(3), there is no reference to loss under the head "Income from house property". The assessee, in the instant case, has filed the return showing loss from property within the time prescribed under section 139(4). The assessee is, therefore, entitled to carry forward such loss for set off against the income from house property of the assessment year 2026-27.

ILLUSTRATION 21

Return filing requirement: State with reasons whether return of income is to be filed in the following cases for the assessment year 2026-27 :

- (i) Mr. X, an individual aged 80 years has a Gross total income of ₹ 6,50,000 and he is eligible for deduction of ₹ 1,60,000 under Chapter VI-A.
- (ii) ABC, a partnership firm, has a loss of ₹ 10,000 during the previous year 2025-26.
- (iii) Mr. Y is an employee of ABC P. Ltd., draws a salary of ₹ 4,90,000 and has income from fixed deposits with Bank of ₹ 10,000.
- (iv) Mr. X, a resident individual aged 80 years has a Gross total income of ₹ 4,95,000 has incurred expenditure of ₹ 1,20,000 during the financial year 2025-26 on consumption of electricity.

SOLUTION

The above issues are discussed as under -

- (i) **Yes** : As per the provisions of Section 139(1), every person, whose total income without giving effect to the provisions of Chapter VI-A or Section 54/54B/54D/54EC/54F/54G/54GA/54GB exceeds the maximum amount not chargeable to tax, is required to furnish the return of income for the relevant assessment year on or before the due date. The gross total income of Mr. X before deduction under Chapter VI-A is ₹ 6,50,000, exceeds the basic exemption limit of ₹ 5,00,000 applicable to an individual aged 80 years or more. Therefore, Mr. X has to furnish his return of income for the assessment year 2026-27.
- (ii) **Yes** : As per Section 139(1), it is mandatory for a firm to furnish its return of income or loss on or before the specified due date. Therefore, M/s. ABC has to furnish its return of loss for the assessment year 2025-26 on or before the due date.



- (iii) **Yes** : As per the provisions of Section 139(1), every person, whose total income without giving effect to the provisions of Chapter VI-A or Sections 54/54B/54D/54EC/54F/ 54G/54GA/54GB exceeds the maximum amount not chargeable to tax, is required to furnish the return of income for the relevant assessment year on or before the due date. The gross total income of Mr. Y is ₹ 5,00,000 (₹ 4,90,000 + ₹ 10,000) which exceeds the basic exemption limit of ₹ 2,50,000 applicable to an individual. Therefore, Mr. Y has to furnish his return of income for the assessment year 2026-27.
- (iv) **Yes** : As per the provisions of Section 139(1), every person, who during the previous year has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity is mandatorily required to furnish the return of Income. Hence, Mr. X will be required to furnish the return of income for assessment year 2026-27.

ILLUSTRATION 22

Updated return : Mr. X would like to furnish his updated return for the A.Y. 2024-25. 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 31-3-2026
- (ii) as on 28-2-2027
- (iii) as on 28-2-2028
- (iv) as on 28-2-2029
- (v) as on 31-5-2029

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. Would your answer be different with respect to filing of updated return in case of (ii) above, where he has received a notice under section 147 for the said A.Y. 2024-25 on 23-7-2026.

SOLUTION

Mr. X may furnish an updated return of his income for A.Y. 2024-25 at any time within 48 months from the end of the relevant assessment year i.e., 31-3-2026.

Accordingly, Mr. X can furnish updated return for A.Y. 2024-25 as on 31-3-2026, 28-2-2027, 28-2-2028 and 28-2-2029. However, he can not furnish such return as on 31-5-2029, since such date falls after 31-3-2029.

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., 31-3-2027.
- ♣ @ 60% of tax and interest payable, if updated return is furnished after the expiry of 24 months from end of relevant assessment year i.e., 31-3-2027 and before the expiry of 36 months from end of relevant assessment year i.e., 31-3-2028.



- ♣ @70% of tax and interest payable, if updated return is furnished after the expiry of 36 months from end of relevant assessment year i.e., 31-3-2028 and before the expiry of 48 months from end of relevant assessment year i.e., 31-3-2029.

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

- (i) 31-3-2026-71,250 [25% of 2,85,000, being tax of 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2027 of ₹ 1,42,500 [50% of 2,85,000, being tax of 2,50,000 plus interest of ₹ 35,000]
- (iii) 28.2.2028 of 1,71,000 [60% of 2,85,000, being tax of 2,50,000 plus interest of ₹ 35,000]
- (iv) 28.2.2029 of 1,99,500 [70% of 2,85,000, being tax of 2,50,000 plus interest of ₹ 35,000]

He cannot furnish updated return where he has received notice u/s 147, since proceeding for income escaping assessment for the A.Y. 2024-25 are pending.

ILLUSTRATION 23

Filing of return through tax return preparer : Comment on the allowability of the following claims made by the assessee : Mrs. H, an individual, engaged in the business of beauty parlour, has got her books of account for the financial year ended on 31-3-2025, audited under section 44AB. Her total income for the assessment year 2025-26 is ₹ 2,95,000. She wants to furnish her return of income for assessment year 2025-26 through a tax return preparer. Can she do so?

SOLUTION

As per Section 139B, the persons whose accounts are required to be audited under section 44AB or any other law cannot furnish their return of income through tax return preparers. In the given case, since Mrs. H has got her books of accounts audited under section 44AB, hence she cannot file her return through tax return preparer.

ILLUSTRATION 24

Penalty for non-payment of self assessment tax : Assessee failed to deposit the amount of tax under section 140A for ₹ 10,000 but filed return of income in time. Assessing Officer besides charging of interest as per Section 234B & 234C also issued show cause notice to levy a penalty of ₹ 2,000. Assessee says that there is no provision in the Act to impose penalty for non-payment of tax under section 140A.

SOLUTION

The failure on the part of the assessee to pay the whole or any part of the self-assessment tax under section 140A of the Income-tax Act makes him an assessee in default within the meaning of section 140A(3). The Assessing Officer can levy a penalty on the assessee in default by virtue of provisions of Section 221(1) of the Income-tax Act and the maximum penalty which can be levied upon the assessee is to the extent of the amount of tax remaining unpaid. Therefore, the issue of show cause notice levying a penalty of ₹ 2,000 on the assessee, for non-payment of self-assessment tax of ₹ 10,000 under section 140A, is in order.

ILLUSTRATION 25

Self-assessment tax : The tax payable by Mr. Kamal as per his income shown in return of income is ₹ 2,00,000. On account of delay in furnishing return and payment of advance tax, he is required



to pay interest under section 234A, 234B and 234C of ₹ 10,000, ₹ 20,000 and ₹ 8,000 respectively and fee u/s 234F of ₹ 5,000. He had paid ₹ 40,000 as advance tax and a sum of ₹ 60,000 was deducted at source from his income. Mr. Kamal's total income includes income earned in a country outside India on which he had paid income tax of ₹ 10,000 in that country. The whole of sum paid outside India is eligible for double taxation relief in India. Compute amount of self-assessment tax required to be paid by Mr. Kamal.

What will be the consequences if Mr. Kamal pays self-assessment tax of - (a) ₹ 1,05,000; (b) ₹ 35,000.

SOLUTION

Computation of self-assessment tax payable by Mr. Kamal :

Particulars	₹
Tax payable on the basis of a return	2,00,000
Less: (a) Advance tax paid	40,000
(b) Tax deducted at source	60,000
(c) Amount of double taxation relief	10,000
	90,000
Add: Fee u/s 234F - ₹ 5,000 and Interest payable u/s 234A, 234B and 234C (10,000 + 20,000 + 8,000)	43,000
Amount payable as self-assessment tax u/s 140A	1,33,000

Tax consequences : The following are the tax consequences in following cases -

- (1) **Mr. Kamal pays ₹ 1,05,000:** Out of ₹ 1,05,000, ₹ 5,000 shall be adjusted towards fee and ₹ 38,000 shall be adjusted towards interest payable u/s 234A/234B/234C and the balance ₹ 62,000 towards tax payable. The balance tax payable ₹ 28,000 shall be recovered along with interest. Further, Mr. Kamal shall be liable to interest u/s 220 and penalty of upto ₹ 28,000 u/s 221.
- (2) **Mr. Kamal pays ₹ 35,000:** The whole of ₹ 35,000 shall be adjusted towards fee u/s 234F of ₹ 5,000 and interest payable under sections 234A/234B/234C. The balance sum payable ₹ 98,000 (tax ₹ 90,000 + interest ₹ 8,000) shall be recovered along with interest. Further, Mr. Kamal shall be liable to interest under section 220 and penalty of upto ₹ 90,000 under section 221 (i.e. upto the amount of "tax" in arrears of ₹ 90,000).

ILLUSTRATION 26

Interest u/s 234A(1) : The due date for filing the return of income for the assessment year 2024-25 was 31-10-2024 for Mr. Salil. However, he did not file his return till the date, hence the Assessing Officer issued a notice to him u/s 148 on 18-8-2025 requiring him to furnish his return of income by 20-10-2025. In response to such notice, Mr. Salil furnished the return on 17-12-2025.

The assessment was completed on 31-3-2026 and tax liability was ascertained at ₹ 1,50,000 (without giving credit of advance tax or TDS).

Mr. Salil had paid advance tax of ₹ 20,000; TDS of ₹ 10,000; and self-assessment tax of ₹ 5,000. Determine his interest liability under section 234A.



**SOLUTION**

Period for which interest is to be paid = 1-11-2024 to 17-12-2025 = 14 months. Amount on which interest payable = ₹ 1,50,000 - ₹ 20,000 - ₹ 10,000 = ₹ 1,20,000. Rate of interest = 1% p.m. or part thereof.

Therefore, interest payable under section 234A = ₹ 1,20,000 × 1% × 14 months = ₹ 16,800.

Notes:

- (1) Tax paid on self-assessment is not to be deducted from the amount on which interest payable under section 234A is to be calculated.
- (2) Since no regular assessment has been made, hence assessment made under section 147 for the first time shall be deemed to be regular assessment.

ILLUSTRATION 27

Interest u/s 234B(1) : Mr. X failed to furnish his return of income whose due date of filing the return for the A.Y. 2024-25 was 31-10-2024. However, he furnished the same on 12-12-2024 and he also paid the self-assessment tax of ₹ 88,800 (inclusive of interest of ₹ 1,600 u/s 234A; and ₹ 7,200 u/s 234B) on the same date. He had paid an advance tax of ₹ 20,000 and tax of ₹ 30,000 was deducted from his income. The assessment was completed by the Assessing Officer on 3-5-2025 in which Mr. X's tax liability was ascertained at ₹ 3,50,000 (without giving credit for advance tax or TDS or self-assessment tax).

Determine interest leviable on Mr. X u/s 234B(1), ignoring the interest u/s 234A and 234C.

SOLUTION

Interest payable u/s 234B will be —

- (1) **Computation of interest u/s 234B(1) :** Here, Mr. X paid self-assessment tax on 12-12-2023, hence the interest u/s 234B(1) will be calculated as follows—

(a) Interest till 12-12-2024:

- (i) Period for which interest is to be paid = 1-4-2024 to 12-12-2024 = 9 months.
- (ii) Amount on which interest is payable = ₹ 3,50,000 - ₹ 20,000 - ₹ 30,000 = ₹ 3,00,000.
- (iii) Interest payable = ₹ 3,00,000 × 1% × 9 = ₹ 27,000.

(b) Interest after 12-12-2024:

- (i) Period for which interest is to be paid = 1-01-2025 to 3-5-2025 = 5 months.
- (ii) Amount on which interest payable = ₹ 3,50,000 - ₹ 20,000 - ₹ 30,000 - ₹ 80,000 = ₹ 2,20,000.
- (iii) Interest payable = ₹ 2,20,000 × 1% × 5 = ₹ 11,000.

(Self-assessment tax = ₹ 88,800 - ₹ 1,600 - ₹ 7,200)

Total interest under section 234B(1) = ₹ 27,000 + 11,000 = ₹ 38,000.

ILLUSTRATION 28

Mandatory filing of return of Income : CBDT has vide Notification No. 37/2022 dated 21-04-2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

(4 Marks, May 2024)

SOLUTION



The CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner -

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year (or senior citizen) would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more

- (iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

ILLUSTRATION 29

Provisions relating to filing of return of income : State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2026-27 :

- (i) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2025-26.
- (ii) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2025-26.
- (iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2025-26 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income.

(4 Marks, May 2024)

SOLUTION

- (i) In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed ₹ 3,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction allowable under Chapter VI-A.
- (ii) In the present case, since Smt. Patel, a senior citizen has a TDS credit of ₹ 55,000, which exceeds the threshold limit of ₹ 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit.
- (iii) In this case, since Mr. Ajit's gross receipts from the profession of architect was ₹ 12,00,000 for the P.Y. 2025-26, which is in excess of ₹ 10 lakhs, hence, he is required to file his return of income though his total income is ₹ 2,25,000 which does not exceed the basic exemption limit.

ILLUSTRATION 30

Provisions relating to filing of Return of Income: Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to F.Y. 2025-26.

- ✚ Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI Stipulations = ₹ 3,55,000
- ✚ Interest on savings bank account maintained with State Bank of India = ₹ 8,000



✦ Interest on Fixed Deposits with Punjab National Bank = ₹ 40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the A.Y. 2026-27.

What will be your answer, if he has incurred 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada? (4 Marks, Jan. 2021)

SOLUTION

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000. Computation of total income of Mr. Hari :

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account 3,55,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account as per RBI stipulations]	Nil
Interest on savings bank account	8,000
Interest on fixed deposit with Punjab National Bank	40,000
Gross Total Income	48,000
Less: Deduction u/s 80TTA (Interest on saving bank account)	8,000
Total Income	40,000

Since the total income of Mr. Hari for A.Y. 2026-27, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of 2,50,000, he is not required to file return of income for A.Y. 2026-27.

However, if he has incurred expenditure exceeding 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2025-26, he has to mandatorily file his return of income for A.Y. 2026-27 on or before the due date u/s 139(1).

ILLUSTRATION 31

Loss return: Mr. Prakash furnishes you the following details in respect of the Financial Year 2025-26.

- (i) Loss from the business carried on by him as a proprietor: 11,20,000(*)
- (ii) Deduction u/s 80-IB: 5,50,000 (*)
- (iii) Unabsorbed Depreciation : 4,80,000 (*)
- (iv) Loss from House property: 2,50,000 (*)

Computed as per the Income-tax Act, 1961 The due date for filing the return for Mr. Prakash was 31st July, 2026 under section 139(1). However, he filed the return on 29-9-2026. Discuss with reference to the relevant provisions of Income-tax Act, 1961 if the losses and deductions could be carried forward/claimed by Mr. Prakash. (5 Marks, Nov. 2017)

SOLUTION

The relevant provisions are discussed as under

(1) As per Section 139(3), If any person has sustained a loss in any previous year under the,

- (a) Profits and Gains of Business or Profession under section 72(1), or
- (b) Speculation loss under section 73(2), or



- (c) Speculation loss under section 73(2), or
 - (d) Capital Gains under section 74(1), or
 - (e) Loss from the activity of owning and maintaining race horses under section 74A(3),
- then, such loss can be carried forward and set-off, only if the person furnishes a return of loss in prescribed form and containing prescribed particulars on or before the due date specified in Section 139(1).

Notes:

- (i) (Loss from house property under section 71B can be carried forward and set off even if return of loss is not filed under section 139(3).
 - (ii) "Unabsorbed depreciation" under section 32(2) can be carried forward and set off even if no return of loss is furnished under section 139(3).
- (2) As per Section 80AC**, it is mandatory to furnish return of income on or before due date for claiming deduction under sections 80-IA to Section 80RRB. The effect of this provision is that in case of failure to file return of income on or before the stipulated due date, the assessee would lose the benefit of deduction under these sections.
- (3) Conclusion:** In this case since the return is filed on 29-09-2026 after due date of furnishing return of Income, hence, it is belated return.

Thus, from the above,

- (a) Loss from the business carried on by him as a proprietor amounting 11,20,000 cannot be carried forward.
- (b) Deduction u/s 80-IB amounting 5,50,000 shall not be admissible as per provisions of Section 80AC.
- (c) Unabsorbed Depreciation amounting 4,80,000 shall be carried forward even if return is not furnished as per due dates under section 139(1).
- (d) Loss from House property amounting 2,50,000 shall be carried forward even if return is not furnished as per due dates under section 139(1).

ILLUSTRATION 32

PAN: Mr. X's sales for year ended 31-3-2024 were 15 lakhs. He earned income of ₹1,50,000 for the same year. As his income doesn't exceed maximum amount not chargeable to tax, he is of the opinion that neither he is required to apply for PAN nor he is required to furnish his return of income.

SOLUTION

Here, since Mr. X's sales exceeds 5 lakhs, hence he is liable to apply for PAN. Hence, his intention is wrong. However, he is not required to file his return of income as his income doesn't exceed ₹ 2,50,000.

ILLUSTRATION 33

Computation of Interest w/s 234A, 234B and 234C: The following particulars are furnished by Abdul for the financial year 2023-24 (assessment year 2024-25):

Tax on total income (paid on 31-10-2024)	₹ 1,50,000
Due date for filing the return	31st October, 2024
Actual date of filing the return	1st November, 2024

Calculate the total interest payable under sections 234A, 234B and 234C.

SOLUTION

Computation of interest payable by Abdul (amounts in ₹):



Interest under section 234A [WN]		NIL
Interest under section 234B for 6 months i.e. 1-4-2024 to 31-10-2024 (1,50,000 × 1% × 7)		10,500
Interest under section 234C as follows-		
15% of 1,50,000 i.e. 22,500 × 1% × 3 months	675	
45% of 1,50,000 i.e. 67,500 × 1% × 3 months	2,025	
75% of 1,50,000 i.e. 1,12,500 × 1% × 3 months	3,375	
100% of 1,50,000 i.e. 1,50,000 × 1% × 1 month	1,500	7,575
Total interest payable		18,075

Working Note: The Supreme Court in CIT v. Dr. Prannoy Roy [2009] 309 ITR 231 (SC) has held that no interest shall be payable, when tax paid before due date though return is filed after due date. Since the tax has been paid on 31-10-2024 i.e. on or before the due date of filing of return of income and no tax is due on 01-11-2024 on the date of filing of the return, therefore, no interest can be charged.

ILLUSTRATION 34

Explain with brief reason whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- Defective or incomplete return filed under section 139(9).
- Belated return filed under section 139(4).
- Return already revised once under section 139(5).
- Return of loss filed under section 139(3).
- Return filed within the time extended by CBDT under section 119.

SOLUTION

Any person who has furnished a return under section 139(1) or section 139(4) can file a revised return under section 139(5), if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,-

- A defective or incomplete return filed under section 139(9) can be revised if the defect is rectified within 15 days or further period as allowed by the Assessing Officer.
- A belated return filed under section 139(4) can be revised. However, a return furnished in pursuance of a notice issued under section 142(1) cannot be revised.
- A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier.
- A return of loss filed under section 139(3) is deemed to be a return filed under section 139(1), and therefore, can be revised under section 139(5).
- A return filed within the time extended by CBDT beyond the due date given under section 139(1) is a return filed under section 139(1) and can therefore be revised.

ILLUSTRATION 35

Revised return & TRP: Answer the following:



- (i) Vegetable Ltd. filed its return of income for the A.Y. 2025-26, on 15th December 2026. On 2nd January 2025, the accountant of Vegetable Ltd. realised that he had forgotten to claim a genuine business expenditure amounting to 15 lakhs. He wants to file revised return to claim such expenditure as the assessment is not yet completed. Whether the action of the accountant of Vegetable Ltd. is valid? **(2 Marks, Sept. 2024)**
- (ii) Mahendra, a resident individual aged 45 years earned a salary income of 2 crores during the F.Y. 2025-26. He also earned dividend from unlisted shares amounting to 4 lakhs. He wants to file his return of income for the A.Y. 2026-27 through a Tax Return Preparer. Can he do so? **(2 Marks, Sept. 2024)**

SOLUTION:

- (i) The due date of filing return of income of Vegetable Ltd for the A.Y. 2025-26 is 31st October, 2025 since it is a company. However, it filed its return of income on 15.12.2025, which is a belated return.
if any omission is discovered even in a belated return, the same can also be revised up to 31.12.2025 being the date 3 months prior to the end of the relevant assessment year i.e. 31.03.2026 or completion of assessment, whichever is earlier.
However, it cannot file a revised return on 02.01.2026 since it is beyond 31.12.2025. Hence, the action of accountant of Vegetable Ltd is not valid.
- (ii) Since Mr. Mahendra is a resident individual, not being a company or a person whose accounts are required to be audited under section 44AB for the P.Y. 2025-26, and therefore he can file his return of income for A.Y. 2026-27 through a Tax Return Preparer.

ILLUSTRATION 36

Updated return: Rani, an Indian resident aged 34 years did not file her return of income for the A.Y. 2023-24, 2024-25 and 2025-26. She gives the following information regarding each of the A.Y. -

A.Y. 2023-24:

- (i) Tax payable on the total income of Rani - 14,50,000
- (ii) TDS deducted - 5,00,000

A.Y. 2024-25:

- (i) Tax payable on the total income of Rani - 5,60,000
- (ii) TDS deducted - 10,00,000

A.Y. 2025-26:

- (i) Tax payable on the total income of Rani - ₹6,30,000
- (ii) TDS deducted - 2,00,000
- (iii) Interest payable under section 234A, 234B and 234C - ₹90,000 (calculated till 31 May 2026)
- (iv) Self-assessment tax paid - ₹1,00,000
- (v) She approaches you to file updated return under section 139(8A) on 16.5.2026. You are required to prepare a suggestion to be given to her in this respect. Your suggestion should include the financial aspect also (like payment of tax) briefly outlining the relevant provisions of the Income-tax Act. **(4 Marks, Sept. 2024)**





SOLUTION

An updated return can be furnished for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rani with respect to updated return on 16-5-2026 for A.Y. 2023-24, A.Y. 2024-25 and A.Y. 2025-26:

A.Y. 2023-24: For A.Y. 2023-24, updated return can be furnished up to 31-3-2028. Thus, updated return can be furnished on 16-5-2026.

Since updated return would be furnished after the expiry of 24 months but before 36 months from the end of 31-3-2024, additional income tax would be payable @ 60% of aggregate of tax (after taking into consideration tax deducted at source) and interest payable.

Accordingly, Rani is required to pay additional income-tax of 60% of ₹ 9,50,000 = 5,70,000 in addition to the tax payable of 9,50,000, interest and late fee of ₹ 5,000.

A.Y. 2024-25: For A.Y. 2024-25, updated return can be furnished up to 31-3-2029. Thus, updated return can be furnished on 16-5-2026.

However, the amount of tax payable of ₹5,60,000 is before adjusting TDS of ₹10,00,000. In such case, since the refund of 4,40,000 would arise, updated return cannot be furnished for A.Y. 2024-25.

A.Y. 2025-26: For A.Y. 2025-26, updated return can be furnished up to 31-3-2030. Thus, updated return can be furnished on 16-5-2026.

Since updated return would be furnished before the expiry of 12 months from the end of 31-3-2026, additional income tax would be payable @ 25% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable.

Since the term "tax payable" used in the ITR form for updated return is before the adjustment of TDS, TCS, Advance tax, interest payable etc., the amount of tax payable of ₹6,30,000 is before adjusting TDS of ₹ 2,00,000 and self-assessment tax paid of ₹ 1,00,000. In such case, Rani is required to pay additional income-tax of 1,05,000 i.e., 25% of ₹ 4,20,000 [₹3,30,000 (₹6,30,000-2,00,000-₹ 1,00,000) +₹90,000] in addition to tax payable of 3,30,000, interest payable of 90,000 and late fees of ₹ 5,000.

ILLUSTRATION 38

In the context of Tax Return Preparer Scheme, 2006, explain the following:

(i) Eligible Persons	(1 Mark, Nov. 2023)
(ii) Educational Qualifications of Tax Return Preparer	(1 Mark, Nov. 2023)
(iii) Persons not entitled to act as return preparer	(2 Marks, Nov. 2023)

SOLUTION

In the context of Tax Return Preparer scheme, 2006

(i) Eligible Persons

Any person being an individual or a Hindu undivided family

(ii) Educational Qualifications of Tax Return Preparer

An individual, who

- holds a bachelor degree from a recognised Indian University or institution, or
- has passed the intermediate level examination conducted by



- * the Institute of Chartered Accountants of India (ICAI) or
- * the Institute of Company Secretaries of India (ICSI) or
- * the Institute of Cost Accountants of India (ICWAI)

(iii) Person not entitled to act as return preparer

An individual who is -

- any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.
- a legal practitioner, entitled to practice in any civil court in India.
- an accountant
- an employee of the "specified class or classes of persons" i.e., any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.

ILLUSTRATION 39

Filing updated return: Rikki, a 34 years resident individual, did not file his return of income for the A.Y. 2020-21, 2021-22 and 2022-23. For A.Y. 2023-24, he has filed his return of income on 31.07.23. He filed updated return u/s 139(8A) on 30.04.25 for A.Y. 2024-25. He gives the following information regarding each of the A.Y.-

Particulars	A.Y. 2020-21	A.Y. 2021-22	A.Y. 2022-23	A.Y. 2023-24	A.Y. 2024-25
Declared Income u/s 139(1)/139(8A)	-	-	-	(4,50,000)	₹9,50,000
Tax liability on total income before TDS/TCS/Interest/Self-Assessment Tax	18,50,000	7,60,000	₹7,40,000	-	-
TDS deducted	₹9,00,000	12,00,000	₹2,00,000	-	-
Interest u/s 234A/B/C	₹2,90,000	-	₹90,000	-	-
Self-Assessment Tax Paid	-	-	₹2,10,000	-	-

In May 2025, Rikki came to know about loss from house property of ₹2,00,000 which he forgets to claim while filing the return of income for A.Y. 2023-24. Moreover, in A.Y. 2024-25, he has earned dividend income of ₹ 8,500 and 8,150 from A Ltd. & B Ltd., respectively, which he has not reported in his return of income u/s 139(8A). He approaches you on 16.5.2025 to file updated



return for all the assessment years under section 139(8A) in order to clear his income-tax records. You are required to prepare a suggestion for which of the assessment years Rikki can file an updated return and tax payable at the time of filing updated return.

SOLUTION

An updated return can be furnished for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rikki with respect to updated return on 16-5-2025 for A.Y. 2020-21, A.Y. 2021-22, A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25 and tax payable at the time of return:

A.Y. 2020-21: Since the period of 48 months from the end of A.Y. 2020-21 expired on 31-3-2025, cannot be furnished on 16-5-2025 for A.Y. 2020-21. 31-3-2025, updated return

A.Y. 2021-22: Since the period of 48 months from the end of A.Y. 2021-22 expired on 31-3-2026, updated return can be furnished on 16-5-2025 for A.Y. 2021-22.

However, the amount of tax payable of ₹ 7,60,000 is before adjusting TDS of 12,00,000. In such a case, since the refund of ₹ 4,40,000 would arise, an updated return cannot be furnished for A.Y. 2021-22.

A.Y. 2022-23: Since the period of 48 months from the end of A.Y. 2022-23 expired on 31-3-2027, updated return can be furnished on 16-5-2025 for A.Y. 2022-23. Since updated return would be furnished after the expiry of 24 months from the end of the relevant assessment year but before completion of the period of 36 months from the end of the relevant assessment year, additional income tax would be payable @ 60% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable u/s 234A/B/C. Rikki is required to pay additional income-tax of ₹ 2,52,000 i.e., 60% of ₹ 4,20,000 [₹ 3,30,000 (7,40,000 - ₹ 2,00,000) - ₹ 2,10,000] + ₹ 90,000 in addition to tax payable of ₹ 3,30,000, interest payable of ₹ 90,000 and late fees of ₹ 5,000.

A.Y. 2023-24: Since the period of 48 months from the end of A.Y. 2023-24 expired on 31-3-2028, updated return can be furnished on 16-5-2025 for A.Y. 2023-24.

However, Rikki has declared loss of ₹ 4,50,000 in his original return of income and he wishes to claim additional loss from house property of 2,00,000 which he forgot to claim while filing the return of income u/s 139(1). In such case, since his loss will increase from 4,50,000 to ₹ 6,50,000, an updated return cannot be furnished for A.Y. 2023-24.

A.Y. 2024-25: Since Rikki has already furnished an updated return u/s 139(8A) for A.Y. 2024-25, he cannot again furnish an updated return u/s 139(8A) for A.Y. 2024-25.

ILLUSTRATION 40

Answer the following:

(i) Which are all persons required to mandatorily file the Return of Loss u/s 80 of Income Tax Act, 1961.

(ii) Consequences of Non-filing of Return of Loss in time.

(4 Marks, Jan. 2025)

SOLUTION:



(i) As per section 80, a person having the following losses is required to mandatorily file return of loss u/s 139(3) on or before the due date specified u/s 139(1) for the purpose of carry forward of such losses

- (a) Business loss u/s 72(1)
- (b) Speculation business loss u/s 73(2)
- (c) Loss from specified business u/s 73A(2) [In case assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]
- (d) Loss under the head "Capital Gains" u/s 74(1)
- (e) Loss from the activity of owning and maintaining race horses u/s 74A(3).

(ii) If the return of loss is not filed within the time allowed u/s 139(1) then, the following losses cannot be carried forward -

- (a) Business loss u/s 72(1)
- (b) Speculation business loss u/s 73(2)
- (c) Loss from specified business u/s 73A(2) [In case assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]
- (d) Loss under the head "Capital Gains" u/s 74(1)
- (e) Loss from the activity of owning and maintaining race horses u/s 74A(3)

ILLUSTRATION 41

Answer the following:

(i) What is Belated Return u/s 139(4) of Income tax Act, 1961 and when it should be filed?

(ii) Explain Non-Applicability of Updated Return u/s 139(8A). **(4 Marks, Jan. 2025)**

SOLUTION

(i) A belated return is a return which is not furnished within the time allowed under section 139(1) but furnished at any time -

- (a) before three months prior to the end of the relevant assessment year (i.e., 31-12-2026 for previous 2025-26); or
- (b) before the completion of the assessment,

whichever is earlier.

(ii) The provisions of updated return would not apply, if the updated return of such person for that assessment year -

- (a) is a loss return; or
- (b) has the effect of decreasing the total tax liability
- (c) results in refund or increases the refund due.



CHAPTER – 13

COMPUTATION OF TOTAL INCOME

STUDY MATERIAL

ILLUSTRATION 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 80,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2025-26. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2026 and his parents live in that house.

Other Information

Contribution to PPF - ₹ 1,50,000

Contribution to pension scheme referred to in section 80CCD - ₹ 50,000

Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000

Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2026-27 in the most beneficial manner.

SOLUTION

Computation of total income and tax liability of Mr. A for A.Y. 2026-27 under default tax regime under section 115BAC

Particulars	₹
Salaries	
Basic Salary [₹ 80,000 × 12]	9,60,000
Transport allowance [₹ 15,000 × 12]	1,80,000
HRA received [₹ 20,000 × 12]	2,40,000
Gross salary	13,80,000
Less: Standard deduction u/s 16(ia)	(75,000)
Income from house property	13,05,000
Interest on housing loan	-

Gross Total Income	13,05,000
Less: Deductions under Chapter VI- A	
Section 80C	
Contribution in PPF	-
Section 80CCD	



Contribution to pension scheme	-
Section 80D	
Mediclaime insurance premium for self and parents	-
Total Income	13,05,000
Tax liability	
Tax @5% on ₹ 4,00,000 [₹ 8,00,000 - ₹ 4,00,000]	20,000
Tax @10% on ₹ 4,00,000 [₹ 9,45,000 - ₹ 7,00,000]	40,000
Tax@15% on ₹ 1,05,000 [₹13,05,000 - 12,00,000]	15,750
Add: Health & Education cess @ 4%	3,030
Total Tax Liability	78,780

Computation of total income and tax liability of Mr. A for A.Y. 2026-27 under normal provisions of the Act

Particulars	₹
Salaries	
Basic Salary [₹ 80,000 × 12]	9,60,000
Transport allowance [₹ 15,000 × 12]	1,80,000
HRA received (₹ 20,000 × 12)	2,40,000
Less: Least of the following exempt u/s 10(13A)	<u>2,04,000</u>
HRA Received	2,40,000
Actual rent paid - 10% of salary	2,04,000
[₹ 3,00,000 - ₹ 60,000]	
50% of salary	4,80,000
Gross salary	11,76,000
Less: Standard deduction u/s 16(ia)	(50,000)
	11,26,000
Income from house property	
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]	(2,00,000)
Gross Total Income	9,26,000
Less: Deductions under Chapter VI-A	
Section 80C	
Contribution to PPF	1,50,000
Section 80CCD(1B)	
Own contribution to pension scheme	50,000
Section 80D	
Mediclaime insurance premium	
For self and spouse, restricted to	25,000
For father, who is a senior citizen, restricted to	50,000
Total Income	6,51,000
Tax liability	
Tax @ 5% on ₹ 2,50,000 [₹ 5,00,000 - ₹ 2,50,000]	12,500
Tax @ 20% on ₹1,51,000 [₹6,51,000 - 5,00,000]	30,200
	42,700

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Add: Health & Education cess	1708
Total Tax Liability	44,410

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2026-27.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹ 6,54,000. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

ILLUSTRATION 2

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent-free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

SOLUTION

Computation of tax liability of Kadam under both the options

Particulars	Option I - HRA (₹)	Option II - RFA (₹)
Basic Salary (₹ 41,000 × 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,200
House rent Allowance (₹ 7,000 × 12 Months) ₹ 84,000 Less: Exempt u/s 10(13A) - least of the following - - 50% of Basic Salary ₹ 2,46,000 - Actual HRA received ₹ 84,000 - Rent paid less 10% of salary ₹ 22,800	₹ 22,800	
Gross Salary	5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	5,03,200	4,91,200
Less: Deduction under Chapter VI-A	-	-
Total Income	5,03,200	4,91,200
Tax on total income	13,140	12,060
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,000, since total income does not exceed ₹ 5,00,000	Nil	12,060
Add: Health and Education cess@4%	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

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Particulars	Option I - HRA	Option II - RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid Tax on total income	(72,000) (13,670)	- Nil
Net Inflow	4,92,330	4,92,000

Since the net cash inflow under option II (HRA) is higher than in Option I (RFA), it is beneficial for Mr. Kadam to avail Option II, i.e., House Rent Allowance.

TEST YOUR KNOWLEDGE

ILLUSTRATION 3

Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,01,50,000 for the A.Y.2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Ans

Computation of tax liability of Mr. Gupta for the A.Y.2026-27 under default tax regime

(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,50,000		
Tax liability (including cess)		₹ 31,07,520
(F) Marginal Relief (A - D)		₹ 30,750

ILLUSTRATION 4

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2025 and came to India for the first time on 16.03.2025. She left for USA on 19.9.2025. She returned to India again on 27.03.2026. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2025. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2026. She had received the following cash gifts from her relatives and friends during 1.4.2025 to 31.3.2026:

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2026-27 if she opts out of the default tax regime under section 115BAC.

(b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

Ans

- (a) The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment



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of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2026-27.

Computation of total income of Miss Charlie for the A.Y. 2026-27

Particulars	₹	₹
Total income		2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2026-27 under normal provisions of the Act

Particulars	₹
Total tax liability	884
Total tax liability(rounded off)	880

- (b) Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA. Therefore, her residential status would be non-resident in India for the previous year 2025-26.

ILLUSTRATION 5

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2026 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- Clinic equipments are:
 - 1.4.2025 Opening W.D.V. - ₹ 5,00,000
 - 7.12.2025 Acquired (cost) by cheque - ₹ 2,00,000
- Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2025, has been included in "administrative expenses".
- She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".





- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2025-26.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2026 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Ans

Computation of total income of Dr. Niranjana for A.Y. 2026-27 under default tax regime

	Particulars	₹	₹	₹
	Total income			5,47,900

Computation of total income of Dr. Niranjana for A.Y. 2026-27 under normal provisions of the Act

	Particulars	₹	₹
	Total income		2,39,900

ILLUSTRATION 6

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled Assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
Printing and stationery	12,22,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Meeting, seminar and conference	31,600	Income from UTI (Gross)		7,600
		Honorarium received from various institutions for valuation of answer papers		15,800
Purchase of car (for official use)	80,000	Rent receive from Residential flat let out		85,600
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			

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Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- Allowable rate of depreciation on motor car is 15%.
- Value of benefits received from clients during the course of profession is ₹ 10,500.
- Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2025 to 30-09-2026.
- Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- She invested an amount of 10,000 in National Saving Certificate.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2026-27 in a most beneficial manner.

Ans

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2026-27 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income Upto ₹ 4,00,000	Nil	
4,00,001 - ₹ 8,00,000 @5%	20,000	
₹ 8,00,001 - ₹ 10,11,940 @10%	21,194	41,194
Less: Rebate		41,194
Total tax liability		Nil

Computation of total income and tax payable under normal provisions of the Act

Particulars	₹	₹
Gross Total Income [Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources"]		10,11,944



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would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%		
₹ 5,00,000 - ₹ 10,00,000 @20%	12,500	
₹10,00,000 - ₹ 10,01,940 @ 30%	1,00,000	
Add: Health and Education cess @ 4%	582	
		1,13,082
		4,523
Total tax liability		1,17,605
Tax Payable (rounded off)		1,17,610

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	



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(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes:

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full section depreciation @ 15% has been provided for under 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2026 to 30.9.2026 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

ILLUSTRATION 7

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2026 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:



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Particulars	₹	₹
Total Income		9,05,000

Computation of tax liability for A.Y.2026-27

Particulars	₹
Total tax liability	1,56,650

ILLUSTRATION 9

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2025-26.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2025) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2026 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2025 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2025 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2026) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2010-11, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2025 are given below:



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Furniture & Fittings	₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting. Compute the total income of Mr. Rajiv for the A.Y. 2026-27 assuming that he has shifted out of the default tax regime under section 115BAC.

Ans

Computation of total income of Mr. Rajiv for the A.Y. 2026-27

Particulars	₹	₹	₹
Total income			23,16,500

ILLUSTRATION 10

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y. 2026-27. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- House Insurance ₹ 860
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
- Siddhant received a gift of ₹ 30,000 each from four friends.
- He contributed ₹ 50,000 to Public Provident Fund.

Ans

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2026-27

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		



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(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV ₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] ₹ 24,000	35,310	2,390
Income from speculative business	2,700	
Income from share speculation business		
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,29,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,29,890

INCOME TAX LIABILITY - COMPUTATION AND OPTIMISATION

Particulars	₹
Tax on total income [5% of ₹ 1,29,890 (₹ 5,29,890 - ₹ 4,00,000)]	6,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 12,00,000	6,495
Tax liability	Nil

Computation of total income and tax liability of Siddhant for the A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890



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Add: standard deduction [RS 25,000 being excess amount allowed under section 115BAC]		25,000
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant		1,500
Gross total income (under the normal provisions of the Act)		5,53,390
Less: Deductions under Chapter VI-A Under section 80C [Contribution to PPF]		50,000
Total Income		5,03,390

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2026;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under 12. section 80GG is that the assessee should not own any residential accommodation in the same place.

ILLUSTRATION 11

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2026:

✓ Basic Salary	₹ 15,000 p.m
✓ DA (50% of it is meant for retirement benefits)	₹ 12,000 p.m
✓ Commission as a percentage of turnover of the Company	0.5%
✓ Turnover of the Company	₹ 50 lacs
✓ Bonus	₹ 50,000
✓ Gratuity	₹ 30,000
✓ Own Contribution to R.P.F.	₹ 30,000
✓ Employer's contribution to R.P.F.	20% of basic salary
✓ Interest credited in the R.P.F. account @ 15% p.a	₹ 15,000
✓ Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.	
✓ Music System purchased on 01.04.2025 by the company for ₹ 85,000 and was given to him for personal use.	



- ✓ Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- ✓ Received interest of ₹ 5,860 on bank FDRs on 24.4.2025 and interest of ₹ 7,540 from the debentures of Indian Companies on 5.5.2025.
- ✓ Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- ✓ Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- ✓ Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2026-27. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Ans

Computation of Total Income of Mr. Ramdin for the A.Y. 2026-27 under normal provisions of the Act

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 × 12)		1,80,000
Dearness Allowance (₹ 12,000 × 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 × 2 × 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 × 100/90)	7,540	13,400
Gross total Income		5,99,160

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Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D - Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 - ₹ 2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.

4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted i.e. ₹ 45,129, whichever is lower)	5,500
Total Income	10,600

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D = ₹ 5,99,160 - ₹ 1,47,870 = ₹ 4,51,290.

ILLUSTRATION 12

From the following particulars furnished by Mr. X for the year ended 31.3.2026, you are requested to compute his total income and tax payable for the assessment year 2026-27, assuming that he opts out of the default tax regime under section 115BAC.

- Mr. X retired on 31.12.2025 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in



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this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2026.
- (f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

Ans

Computation of total income of Mr. X for A.Y.2026-27

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 × 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 × 9 months)	54,000	
Less : Exemption under section 10(13A) (Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income(Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

particulars	₹
(i) HRA actually received (₹ 6,000 × 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 - ₹ 2,500) × 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

particulars	₹
(i) Actual amount received	3,50,000



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(ii) Half month salary for each year of completed service [(₹ 25,000 × 15/26) × 26 years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

particulars	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 × 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year × 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year × 26 = 390 days
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 × ₹ 24,500/30 = ₹ 3,18,500

ILLUSTRATION 13

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2026:

S. No.	Particulars	Rosy ₹	Mary ₹
1	Pension received from State Government	---	60,000
2	Pension received from Canadian Government	20,000	---
3	Long-term capital gain on sale of land on 15.5.2025 at Mumbai taxable	1,00,000	1,00,000
4	Short-term capital gain on sale of shares on 23.4.2025 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5	LIC premium paid		10,000
6	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	---
7	Mediclaime policy premium paid by A/c Payee Cheque		25,000
8	Deposit in PPF		20,000
9	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2026-27 and tax thereon assuming both exercised the option to shift out of the default tax regime.



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Ans

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non resident)	Mrs. Mary (ROR)
		₹	₹
I	Salaries Pension received from State Govt. ₹ 60,000 Less: Standard deduction u/s 16(ia) ₹ 50,000 Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and receive outside India	-	10,000
		-	10,000
II	Income from house property Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) Less: Deduction u/s 24(a)@30%	60,000 18,000 42,000	30,000 9,000 21,000
III	Capital gains Long-term capital gain on sale of land at Mumbai Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	1,00,000 20,000 1,20,000	1,00,000 2,50,000 3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
1	Less: Deductions under Chapter VIA 1. Deduction u/s 80C 1. LIC Premium paid 2. Premium paid to Canadian Life Insurance Corporation 3. Deposit in PPF	- 40,000 - 40,000	10,000 - 20,000 30,000
2	Deduction u/s 80D - Mediclaim premium paid	-	25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B) Tax liability of Mrs. Rosy for A.Y.2025-26 Tax on long-term capital gains @12.5% of ₹ 1,00,000 Tax on short-term capital gains @20% of ₹ 20,000 Tax on balance income of ₹ 2,000	12,500 4,000 Nil 16,500	3,50,000
	Tax liability of Mrs. Mary for A.Y.2026-27		12,500
	Tax on <u>LTCG@12.5%</u> of ₹1,00,000		





	Tax on STCG @15% of ₹2,50,000 [unexhausted basic exemption limit of ₹2,50,000 is adjusted]		Nil
	Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
	Add: Health and Education cess@4%	660	Nil
	Total tax liability	17,160	Nil

Notes:

- (1) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at as per the rates u/s 112/111A. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (2) Since long-term capital gains is taxable at the rate of 12.5% and short-term capital gains is taxable at the rate of 20%, it is more beneficial for Mrs. Mary to exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains under 112 and short-term capital gains of 2,50,000
- (3) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is nonresident for the A.Y. 2026-27.

ILLUSTRATION 14

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2025-26 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2026	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2026-27 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2026-27. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Ans

Computation of total income and tax liability of Mr. X for A.Y.2026-27 (under default tax regime under section 115BAC)

Particulars	₹	₹

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Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility Less:	1,05,00,000	
Depreciation under section 32		
On building @10% of ₹ 65 lakhs ⁴ (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		37,35,000
Add: Surcharge@15%		5,60,250
		42,95,250
Add: Health and Education cess@4%		1,71,810
Total tax liability		44,67,060

Notes:

(1) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC. However, normal depreciation u/s 32 is allowable.

(2) Mr. X is not liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

Computation of total income and tax liability of Mr. X for A.Y.2026-27 (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession	40,00,000	
Profit from unit in SEZ		
Less: Deduction u/s 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Total tax liability		19,81,980

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs	65,00,00	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338



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Add: Health and Education cess@4%		29,46,588 1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2026-27. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Incometax Act, 1961	19,81,980
	10,82,470

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

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

$$₹40,00,000 \times \frac{₹80,00,000}{₹1,00,00,000} \times 50\% = ₹16,00,000$$

(2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations. Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs - ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2024-25 and capitalized in the books of account on 1.4.2025, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

Additional Question

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

- 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.
- 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 2020.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was 400



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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 30.9.2026. 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 2025-26. Out of 20 employees, 12 were employed on 1st May 2025 for monthly emoluments of 18,000 and on monthly remaining were employed on 1st September 2025 emoluments of 12,000. All these employees participate in recognised 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 01.12.2025 for 16 lakhs. The stamp duty value of land at the time of transfer was 17 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.

CII - F.Y. 2001-02: 100; F.Y. 2025-26: 376.

(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 2026-27 under default tax regime.

Ans

Computation of total income of Mr. Sunil for A.Y. 2026-27 (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. 2025-26 pertaining to let out portion [₹ 25,000/2]		<u>12,500</u>	
	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]	<u>75,000</u>	<u>1,59,750</u>	
			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]		<u>Nil Nil</u>	
	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)			
	Full Value of Consideration [Actual consideration of ₹ 16 lakhs, since stamp duty value of ₹ 17 lakhs does not exceed 110% of actual consideration of ₹ 16 lakhs]		16,00,000	
	Less: Cost of acquisition [₹ 4,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)			
			<u>4,00,000</u>	12,00,000
IV	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.			
	Income from Other Sources			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		<u>40,000</u>	
	Gross Total Income			53,92,750
	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. 2025-26 for 240 days or more during the P.Y. 2025-26 allowable as deduction [30% of ₹ 23,76,000 (12 × 18,000 × 11)]			
	As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
	Total Income			46,79,950

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COMPUTATION OF TOTAL INCOME



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

Particulars	₹	₹
Tax on total income of ₹ 46,79,950		
Tax on LTCG on sale of vacant land As the asset is a long-term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.		
Tax @20% with indexation Sale consideration = ₹ 16,00,000 Indexed cost of acquisition = ₹ 4,00,000 × 376/100 = ₹ 15,04,000 Gain = ₹ 96,000 Tax @20% = ₹ 96,000 × 20% = ₹ 19,200 Tax @12.5% without indexation Tax @12.5% = ₹ 12,00,000 × 12.5% = ₹ 1,50,000 Tax on LTCG on sale of vacant land @20% with indexation		19,200
Tax on remaining total income of ₹ 34,79,950		
Upto ` 4,00,000	Nil	
₹ 4,00,001 - ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 - ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 - ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 - ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 - ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 - ₹ 34,79,950 [@30% of ₹ 10,79,950]	<u>3,23,985</u>	<u>6,23,985</u>
		6,43,185
Add: Health and education cess@4%		<u>25,727</u>
Total tax liability		<u>6,68,912</u>
Tax liability (Rounded off)		6,68,910

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

PAST EXAM QUESTIONS

Illustration 15



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Computation of Total Income and tax liability: Mr. Ashish, 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, 2026 is as under -

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

The following other information relates to financial year 2025-26:

- (i) The expenses on Employees' Remuneration & Benefits includes:
 - (a) Family Planning expenditure of 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - (b) Payment of salary of 25,000 per month to sister-in-law of Mr. Ashish, 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.
- (ii) Amount received by Mr. Ashish as Employees' Contribution to EPF for the month of February, 2026 ₹1,000 was also deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Ashish. 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.
- (iv) General expenses as appearing in the Income & Expenditure A / C includes a sum of 25,000 paid to Ms. Anjaleen on 5th January, 2026 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2025 were as follows: Professional books ₹ 90,000 Computers ₹35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c. was purchased on 31st August, 2025 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 31-08-2025.
 - ◆ ₹ 19,000 paid by account payee cheque on 05-09-2025 as balance cost of new furniture and
 - ◆ ₹ 11,000 paid in cash on 31-08-2025 to the transporter as freight charges for the new furniture.

(vii) Mr. Ashish purchased a car on 02-04-2024 for 3,35,000 for personal use. However, on 30-04-2025 he brought the said car for use in his profession. The fair market value of the car as on 30-04-2025 was ₹ 2,50,000.

(viii) Mr. Ashish made a contribution of ₹ 1,00,000 in his PPF A/c on 31-01-2026.

(ix) The Gross Professional Receipts of Mr. Ashish for P.Y. 2024-25 was 52,00,000.

Compute the total income and tax liability of Mr. Ashish for A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Ignore provisions relating to AMT and under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

(14 Marks, July 2021)

Solution

Computation of total income of Mr. Ashish (amount in ₹)

	Particulars	₹	₹	₹
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" for the purpose of section 40A(2) Therefore, no adjustment is required for excess salary paid to Mr. Ashish's sister- in-law]	Nil		
	Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. 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 2026 is deposited after the due date under the relevant Act, deduction would not be available]	10,000		



	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. Ashish. 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. Ashish would be liable to deduct tax at source on commission since his gross receipts from profession exceeded 50 lakhs during F.Y. 2024-25. 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 u/s 40(a)(ia) while computing the business income of A.Y. 2026-27]	7,500		
	Depreciation as per books of account	90,000		
	Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000	2,55,500	
			41,98,500	
	Less: Depreciation as per Income-tax Rules			
	On Professional Books [90,000 × 40%]	36,000		
	- On Computers [35,000 × 40%]	14,000		
	On Furniture [19,000 × 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 actual cost of such asset. Hence, 18,000 and 11,000 paid on 31-8-2025 in cash would not be included in the actual cost of furniture]	1,900		
	On Car [3,35,000 × 15%] [Actual cost of car would be the purchase price of the car to Mr. Ashish, 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 (3rd 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 (3rd Year)		21,000	41,000
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A Deduction u/s 80C: Contribution to PPF	1,00,000		
	Interest on NSC (3rd Year) (Reinvested)	21,000	1,21,000	
	Deduction u/s 80D: Medical expenses for the treatment of father [Since Mr. Ashish'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	
	Deduction u/s 80TTA: 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. Ashish :			
	Tax on total income of 38,55,350			9.69 105
	Add: Health and education cess @ 4%			38,764
	Tax liability (rounded off)			10,07,870

Illustration 16

Determination of Residential status and Tax liability: Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1999 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for PY 31-03-2026:

Particulars	₹
1. Pension received from Russian Government	65,000
2. Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3. Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4. Premium paid to Russian Life Insurance Corporation at Russia	75,000

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5. Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment Year 2026-27 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (6 Marks, July 2021)

Solution

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the previous year 2025-26 and her income other than from foreign sources does not exceed 15,00,000, she is non-resident for the A.Y. 2026-27. [Even if her total income exceeds 15 lakh, still, she would be non-resident since the minimum period of stay required in the current year for being a resident is 120 days.]

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for the A.Y. 2026-27 :

Particulars	₹
Salaries	
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]	Nil
Income from House Property	
Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000
Less: Deduction u/s 24(a) @ 30%	27,000
	63,000
Capital Gains	
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]	3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]	60,000
Gross Total Income	4,23,000
Less: Deduction under Chapter VI-A	
Deduction u/s 80C: Life insurance premium of 75,000 [Premium paid to Russian LIC allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]	63,000
Total Income	3,60,000
Computation of Tax Liability:	
Long-term capital gains taxable @ 12.5% u/s 112 [3,00,000 × 12.5%]	37,500
Short-term capital gains taxable @ 20% u/s 111A [60,000 × 20%]	12,000
	49,500
Add: Health and Education Cess @ 4%	1,982

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COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

Tax Liability

51,480

Note: Note: The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed 5 lakh.

Illustration 17

Computation of total income and tax liability: Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending March 31st 2025 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from True Care Hospitals (P) Ltd.	1,80,000
To Conveyance	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified u/s 35	25,000		
To net profit	8,59,000		
Total	14,68,000	Total	14,68,000

Explanatory Information:

(i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay	13,000 p.m.
Transport Allowance	2,000 p.m.
Total	15,000 p.m.

Further, during P.Y. 2024-25, her son had undergone a medical treatment in True Care Hospitals (P) Ltd, free of cost. The hospital would have charged a sum of 60,000 for a similar treatment to unrelated patients.

(ii) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01-10-2024. The reconstruction of the house was started on 01-04-2024 and was completed on 30-09-2024. The monthly rent is 10,000. The tenant also pays ₹3,000 p.m. as power back-up charges. She took a housing loan of 12 lakhs on 01-04-2024. Interest on housing loan for the period 01-04-2024 to 30-09-2024 was 60,000 and for the period 01-10-2024 to 31-03-2025 was 40,000. During the year, she also paid municipal taxes for the F.Y. 2023-24 5,000 and for F.Y. 2024-25 5,000.

(iii) Other information:

- Conveyance expenses include a sum of 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice-versa in relation to her employment.
- Power & fuel expenses include a sum of ₹ 6,000 incurred for generator fuel for providing power back-up to the tenant.



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- (c) Administrative expenses include a sum of 10,000 paid as Municipal Taxes for her house.
- (d) Clinic equipments' details are: Opening W.D.V. Of clinic equipments as on 01-04-2024 was 1,00,000 and fresh purchase made on 28-08-2024 is 25,000 which was paid in cash.
- (e) She also paid tuition fee of 40,000 for her grand-daughter, which has been debited to her Capital A/C.
- (f) She availed a loan of ₹ 8,00,000 from bank for higher education of her son. She repaid principal of ₹ 50,000 and interest of 26,000 during P.Y. 2024-25.

You are required to compute her total income and tax liability for Assessment Year 2025-26 if he has not opted for the provisions of Section 115BAC. (14 Marks, Nov. 2019-NS)

Solution

Computation of total income and tax liability of Mrs. Mitul (amount in ₹)

Particulars	₹	₹	₹
Income from salaries:			
Basic pay (13,000 × 12)		1,56,000	
Transport allowance (2,000 × 12) [Fully taxable]		24,000	
Medical facility [Exempt from tax since provided in employers hospital]		Exempt	
Gross Salary		1,80,000	
Less: Standard Deduction u/s 16(ia)		50,000	1,30,000
Income from House Property:			
Self occupied portion [Ground Floor]			
Annual value	Nil		
Less: Interest on borrowed capital [1,00,000/2] = 50,000 [Deduction shall be allowed subject to maximum of ₹ 30,000]	30,000	-30,000	
Let out property [First Floor]			
Actual rent being Gross Annual Value [10000 x 6]	60,000		
Less: Municipal taxes paid [Taxes paid during FY 2022-23 shall be allowed as deduction on actual payment basis relating to let out portion] [10000/2]	5,000		
Net Annual Value 55,000	55,000		
Less: Deductions under section 24-			
(a) Statutory Deduction@ 30% of NAV 16,500	16,500		
(b) Interest on loans relating to let out portion to be allowed on due basis [1,00,000/2]	50,000	-11,500	-41,500
Profits and gains from business or profession:			
Net Profit as per Income and Expenditure account		8,59,000	
Add: Items debited to Income & Expenditure a/c to be disallowed/considered separately-			
Conveyance expenses incurred in relation to employment		12,000	
Power & Fuel expenses for providing power back up to tenant		6,000	

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Interest on housing loan		1,00,000	
Interest on education loan on son (being personal in nature)		26,000	
Municipal tax of house property		10,000	
		10,13,000	
Less: Items credited to Income & Expenditure a/c to be disallowed/considered separately- Salary received from True Care Hospital (P) Ltd		1,80,000	
Rental Income from House property		78,000	
Dividend from shares of foreign company		10,000	
Depreciation on clinic equipments u/s 32 [15% of 1 lakh]		15,000	7,30,000
Income from other sources: Dividend from shares of foreign companies		10,000	
Power Back up charges recovered from tenant [3,000 × 6] [WN-2]	18,000		
Less: Expenses	6,000	12,000	22,000
Gross Total Income			8,40,500
Less: Deduction u/s 80E (Interest on loan for higher education of his son)			26,000
Less: Tution fee of her grand-daughter [Not eligible for deduction u/s 80C]			Nil
Total Income (rounded off)			8,14,500
Income taxable at normal rates [Since senior citizen] Add: HEC@4%			72,900 2,916
Total tax liability (rounded off)			75,820

Working Notes:

- (1) Where an assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds 10,000, such expenditure shall not form part of actual cost of such asset. Hence, Cash purchase of 25,000 on 28-08-2023 shall not form part of the actual cost, since cash payment exceeds 10,000.
- (2) Where composite rent includes rent of building and charges for different services (power etc.), the composite rent is has to be split up in the following manner-
 - (a) the sum attributable to use of property is to be assessed under section 22 as income from house property;
 - (b) the sum attributable to use of services is to be charged to tax under the head "Income from other sources", as the case may be. Hence, the power backup charges recovered from tenant is taxable under income from other sources.
- (3) 100% deduction is allowed in respect of payment to approved scientific research association. Since the expenditure is already debited to Profit and loss Account, hence no adjustment is required.



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Illustration 18

Computation of Total Income: Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is ₹ 6,00,000). The annual value of the house in Thailand is ₹ 50,00,000 i.e. converted value in INR. He purchased a flat in Pune during F.Y. 2021-22, which has been given on monthly rent of ₹ 27,500 since 01-07-2024. The annual property tax of Pune flat is ₹ 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2024. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to ₹ 15,00,000. The interest on such loan for the F.Y. 2025-26 was ₹ 84,000. However, interest for March 2026 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2021. In respect of this house he received arrears of rent of ₹ 96,000 in February 2026 (not taxed earlier).

He also derived some other incomes during F.Y. 2025-26 which are as follows :

Profit from business in Thailand ₹ 2,75,000

Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India.

Income from Apple Orchid in Nepal given on contract and the yearly contract fee of ₹ 5,00,000, for F.Y. 2025-26 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for A.Y. 2026-27 chargeable to income tax in India if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(7 Marks, Nov. 2019-NS)

Solution

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y. 2025-26, he would be a non-resident for that year.

Computation of total income of Mr. Jagdish for the A.Y. 2026-27:

Particulars	₹	₹	₹
Income from House Property:			
House Property in Bangkok (Let out portion) [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]		Nil	
Let out property in Pune			
Actual rent receivable being gross annual value [₹ 27,500×12]	3,30,000		
Less: Municipal taxes paid during the year	Nil		
Net annual value	3,30,000		
Less: Deduction under Section 24			
Standard deduction [30% of NAV]	99,000		
Interest on borrowed capital [to be allowed as deduction on due basis]	84,000	1,47,000	
Arrears of rent received in Jaipur [Section 25A]	96,000		
Less: Deduction 30%	28,800	67,200	2,14,200

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Profits from business in Thailand [Since the same accrues and received outside India, hence it will not be taxable in India]			Nil
Income from other sources: Interest on bonds of Japanese Company [50% received in India is taxable]		22,500	
Income from Apple Orchid in Nepal [Income is received in India] [Since it is directly credited in Indian branch of Bank, it is received in India, hence taxable]		5,00,000	5,22,500
Total Income			7,36,700

Illustration 19

Computation of Total income: Mrs. Babu, working as Journalist with ABC Limited provides the following information from the year ended 31-3-2026.

Particulars	₹
Basic salary p.m	25,000
DA (50% of it is meant for retirement benefits)	50% Basic Pay
Own contribution to Recognized Provident Fund (R.P.F.)	30,000
Employer's contribution to R.P.F	20% of basic salary
Interest credited in the R.P.F. Account @ 15% p.a.	15,000
Arrears of rent received from ABC Limited	69,000

Received interest 10,000 from Axis Bank Savings account during the year, and interest of 12,040 from the debentures of M/s. Coal India Ltd.

She made payment through cheque 12,500 for Mediclaim Insurance Policy for her major daughter. She had contributed 1,196 pm towards Atal Pension Yojana and ₹ 5,000 pm towards Sukanya Samridhi account.

M/s. ABC Limited has taken residential house of Mrs. Babu as Company's guest house and later purchased from her in the year 2024 at market value for 75 lakhs. Purchase cost was only 10 lakhs in April, 2004.

During August, 2025 Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2004 for 1,13,000 and market value of these two items were 2,50,000 and she has received insurance compensation of 3,80,000 during February, 2026.

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Compute Total Income for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). (10 Marks, May 2018)

Solution

Computation of total income of Mrs. Babu for the A.Y. 2026-27:

Particulars	₹	₹
Income from salaries:		
Basic salary (25,000 × 12)	3,00,000	
Dearness allowance (50% of basic pay)	1,50,000	
Employers contribution to RPF in excess of 12% of Salary [20% of 3,00,000 - 12%(3,00,000+ 75,000)][WN-1]	1,5,000	
Interest credited to RPF in excess of 9.5% p.a. [15,000 - 15,000 × 9.5% ÷ 15%][WN-2]	5,500	



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Gross Salary	4,70,500	
Less: Standard Deduction u/s 16(ia)	50,000	4,20,500
Income from House Property:		
Arrears of rent received under Section 25A[WN-3]	69,000	
Less: Standard deduction @ 30%	20,700	48,300
Long-term capital gains:		
Gold Chain and Diamond Ring		
Insurance compensation received being Full value of Consideration[WN-4]	3,80,000	
Less: cost of acquisition [since transfer takes place after 22/7/2024, no benefit of indexation shall be available]	1,13,000	2,67,000
Income from other sources:		
Debenture Interest (assumed to be gross)	12,040	
Saving bank interest	10,000	22,040
Gross Total Income		7,57,840
Less: Deduction u/s 80C (Own contribution to RPF 30,000+ Sukanya Samridhi A/c 60,000)	90,000	
Less: Deduction u/s 80CCD - Atal Pension Yojna (1,196 x 12)	14,352	1,04,352
Less: Deduction u/s 80D for medical insurance premium paid (Assumed to be dependant on her)		12,500
Less: Deduction u/s 80TTA- Interest on savings bank account. However, deduction cannot exceed 10,000.		10,000
Total Income (rounded off)		6,30,990

Working Notes:

- (1) Employer's contribution to recognized provident fund is exempt upto 12% of salary. (Salary means Basic Salary + DA, if the terms of employment so provide + % wise fixed commission on turnover). Taxable amount = 20% of 3,00,000-12% of (3,00,000+ 75,000).
- (2) Interest credited to recognised provident fund is exempt upto 9.5% p.a. Hence, interest @ 5.5% [15% - 9.5%] is taxable.
- (3) Arrears of rent received is chargeable to tax under the head Income from house property after allowing deduction of 30% of such arrears rent as per provisions of Section 25A of the Income tax Act, 1961.
- (4) As per Section 45(1A), if insurance compensation is received on loss of capital asset, the amount so received is treated as full value of consideration for computing Capital Gains.
- (5) Employees contribution to RPF and contribution to Sukanya Samridhi account qualifies for deduction under Section 80C and contribution to Atal pension Yojna qualifies for deduction under Section 80CCD.
- (6) Since the house has been sold in 2023, no capital gain will arise in the financial year 2025-26.

Illustration 20

Computation of tax liability: Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2026-27:

Particulars	₹
Income from Salaries (computed)	27,88,000
Income from House Property (Computed)	15,80,000



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COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

Interest Income from FDR's

7,22,000

He has not claimed any deduction under chapter VIA. You are required to compute tax liability of Mr. Rajat Saini as per the provisions of Income-tax Act, 1961 if he is under default tax regime.

(5 Marks, Nov. 2018-NS)

Solution

Computation of tax liability of Mr. Rajat Saini (amount in ₹)

Particulars	₹
Total Income	50,90,000
Tax on Total Income	11,07,000
Add: Surcharge @ 10% [Since Total Income exceeds ₹ 50,00,000]	1,10,700
Tax including surcharge	12,17,700
Less: Marginal Relief	47,700
Tax payable after marginal relief	11,70,000
Add: HEC@ 4%	46,800
Total tax payable	12,16,800

Note: Marginal relief is available in case total income exceeds 50 lakhs. The additional amount of income-tax payable (together with surcharge) on the excess of income over 50 lakhs should not be more than the amount of income exceeding 50 lakhs.

Illustration 21

Computation of total income and tax liability: Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2025-26.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening Balances (01-04-2025) Cash & Bank	20,000	Staff salary, bonus and stipend to articulated clerks	20,50,000
Fee from professional services	39,60,000	Other general and administrative expenses	12,00,000
Motor car loan from SBI @ 10% interest per annum	2,00,000	Office rent	48,000
		Life Insurance Premium	23,000
		Motor car (Acquired in January 2026 by way of online payment)	4,00,000
		Books bought (annual publication by credit card)	22,000
		Computer acquired on 01-11-2025 for professional use	25,000
		Domestic drawings	2,50,000
		Motor car maintenance	12,000
		Public Provident Fund subscription	1,40,000



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		Closing balances (31-03-2026) Cash & Bank	10,000
	41,80,000		41,80,000

Other Information:

- Motor car was put to use for both official and personal purposes. $\frac{1}{4}^{\text{th}}$ of the motor car is for personal purpose. No interest on car loan was paid during the year.
- Mr. Hari purchased a flat in Jaipur for 15,00,000 in July 2014 cost of which was partly financed by a loan from State Bank of India of 10,00,000 @ 10% interest, his own savings 1,00,000 and a deposit from Bank of Baroda for 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @40,000 per month.

The following particulars are relevant :

- Municipal taxes paid by Mr. Hari = ₹ 4,200 per annum
 - House insurance = ₹ 1,000
- He earned ₹ 1,00,000 in share speculation business and lost ₹ 1,50,000 in commodity speculation business.
 - Mr. Hari received a gift of ₹ 40,000 each from four of his family friends.
 - He contributed ₹ 1,11,000 to Prime Minister's Drought Relief Fund by way of bank draft.
 - He donated to a registered political party 3,00,000 by way of cheque.

Compute the total income of Mr. Hari and the tax payable for the Assessment Year 2026-27. Assessee has not opted for provisions of Section 115BAC. (10 Marks, May 2018-NS)

Solution

Since Mr. Hari follows cash system of accounting, only those income and expenses would be considered for computation of professional income, which have actually been received or paid, as the case may be. Accordingly, the computation is as follows, (amount in ₹)-

Particulars	₹	₹	₹
Income from House Property:			
Let out portion: Actual Rent received/receivable [₹ 40,000 × 12] (GAV)		4,80,000	
Less: Municipal Taxes paid by the assessee		-4,200	
Net Annual value		4,75,800	
Less: Deduction u/s 24:			
(i) Standard Deduction @ 30% of NAV		-1,42,740	
(ii) Interest on borrowed capital [10% of 10,00,000]		-1,00,000	2,33,060
Profits & Gains of Business or Profession:			
Fee from professional services		39,60,000	
Less: Expenses allowable as deduction-			
Staff salary, bonus and stipend	- 20,50,000		
Other administrative expenses	- 12,00,000		
Office rent	- 48,000		
Motor Car Maintenance [₹ 12,000 × $\frac{3}{4}^{\text{th}}$ towards professional use]	- 9,000		
Car loan interest [Not allowable, as not paid during the year]	-	- 33,07,000	
Less: Depreciation			





Motor Car ₹ 4,00,000 × 15% × 50% as used for less than 180 days during the previous year × 3/4 th relating to professional use]	- 22,500		
Books bought of annual publications [40% of 22,000]	- 8,800		
Computers [50% of 40% of 25,000 since put to use for less than 180 days]	- 5,000	36,300	6,16,700
Speculation business Gains (Shares)		1,00,000	
Speculation business loss (Commodity)		1,50,000	
Balance speculation business loss to be carried forward since it cannot be set-off from general business profits.		-50,000	
Income from Other Sources:			
Gift received from friends [40,000 × 4]			1,60,000
Gross Total Income			10,09,760
Less: Deduction u/s 80C			
Life Insurance Premium	23,000		
Public Provident Fund [Subject to maximum of 1,50,000]	1,40,000	-1,50,000	
Deduction u/s 80GGC			
Donation to registered Political party [100% of 3,00,000]		-3,00,000	
Deduction u/s 80G:			
Donation to Prime Minister's Drought Relief Fund [50% of ₹ 1,11,000]		-55,500	-5,05,500
Total Income (rounded off)			5,04,260
Tax on Income at normal rates			13,352
Add: HEC@ 4%			534
Tax payable			13,890

Illustration 22

Computation of total income and tax liability: Mr. Pandey, a resident individual, aged 45 years, is a Chartered Accountant in practice. He maintains his accounts on cash basis. His Profit & Loss Account for the year ended 31 March, 2026 is as follows:

Profit & Loss Account for the year ending March 31, 2026

Expenditure	₹	Income	₹
Staff Salary	18,25,000	Fees earned	23,00,000
Rent of the office premises	7,20,000	Audit	14,50,000
Administrative expenses	5,75,000	Taxation	
Stipend to Articled clerks	1,85,000		
Meeting, seminars and conferences	36,500	Consultancy services relating to syndication of loan from financial Institution	10,00,000
Depreciation	55,000		48,50,000



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Printing and Stationery	8,75,000		
Net profit	19,13,500	Gifts	1,00,000
		Dividends from Indian companies	12,00,000
		Interest on deposit	15,000
	61,85,000		61,85,000

Other information:

- (1) Depreciation allowable under Income-tax Act 25,000.
- (2) Administrative expenses include 55,000 paid to a tax consultant in cash for assisting Mr. Pandey in one of the professional assignments.
- (3) Gifts represent fair market value of a LED TV which was given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal.
- (4) Last month's rent of 60,000 was paid without deduction of tax at source.
- (5) Pandey had taken a loan of ₹ 32,00,000 for the purchase of a house property stamp duty value ₹ 46,00,000 from a recognized financial institution on 1st May, 2025. He repaid 1,50,000 on 31st March, 2026 out of which ₹ 1,00,000 is towards principal payment and the balance is for interest on loan. The possession of the property will be handed over to him in October 2026. Mr.
- (6) Mr. Pandey paid medical insurance premium of his parents (senior citizens and not dependent on him) by cheque amounting to ₹ 27,000. He also paid ₹ 8,500 by cash towards preventive health checkup for himself and his spouse.

Compute the total income of Mr. Pandey and tax payable by him for Assessment Year 2026-27, assuming that Mr. Pandey does not want to opt for presumptive taxation scheme u/s 44ADA and if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

(10 Marks, Nov. 2017)

Solution

Computation of total income and tax payable for the A Y 2026-27.

Particulars	₹	₹
Income under the head Profits & Gains of Business and Profession	19,13,500	
Net profit as per Profit and Loss Account		
Add: Expenses debited but not allowable- Depreciation debited in Profit and loss Account[WN-1]	55,000	
Payment to tax consultant in cash is disallowed u/s 40A(3), since such cash payment is in excess of 10,000 in a day	55,000	
Payment of rent of office premises without deducting tax at source [30% of 50,000][WN-2]	18,000	
Gifts from client[WN-3]	Nil	
Less: Income credited but not taxable under this head - Dividend on shares of Indian Companies not to be taxed under this head	12,00,000	
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	15,000	
Depreciation allowable under Income-tax Act[WN-1]	1,25,000	7,01,500
Income from other sources:	12,00,000	



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Dividend from shares of Indian company [Fully taxable in hands of shareholder]		
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	-	12,00,000
Gross total income	-	19,01,500
Less: Deduction u/s 80C (Repayment of loan taken for purchase of house)[WN-4]	Nil	
Deduction u/s 80D (Health Insurance Premium)[WN-5]	32,000	32,000
Total Income (rounded off to nearest ₹10)		18,69,500
Tax on total income		3,73,350
Add: HEC@ 4%		14,934
Tax liability (rounded off to nearest 10)		3,88,280

Working Notes:

- (1) Depreciation debited to profit and loss account will be added back and allowable depreciation as per Income tax Act, shall be reduced.
- (2) An individual is liable to deduct tax at source on rent payments if his turnover in preceding financial year exceeds 1 crore. Presuming that turnover Mr. Pandey in preceding financial year exceeded 1 crore, he was liable to deduct tax at source. Since he has not deducted tax at source, 30% of rent payments shall be disallowed under Section 40(a)(ia) of the Act.
- (3) Gifts given by one of the clients for successful presentation of case in the Income Tax Appellate Tribunal is value of benefit received from clients during the course of profession is taxable under section 28(iv) under the head Profits and gains from business or profession. Since the same has already been credited to profit and loss account, hence no adjustment is required.
- (4) (i) Interest on borrowed capital is allowed as deduction under section 24.
Interest payable on loans borrowed for the purpose of acquisition, construction repairs, renewal or reconstruction of house property can be claimed as deduction under section 24. Further, Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.
It is stated that the possession of property will be handed over in October, 2026. Hence, deduction under Section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2026-27.
(ii) Section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'.
However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2026-27, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for AY 2026-27.
- (5) (a) Premium paid to insure the health of his parents being senior citizen is eligible for deduction under section 80D upto ₹ 30,000, even though they are not dependent.
(b) Expenditure on preventive health check up for himself and spouse is eligible for deduction upto ₹ 5,000 even if payment is made in cash.

Illustration 23



Computation of Total Income: Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31-3-2026:

	Particulars	₹
i)	Pension received (Net of TDS)	6,27,000
ii)	Short-term capital gains (from sale of listed shares) i	65,000
iii)	Long-term capital gains (from sale of listed shares)	1,24,000
iv)	Interest on fixed deposit from bank	1,60,000
v)	Pertaining to consultancy services provided by him: Gross receipts	12,60,000
	Expenses: Rent for premises	1,44,000
	Salary of P.A.	1,20,000
	Stenographer's salary	1,00,000
	Business Development expenditure	91,000
	Conveyance	3,00,000
vi)	Contribution to PPF	1,10,000
vii)	Premium on life insurance policy taken on 10-1-2026 (sum assured 5,00,000)	60,000
viii)	Medi-claim Insurance Premium for self (paid otherwise than by cash) Preventive health checkup expenses (in cash)	47,000 6,000
ix)	Donation given in cash to a charitable trust registered under section 12AB (eligible for deduction u/s 80G) of the Income-tax Act, 1961	14,000
x)	Interest received from Post Office Saving A/c. Additional information: TDS from pension	18,000 25,000
	1/4th of conveyance expenses is estimated for personal use.	

Compute the total income of the assessee for the assessment year 2026-27 under proper heads of income. Listed share were sold in recognized stock exchange. Ignore the provisions of Section 44ADA. Assessee has not opted for provisions of Section 115BAC.

(Modified, 10 Marks, May 2016)

Solution

Computation of total income of Mr. Vinod Kumar for A.Y. 2026-27 (amounts in ₹)

Particulars	₹	₹
Income under the head Salary: Pension received (Net of TDS)	6,27,000	
Add: TDS from pension	25,000	
Gross salary	6,52,000	
Less: Standard deduction u/s 16(ia)	50,000	6,02,000
Profits and gains of business or profession: Gross receipts	12,60,000	
Less: Rent for premises	1,44,000	
Salary of P.A.	1,20,000	
Stenographer's salary	1,00,000	



Business Development expenditure	91,000	
Conveyance [WN-1]	2,25,000	5,80,000
Capital Gains:		
Short-term capital gains (from sale of listed shares)	65,000	
Long-term capital gains (from sale of listed shares)	1,24,000	1,89,000
Income from Other Sources:		
Interest on fixed deposit from bank	1,60,000	
Interest received from Post Office Saving A/c. [18,000 - ₹3,500] [WN-3]	14,500	1,74,500
Gross Total Income		15,45,500
Less: Deduction u/s 80C		
Contribution to PPF	1,10,000	
Premium on life insurance policy taken on 10-1-2026 (sum assured ₹ 5,00,000) [WN-4]	50,000	
Amount of deduction under Section 80C cannot exceed 1,50,000	1,60,000	1,50,000
Deduction u/s 80D:		
Mediclaim Insurance Premium for self (paid otherwise than by cash)	47,000	
Preventive health checkup expenses (in cash) [WN-5]	5,000	
Deduction u/s 80TTB (Interest on fixed deposit from bank) [WN-6]	52,000	50,000 50,000
Deduction u/s 80G (Donation in cash exceeding 2,000 is not eligible for deduction)		Nil
Total Income (rounded off)		12,95,500

Working Notes:

- (1) Since 1/4th of the conveyance expenses is estimated for personal use, hence, the same shall not be allowed under Section 37(1). Therefore, allowable conveyance expenses is 3/4th of 3,00,000 = ₹ 2,25,000.
- (2) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto ₹ 1.25 lakh as per section 112A.
- (3) Interest from post office saving bank account is exempt from tax u/s 10(15) upto 3,500.
- (4) Deduction shall be allowed in respect of premium paid for life insurance only to the extent of 10% of sum assured in respect of insurance policy issued after 01-04-2013. Thus, 10% of 5,00,000 = ₹ 50,000 shall be eligible for deduction u/s 80C.
- (5) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person who is a senior citizen i.e., aged 60 years or more, deduction shall be allowed up to 50,000. Further, deduction up to 5,000 in aggregate (within the monetary limits of 50,000) shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-check up can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Hence, maximum 50,000 shall be eligible in the above case.
- (6) In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto 50,000 under section 80TTB.

ILLUSTRATION 25





Computation of total income and tax liability: Mrs. Ann provides the following information for the Financial year ending 31-03-2026. Compute her total income and tax payable thereon for assessment year 2026-27 as per Income-tax Act, 1961 if he has exercised the option of shifting out of default tax regime.

→ **Income/Receipts**

- (1) Salary from M/s. Prominent Technologies, - 60,000 per month (Joined from 1st March, 2025).
- (2) She is in receipt of HRA. 15,000 per month and also educational allowance of 1,500 per month for all the three of her children.
- (3) She bought a light goods vehicle on 01-08-2025 and has been letting it on hire. She does not maintain books of account for this business. But she declares for income tax purpose, that she is earning net income of 11,000 per month from this business.
- (4) She received 8,500 as interest on Post Office Savings Bank Account.
- (5) She received 25,000 as interest from Company Deposits.
- (6) Amounts withdrawn from National Savings Scheme (Principal ₹ 10,000 & Interest ₹ 25,000)

→ **Expenses/Payments:**

- (1) Interest payable to bank 1,000 per month on loan for the purchase of truck.
- (2) Total interest paid to bank for loan borrowed for investing in company deposits is 5,000.
- (3) Rent paid for residence is 18,000 per month.
- (4) Tuition fees paid for the year 2025-26 for her three children is 50,000, 30,000 and 20,000 respectively, to educational institution situated in India.
- (5) Medical insurance premium for her and for her husband is 30,000 (paid by cheque) and 25,000 (paid by cash) respectively.
- (6) She has deposited during the year, in 5 year Post office Recurring Deposit Scheme 20,000.

Solution

Computation of total income and tax liability of Mrs. Ann (amount in ₹)

Particulars	₹	₹
Basic Salary (60000 x12)		7,20,000
HRA (15000 x12)	1,80,000	
Less: Exempt u/s 10(13A) [WN-1]	1,44,000	36,000
Education Allowance (1,500x12)	18,000	
Less: Exempt u/s 10(14) (100 x 12 x 2)	2,400	15,600
Gross Salary		7,71,600
Less: Standard Deduction u/s 16(ia)		50,000
Income from Salary		7,21,600
Profits and gains from business or profession :		
Income from the business of letting on hire of light goods vehicle [WN-2]		88,000
Income from Other Sources:		
Interest on Post office Saving bank account	8,500	
Less: Exemption u/s 10(15)(i)	3,500	
Balance Interest	5,000	
Interest from National Savings scheme	25,000	
Interest on Company deposit	25,000	
	55,000	

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Less: Deduction u/s 57 (Interest paid for making investment in company deposit)	5,000	50,000
Gross Total Income		8,59,600
Less: Deductions under Chapter VI-A		
Deduction u/s 80C[WN-3]	80,000	
Deduction u/s 80D[WN-3]	25,000	
Deduction u/s 80TTA [Interest on Post office saving bank account subject to maximum of 10,000]	5,000	1,10,000
Total Income		7,49,600
Tax on total income		62,420
Add: Health and Education cess @ 4%		2,497
Tax payable (rounded off)		64,920

Working Notes:

- HRA is exempt to the extent of the least of the following under section 10(13A)
 - 50% of salary (assumed to be in Mumbai) i.e. 50% of 7,20,000 = 3,60,000;
 - Excess of rent paid over 10% of salary = 2,16,000 - 72,000 = 1,44,000;
 - Actual HRA received = 15,000 × 12 = 1,80,000.
 Least of the above i.e. 1,44,000 is exempt under section 10(13A).
- In the case of a person owning not more than 10 vehicles at any time during the previous year, estimated income from each light goods vehicle will be deemed to be 7,500 for every month or part of the month during which the vehicle is owned by the assessee during the previous year. If, however, the assessee declares a higher amount, such amount will be considered as income. Also, interest is not deductible, since under section 44AE, all deductions under sections 30 to 38 are deemed to have been allowed from such declared income. [Section 44AE]
 Actual income = 11,000 × 8 = 88,000.

(3) Deductions u/s 80C and Section 80D:

Tuition fees paid for two of his children (most favourable to Mrs. Ann) [5 year Post office recurring deposit do not qualify for deduction u/s 80C].	80,000
Medical Insurance Premium for self paid in cheque qualifies for deduction subject to maximum of 25,000. [Health insurance premium paid for her husband in cash do not qualify for deduction u/s 80D]	25,000

Illustration 25

Computation of total income and tax liability: Mr. Devansh an Indian Resident aged 38 years carries on his own business. He has prepared following Profit & Loss A/c for the year ending 31-03-2026:

Particulars	₹	Particulars	₹
Salary	48,000	Gross Profit	4,30,400
Advertisement	24,000	Cash Gift (on the occasion of Marriage)	1,20,000
Sundry Expenses	54,500	Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes	16,200
Fire Insurance (10,000 relates to House Property)	30,000		





Income Tax and Wealth Tax	27,000		
Household expenses	42,500		
Depreciation(Allowable)	23,800		
Contribution to an University approved and notified u/s 35(1)(ii)	1,00,000		
Municipal taxes paid for House property	36,000		
Printing & Stationary	12,000		
Repairs & Maintenance	24,000		
Net Profit	1,44,800		
	5,66,600		5,66,600

Other information:

- Mr. Devansh owns a House Property which is being used by him for the following purposes:
25% of the property for own business
25% of the property for self-residence
50% let out for Residential purpose
- Rent received from 50% let out portion during the year was 1,65,000.
- On 01-12-2025 he acquired a vacant site from his friend for 1,05,000. The State Stamp Valuation Authority fixed the value of the site at 2,80,000 for stamp duty purpose.
- He received interest on Post Office Savings bank Account amounting to 500.
- Cash gift on the occasion of marriage includes gift of 20,000 from Non-relatives.
- LIC premium paid (Policy value 3,00,000 taken on 01-06-2015) 60,000 for his handicapped son. (Section 80U disability)
- He purchased 10,000 shares of X Company Ltd. on 01-01-2014 for 1,00,000 and received a 1:1 bonus on 1-1-2016. He sold 5,000 bonus shares in September 2025 for 2,20,000. Shares are not listed and STT not paid).

Compute Total Income and Net Tax payable by Mr. Devansh for the Assessment Year 2025-26. Assessee has not opted for provisions of Section 115BAC. (10 Marks, Nov. 2014)

Solution

Computation of total income and tax payable (amounts in ₹)

Particulars	₹	₹
Income from house property:		
Actual Rent Received [Being Gross Annual Value u/s 23(1)]	1,65,000	
Less: Municipal taxes paid	18,000	
Net Annual Value (NAV)	1,47,000	
Less: Standard deduction u/s 24 @ 30% of NAV	44,100	1,02,900
Income under the head Profits & Gains of Business and Profession		
Net profit as per Profit and Loss Account	1,44,800	
Add: Expenses debited but not allowable		
Municipal Taxes of house property not relatable to Business [75% of 36,000] [WN-1]	27,000	
Fire Insurance of house property not relatable to Business [75% of 10,000] [WN-1]	7,500	

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House hold expenses [WN-3]	42,500	
Income tax and wealth tax [WN-2]	27,000	
	2,48,800	
Less: Income credited but not taxable under this head -Cash Gift (on the occasion of Marriage)	1,20,000	
Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes	16,200	
	1,36,200	1,12,600
Capital Gains (Long Term) Sale of Bonus Shares	2,20,000	
Less: Cost of Acquisition	Nil	2,20,000
Income from other sources: Cash gift on occasion of marriage is not taxable	-	
Interest on Post Office Savings bank Account [In case of individual account, a sum upto 3,500 is exempt u/s 10(15)]	-	
Interest on debentures [Gross amount will be taxable i.e. $7,200 \times 100/90$]	18,000	
Purchase of immovable property for inadequate consideration [WN-4]	1,75,000	1,93,000
Gross Total Income		6,28,500
Less: Deduction u/s 80C (LIC Premium - Actual amt. or 15% of capital sum assured, whichever is less)		45,000
Total Income (rounded off to nearest ₹10)		5,83,500
Tax on total income:		
Tax on long term capital gains: 12.5% of ₹ 2,20,000	27,500	
Tax on balance income	5,675	
	33,175	
Less: Tax rebate u/s 87A [Not available since total income exceeds 5,00,000]	Nil	
Balance Tax	33,175	
Add: Health and Education cess @ 4%	1,327	
Tax liability (rounded off to nearest ₹10)		34,500
Less: TDS on interest on debentures		1,800
Tax payable		32,700

Working Notes:

- (1) Since 25% of the house property is used by Mr. Devansh for his own residence and 50% of the property is let out for residential purposes, therefore expenditure relatable for the said portion shall not be allowed while computing business income. Thus following expenses shall be disallowed
 - (a) 75% of Municipal taxes paid for the property i.e. 75% of 36,000 = ₹ 27,000
 - (b) 75% of Fire Insurance of House Property i.e. 75% of 10,000 = ₹ 7,500
- (2) Income tax and Wealth tax are disallowed under Section 40(a).
- (3) House hold expenses are specifically disallowed under Section 37(1).





- (4) Since Mr. Devansh purchased immovable property for inadequate consideration, the difference between the stamp duty value of 2,80,000 and the actual consideration of 1,05,000 paid is taxable u/s 56(2)(x) as Income from other sources, since the difference exceeds 50,000 being the higher of 50,000 and 10% of consideration i.e. ₹ 10,500.
- (5) Contribution to an University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since the expenditure is already debited to Profit and loss account, no adjustment shall be required.

Illustration 26

Computation of Total Income and Tax Liability: Mrs. Rani a resident aged 50 years is running an acupuncture clinic. Her Income and Expenditure Account and other relevant information for the year ending 31st March, 2026 are given below:

Expenditure	₹	Income	₹
To Staff Salary	52,40,000	By Fees receipts	61,45,000
To Clinic rent	1,20,000	By Dividend from Indian Companies (Gross)	10,500
To Medicines and needles	1,05,000	By Winning from Lotteries net of TDS (TDS 6,000)	14,000
To Depreciation	81,000	By Income-tax Refund	1,750
To Administrative expenses	1,52,000		
To Donation to Prime Minister's National Relief Fund	20,000		
To Excess of Income over Expenditure	4,53,250		
	61,71,250		61,71,250

- (i) Depreciation in respect of all assets has been ascertained at 60,000 as per Income-tax rules. Medicines & needles of 22,000 have been used for her family.
- (ii) Fees Receipts include 24,000 being honorarium for valuing acupuncture examination answer books.
- (iii) She has also received 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
- (iv) She has paid an LIC premium of 12,000 for self (Sum Assured ₹ 50,000).
- (v) She has paid 2,500 for purchase of lottery tickets.

Compute the total Income and tax payable thereon of Mrs. Rani for the A.Y. 2025-26. Assessee has not opted for provisions of Section 115BAC. (10 Marks, IPCC May 2013)

Solution

Computation of Total income and Tax liability of Mrs. Rani (amount in ₹)

Particulars	₹	₹
Profits and Gains of Business or Profession:		
Net Profits as per Income and Expenditure A/c	4,53,250	
Less: Income tax refund	1,750	
Dividend from Indian companies	10,500	
Winnings from lottery (net of TDS)	14,000	
Honorarium for valuing acupuncture examination answer books.	24,000	
Allowable depreciation as per Income tax rules	60,000	

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	3,43,000	
Add: Expenditure debited but not allowable Donation to Prime Minister's National Relief Fund	20,000	
Depreciation	81,000	
Cost of medicines and needles for self use	22,000	4,66,000
Income from other sources: Honorarium for valuing acupuncture examination answer books	24,000	
Gross Winnings from lottery [WN-1]	20,000	
Dividend from Indian company (Taxable)	10,500	54,500
Gross Total Income		5,20,500
Less: Deduction u/s 80C [LIC premium of 12,000 for self (Sum Assured 50,000) shall be allowed subject to 10% of capital sum assured assuming that the policy is issued on or after 01-04-2013]	5,000	
Deduction u/s 80G (Donation to Prime Minister's National Relief Fund)[WN-3]	20,000	25,000
Total Income (rounded off)		4,95,500
Tax on Lottery Winnings [20,000 × 30%]		6,000
on Balance Income (4,95,500 - 20,000 - 2,50,000)		11,275
Total tax		17,275
Less: Tax rebate under Section 87A [100% of tax or 12,500 whichever is less]		12,500
Total Income-tax		4,775
Less: TDS on dividends (10,500 × 10%)		1,050
Less: TDS on lottery winnings		6,000
Tax payable (rounded off)		-2,280

Working Notes:

- (1) Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". Hence, taxable amount is (14,000 + 6,000) = 20,000. Further cost of lottery tickets is not allowed as deduction.
- (2) ₹ 57,860 received on maturity of one LIC Policy, is exempt from tax under section 10(10D).
- (3) Donation to Prime Minister's National Relief Fund is eligible for 100% deduction.
- (4) Income tax refund shall not be taxable but interest on IT refund is taxable.

Illustration 27

Computation of Total Income: The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31-03-2025:

Particulars	₹	Particulars	₹
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15-9-2024)	25,000
Wealth tax	5,000	Sale of car	17,000
Medical expenses	4,500	Interest on income-tax refund	3,000
Salary	18,000		
Depreciation on car	3,000		



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Advance income-tax	1,500		
Net Profit	1,35,000		
	2,30,000		2,30,000

Other information:

- (1) Aditya bought a car during the year for 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for 17,000. The use of the car was 3/4th for business and 1/4th for personal use.
- (2) Medical expenses were incurred for the treatment of Nikita, his wife.
- (3) Salary had been paid on account of car driver.
- (4) Rent includes arrears of rent from April 2025 to October 2025 @5,000 p.m., paid in cash on 01-11-2025.
- (5) Mr. Aditya had also let out a house property at a monthly rent of 25,000. The annual letting value is considered to be 2,50,000. The municipal taxes are 6,000, out of which 3,000 are paid by the tenant and 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is 20,000.
- (6) Mr. Aditya's minor daughter received 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was 10,000.
- (7) Aditya incurred an expense of 50,000 on the medical treatment of his dependant son, who has disability of more than 80%.
- (8) Aditya had taken a loan during the year 2025-26 for the education of his son, who is pursuing B. Com. in Delhi University. Interest paid on the same during the year was 10,000.

Compute the total income of Mr. Aditya. Assessee has not opted for provisions of Section 115BAC.
(10 Marks, Nov.2013)

Solution

Computation of Total Income of Mr. Aditya (amounts in ₹)

Particulars	₹	₹
Income from house property:		
Gross Annual Value [Actual Rent Receivable (25,000 × 12) or Annual letting value 2,50,000 which ever is higher]	3,00,000	
Less: Municipal taxes [WN-1]	Nil	
Net annual Value (NAV)	3,00,000	
Less: Standard deduction (@ 30% of NAV)	90,000	
Less: Interest on borrowed capital	20,000	1,90,000
Profits and gains of business profession:		
Net profit as per P&L A/c	1,35,000	
Gift of cash from a friend (received on 15-09-2022)	-25,000	
Sale of car	-17,000	
Interest on income-tax refund	-3,000	
Add: Items debited to profit and loss account to be disallowed/ considered separately		
Advance Income Tax [Not allowable as deduction u/s 40(a)]	1,500	
Car expenses disallowed @ 25% for personal use [3,000 × 25%]	750	



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Depreciation on car [3,000, Since, the car is sold in the year of purchase, hence block does not exist at year end, hence no depreciation shall be admissible]	3,000	
Wealth tax [Disallowed under Section 40(a)]	5,000	
Salary of car driver for personal use [18,000 × 25%]	4,500	
Arrears of rent paid in cash [Since, it exceeds 10,000, the same shall be disallowed under section 40A(3)] (5,000 × 7)	35,000	
Medical expenses [Personal expenses, hence disallowed under Section 37(1)]	4,500	1,44,250
Capital Gains:		
Original cost of car	20,000	
Sale proceeds of car	17,000	
Short term capital loss [Short term capital loss cannot be set off from any other head of Income and hence the same shall be carried forward]	-3,000	Nil
Income from other sources:		
Interest on income tax refund	3,000	
Gift of cash from a friend [Not taxable u/s 56(2)(x), since it does not exceed ₹ 50,000]	Nil	
Interest on company deposits of Mr. Aditya's daughter will be clubbed with Aditya's Income and exemption of 1,500 u/s 10(32) shall be allowed. (10,000 - 1,500)	8,500	11,500
Gross Total Income		3,45,750
Less: Deduction under section		
Section 80DD: Medical treatment of dependent disabled suffering from severe disability [Fixed sum shall be allowed as deduction, irrespective of expenditure incurred]	1,25,000	
Section 80E: Interest on loan taken for higher education of son	10,000	1,35,000
Total Income (rounded off)		2,10,750

Working Note:

- (1) Municipal taxes of ₹ 3,000 yet to be paid by Mr. Aditya., shall not be allowed as deduction, since Municipal taxes paid during the previous year is allowed as deduction. Municipal taxes paid by tenant (3,000) are also not eligible for deduction.
- (2) Income of 75,000 received by Mr. Aditya's minor daughter from stage acting will not be clubbed in hands of Aditya.

Illustration 28

Computation of Total Income and tax liability: From the following details compute the total income of Kamal, A resident individual aged 54 years for the year ended 31-3-2026. Tax payable need not be calculated.

	Particulars	₹
i)	Salary including Dearness Allowance	5,00,000
ii)	Bonus	15,000
iii)	Salary to servant provided by Employer	12,000





iv)	Bill paid by Employer for Gas, Electricity and water provided free of cost at his flat	14,500
v)	Cost of Laptop provided by the employer (Used both for official and personal purposes)	40,000

Following additional information is provided:

- (1) Kamal purchased a flat in a Co-operative Housing Society in Delhi for 10,75,000 in April, 2016 by taking loan from State Bank of India amounting to 5,00,000 @ 15% per annum interest, 65,000 from his own savings and deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of 5,500. The outstanding amount of loan is ₹1,60,000.
- (2) Municipal Taxes paid by Kamal 4,500 p.a.
- (3) Insurance in respect of the said flat ₹ 1,275
- (4) Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of ₹ 20,200 in speculation business of cotton.
- (5) In the year 2019-20, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr. Mohan @ 15% per annum interest.
- (6) Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.
- (7) He contributed ₹ 10,500 to Public Provident Fund and 6,000 to Unit Linked Insurance plan.
- (8) He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.
- (9) He has taken a policy on life for his married daughter on 1-4-2025 and paid a premium of 25,000. The sum assured for policy is ₹ 2,00,000. Assessee has not opted for provisions of Section 115BAC.

(10 Marks, May 2014)

Solution

Computation of total income and tax liability of Mr. Kamal (amounts in ₹)

Particulars	₹	₹
Income under the head Salary:		
Salary including dearness allowance	5,00,000	
Bonus	15,000	
Salary of servant provided by the employer (Taxable as perquisite)	12,000	
Bill paid by employer for gas, electricity and water provided free of cost at the residence of Kamal (Taxable as perquisite)	14,500	
Laptop for official and personal use	Exempt	
Gross Salary	5,41,500	
Less: Standard deduction u/s 16(ia)	50,000	4,91,500
Income from House Property:		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) [5,500 × 12]	66,000	
Less: Municipal Taxes paid	4,500	
Net Annual Value (NAV)	61,500	
Less: Standard Deduction @30% of NAV	18,450	
Less: Interest on loan from SBI [1,60,000 × 15% × 1]	24,000	19,050
Profits and gains of business or profession:		
Profit in Share speculation business	15,000	
Loss in Cotton speculation business	-20,200	



Net loss from speculative business has to be carried forward as it cannot be set off against any other head of income.	-5,200	
Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Kamal as per Section 64(1A). However, as per section 10(32) an exemption of 1,500 shall be available (4,500-1,500)	3,000	
Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1) (₹ 50,000 × 15%)	7,500	
Gift from four friends @ 25,000 each - Since the aggregate amount exceeds 50,000, hence, whole of the sum will be taxable u/s 56(2)(x)	1,00,000	1,10,500
Gross Total Income		6,21,050
Less: Deduction u/s 80C		
Contribution to Public Provident Fund	10,500	
Tax saver deposit with a Nationalised Bank in the name of his married son [WN-1]	Nil	
LIC premium in respect of policy taken in name of married daughter [WN -2]	20,000	
Unit Linked Insurance Plan	6,000	36,500
Total Income (rounded off)		5,84,550
Tax on total income		29,410
Add: Health and Education cess @ 4%		1,176
Total Tax (rounded off)		30,590

Working Notes:

- (1) Tax saver deposit in the name of married son does not qualify for deduction under section 80C.
- (2) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction u/s 80C. Therefore, the life insurance premium paid for insurance policy of married daughter is allowed as deduction. However, the same cannot exceed 10% of capital sum assured since the policy is taken after 31-03-2012.
- (3) It has been assumed that Kamal own flat in a co-operative housing society, which he has rented out to a nationalised bank, is also in Delhi. Therefore, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Illustration 29

Computation of Total Income: Mr. Raghuveer, a resident individual aged 35 years, furnished the following information from his Profit and Loss Account for the year ended 31 March, 2026:

- (i) The net profit was ₹ 6,50,000.
- (ii) The following incomes were credited in the Profit & Loss Account :
 - (1) Dividend from a foreign company ₹ 18,000
 - (2) Interest on government securities ₹ 25,000
 - (3) Gold coins worth ₹ 55,000 received as gift from his father.
- (iii) Depreciation debited in the books of account was ₹ 85,000. Depreciation allowed as per Income tax Act, 1961 was ₹ 96,000.



- (iv) Interest on loan amounting to ₹ 68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31 March, 2026.
- (v) General expenses included:
- (4) An expenditure of ₹ 20,500 which was paid by a bearer cheque.
- (5) Compensation of ₹4,500 paid to an employee while terminating his services in business unit.
- (vi) He contributed the following amounts by cheque:
- (6) 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
- (7) 20,000 to the Swachh Bharat Kosh set up by the Central Government.
- (8) 28,000 towards premium for health insurance and 2,500 on account of preventive health checkup for self and his wife.
- (9) 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

You are required to compute the total income of Mr. Raghuveer for the Assessment Year 2026-27. Assessee has not opted for provisions of Section 115BAC. (10 Marks, Nov. 2016)

Solution

Computation of total income of Mr. Raghuveer (amount in ₹)

Particulars	₹	₹
Profits and Gains of Business or Profession		
Net profit as per profit and loss account	6,50,000	
Add: Expenses debited to P&L A/c but not allowable as deduction		
Interest on loan amounting to was paid in respect of capital borrowed of the new asset which has not been put to use till 31-3-2023 [WN-1]	68,000	
Expenditure which was paid by a bearer cheque. [WN-2]	20,500	
Depreciation debited in the books of account	85,000	
Compensation paid to an employee while terminating his services in business unit. [WN-3]	-	
	8,23,500	
Less: Incomes credited to P&L A/c but not taxable as business income		
Interest on government securities	25,000	
Dividend from a foreign company	18,000	
Gold coins received as gift from his father	55,000	
Depreciation allowable under the Income-tax Rules, 1962	96,000	6,29,500
Income from Other sources		
Interest on government securities	25,000	
Dividend from a foreign company [WN-4]	18,000	
Gold coins received as gift from his father [WN-5]	-	43,000
Gross Total Income		6,72,500
Less: Deduction under Chapter VI-A		
U/s 80C: Sukanya Samridhi Scheme	45,000	
U/S 80D: Insurance premium [WN-6]	25,000	



Medical Expenses of Father (82 Yrs)[WN-6]	35,000	
U/s 80G: Contribution to Swachh Bharat Kosh[WN-7]	20,000	
Total Income		5,47,500

Working Note:

- (1) As per Section 36(1)(iii), interest on capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
- (2) As per Section 40A(3), expenditure in respect of which aggregate payments made to a person in a day, in excess of 10,000, made otherwise than by way of account payee cheque/demand draft is disallowed in full.
- (3) Compensation of 4,500 paid to an employee while terminating his services in business unit is allowed as deduction under section 37.
- (4) Dividend from Foreign Company is Taxable under the Head "Income from Other Sources".
- (5) As per Section 56(2)(x), gift received from a relative (father) is exempt from tax.
- (6) Deduction in respect of health insurance premium paid on the health of himself and preventive health check up for self and his wife shall be allowed subject to maximum of 25,000. Deduction under section 80D in respect of medical expenditure of his father who is a senior citizen shall be allowed of 35,000.
- (7) 100% deduction under section 80G for contribution to Swachh Bharat Kosh set up by the Central Government shall be allowed without any restriction.

Illustration 31

Computation of total income: Ms. Rekha, a resident individual aged 50, provides the following information for the financial year 2025-26:

- (i) She is a partner in AK & Co. and received the following amount from the firm :
 Share of profit from the firm = ₹ 35,000
 Interest on capital @ 15% p.a = ₹ 3,00,000
 Salary as working partner = ₹ 1,00,000
 (fully allowed in the hands of the firm)
- (ii) She is running a rice mill as proprietor. The Net profit as per Profit & Loss Account is ₹ 4,50,000. The following items are debited to Profit and Loss account:
 - a. Advance Income-tax paid 1,00,000
 - b. Personal drawings = 50,000
 The Following items are credited to Profit and Loss Account:
 - c. Interest on savings bank account with SBI ₹ 12,000
 - d. Interest on savings account with post office ₹5,000
 - e. Dividend from listed Indian Company ₹ 80,000
- (iii) She owned a house property in Mumbai which was sold in January, 2024. She received ₹ 90,000 by way of arrear rent in respect of the said property in October, 2025.
- (iv) She made the following investments:
 Life insurance premium on a policy in the name of her married daughter ₹ 60,000. (The policy was taken on 01-10-2025 and the sum assured being ₹ 5,00,000).
 Health insurance premium on a policy covering her mother aged 75. She is not dependent on Ms. Rekha. Premium paid by cheque 55,000.

Compute the Total Income and the tax liability of Ms. Rekha for the Assessment Year 2026-27. Assessee has not opted for provisions of Section 115BAC. (10 Marks, May 2017)

Solution

Computation of total income and tax payable by Ms. Rekha (amounts in ₹)

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Particulars	₹	₹
Income from house property:		
Arrears of Rent received in respect of the Mumbai house taxable u/s 25A	90,000	
Less: 30% deduction u/s 25A	-27,000	63,000
Profits and gains of business profession:		
Net profit as per P&L A/c	4,50,000	
Less: Items credited to profit and loss account not treated as business income		
Interest on savings bank account with	-12,000	
SBI Interest on savings account with post office	-5,000	
Dividend from listed Indian Company	-80,000	
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance Tax (not allowable as deduction u/s 40(a))	1,00,000	
Personal drawings	50,000	
Income from Rice Mill	5,03,000	
Share of profit from firm is exempt from tax under Section 10(2A)	-	
Salary as working partner in partnership firm (Taxable as profits and gains of business or profession u/s 28)	1,00,000	
Interest on capital (As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @ 12%) $[3,00,000 \times 12\% \div 15\%]$	2,40,000	8,43,000
Income from other sources:		
Interest on savings bank account with SBI	12,000	
Interest on savings account with post office [5,000-3,500] [WN]	1,500	
Dividend from listed Indian Company (Taxable in hands of shareholder - assumed to be Gross)	80,000	93,500
Gross Total Income		9,99,500
Less: Deduction under section		
80C: Life insurance premium for policy in the name of her married daughter, restricted to 10% of sum assured i.e. 10% of 5,00,000.	50,000	
80D: Medical Insurance Premium on life of parent, being a senior citizen (i.e. of age exceeding 60 years) - Qualifies for deduction, even though the mother is not dependent on the assessee. However, deduction cannot exceed 50,000.	50,000	
80TTA: Interest on savings bank account with SBI and post office (12,000+ 1,500). However, deduction cannot exceed 10,000. [WN]	10,000	1,10,000
Total Income		8,89,500
Tax on total Income		90,400
Add: Health and Education cess @ 4%		3,616
		94,016
Less: Advance Tax	1,00,000	



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Less: TDS on dividend income [80,000 × 10%]	8,000	-
		1,08,000
Net tax refundable (rounded off)		-13,980

Working Note:

Interest on Post Office Saving Bank Account is exempt from tax u/s 10(15) upto 3,500. As per Section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of 10,000. Therefore, a deduction of 10,000 is allowable from the gross total income of Ms. Rekha, though the interest from savings bank account after exemption u/s 10(15) is 13,500.

Illustration 31

Computation of Total Income and tax liability: From the following particulars of Shri Jagdish (Aged 59 years) for the Assessment Year 2026-27, you are required to find out his taxable income and net tax liability. Assessee has not opted for provisions of Section 115BAC:

- Basic Salary @ 51,000 per month, Dearness allowance @ 10,000 per month (Part of salary for retirement benefits). House rent allowance ₹ 4,000 per month and rent paid for house in Mumbai is 7,000 per month.
- He owns a commercial building at New Delhi, which is let out on 01-07-2025 at a monthly rent of 46,000. He paid for municipal taxes of 27,000 and 25,000 for the financial year 2024-25 and 2025-26 on 31-03-2026 and 20-04-2026 respectively.
- He deals in shares. During financial year 2024-25 he earned 1,70,000 from his share business and paid 30,000 as security transaction tax.
- He purchased 4,000 unlisted shares of Shyam Limited on 16-01-2008 for 80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2008. Shri Jagdish sold 3000 Bonus Shares on 28-12-2025 for 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08: 129, 2024-25: 363)
- He received net dividend of 11,70,000 as dividend income from listed domestic company. Interest from saving bank account deposits with IDBI Bank 15,000 and lottery winnings (Net of TDS @ 30%) is 21,000.

He paid the following amount out of his taxable income:

- Deposits in Public Provident Fund 2,00,000.
- Medical insurance premium paid for health of his wife 19,000 and for health of dependent son ₹ 12,000 through cheque.

(Modified 14 Marks, May 2020-NS)

Solution

Computation of total income and tax liability of Mr. Jagdish (amount in ₹)

Particulars	₹	₹
Income from salaries :		
Basic salary (51,000 × 12)	6,12,000	
Dearness allowance (10,000 × 12)	1,20,000	
House Rent Allowance [WN-1]	37,200	
Gross Salary	7,69,200	
Less: Standard Deduction u/s 16(ia)	50,000	7,19,200
Income from House Property:		
Actual rent being Gross Annual Value [46,000 × 9]	4,14,000	





Less: Municipal taxes paid [taxes paid during FY 2024-25 shall be allowed as deduction on actual payment basis]	27,000	
Net Annual Value	3,87,000	
Less: Deductions under section 24		
(a) Statutory Deduction @ 30% of NAV	1,16,100	
(b) Interest on loans	Nil	2,70,900
Profits and gains from business or profession:		
Income from business in dealing in shares	1,70,000	
Less: Security transaction tax [Same is allowed as deduction as per provisions of Sec. 36(1)(xv)]	30,000	1,40,000
Capital gains		
Sale consideration on sale of bonus shares	2,00,000	
Less: Indexed cost of acquisition [WN-2]	Nil	2,00,000
Income from other sources:		
Dividend from shares of Indian company [WN-4]	13,00,000	
Gross Winnings from lottery [WN-3]	30,000	
Saving bank interest	15,000	13,45,000
Gross Total Income		26,75,100
Less: Deduction u/s 80C (PPF subject to maximum of 1,50,000)	1,50,000	
Less: Deduction u/s 80D for medical insurance premium paid [(Wife 19,000 and dependent son 12,000) subject to maximum of 25,000]	25,000	
Less: Deduction u/s 80TTA - Interest on savings bank account. However, deduction cannot exceed 10,000.	10,000	1,85,000
Total Income (rounded off)		24,90,100
Long term capital gains taxable u/s 112 @ 12.5% (2,00,000 × 20%)	40,000	
Winnings from lottery taxable u/s 115BB @ 30% (30,000 × 30%)	9,000	
Balance Income taxable at normal rates (24,90,100 - 30,000 - 2,00,000) i.e. ₹ 22,60,100	4,90,530	
Tax payable	5,39,530	
Add: HEC @ 4%	21,581	
Total tax liability (rounded off)	5,61,110	
Less: TDS on dividends (13,00,000 × 10%)	1,30,000	
Less: TDS on lottery winnings (30,000 × 30%)	9,000	
Tax payable		4,22,110

Working Notes:

(1) HRA is exempt to the extent least of the following (amount in ₹)-

i)	Actual HRA received [4,000 × 12]	48,000
ii)	Rent paid - 10% of salary [7,000 × 12 - 10% of (6,12,000 + 1,20,000)]	10,800
iii)	50% of the salary [50% of (6,12,000 + 1,20,000)]	3,66,000
	Exempted HRA	10,800
	Taxable HRA	37,200

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- (2) Cost of acquisition of bonus shares is Nil as per section 55. Since the bonus shares were allotted on 1-2-2008, the period of holding of bonus shares exceeds 2 years, therefore, it is a long-term capital asset.
- (3) Winnings from lottery should be grossed up for the changeability under the head "Income from other sources". Hence, taxable amount is $(21,000 \times 100 \div 70) = 30,000$
- (4) Dividend from shares of Indian company is taxable in hands of shareholder at normal rate. Company is liable to deduct tax at source @ 10% under Section 194. Hence, it should be grossed up for the changeability under the head "Income from other sources". Hence, taxable amount is $(11,70,000 \times 100 \div 90) = 13,00,000$.

Illustration 32

Computation of Total Income: Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in-turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2025-26.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Pvt Ltd	Let-out to Ms. Puja

₹ 17,000 were paid as Interest on loan taken by mortgaging House 1 for construction of House 2. During the previous year 2025-26, Mr. Madhavan purchased a rural agricultural land for 2,50,000. Stamp valuation of such property is 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2026-27. All workings should form part of your answer. Assessee has not opted for provisions of Section 115BAC.

(8 Marks, May 2020-NS)

Solution

Computation of taxable income of Mr. Madhvan (amount in ₹)

Particulars	₹	₹
Income from Salary:		
Basic salary $(30,000 \times 12)$	3,60,000	
Rent free accommodation (10% of salary i.e. 36,000 or Lease rent paid i.e. 65,000 whichever is less shall be taxable value of rent free accommodation)	36,000	
Gross Salary	3,96,000	
Less: Standard deduction u/s 16(ia)	50,000	3,46,000
Income from House Property:		
House I [WN-1]	39,900	
House II [WN-1]	1,33,500	1,73,400
Income from Other Sources:		



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Purchase of Rural Agricultural land for inadequate consideration [WN-2]		-
Gross Total Income		519400

Working Notes:

(1) Income from House property:

Particulars	House I	House II
Gross Annual value:		
Expected rent or actual rent whichever is higher	75,000	2,85,000
Less: Municipal taxes paid	18,000	70,000
Net Annual value	57,000	2,15,000
Less: Deduction u/s 24	17,100	64,500
Standard deduction (30% of NAV)	-	17,000
Interest on borrowed capital	39,900	1,33,500

(2) Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.

Illustration 33

Computation of Total Income and Tax liability: Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to the year ended 31-3-2026:

	Particulars	₹
a)	Analysis of her bank account in her ledger reveals the under-mentioned data:	
	(i) Winnings from a TV Game show (Net)	70,000
	(ii) Gift received from mother's father	80,000
	(iii) Gift received from Ramya, her close friend	60,000
	(iv) Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (@ 15%p.a.)	3,00,000
	(v) Rent received for a vacant plot of land	2,00,000
	(vi) Amount received from Sharks Pvt. Ltd., for a house at Salem for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2025.	1,50,000
	(vii) Amount received under Key-man Insurance Policy	2,20,000
	(viii) Amount forfeited by a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement	3,10,000
b)	Donation given in cash to a charitable trust registered u/s 12AA	12,000
c)	She owns agricultural lands at Colombo, Sri Lanka, She has derived agricultural income therefrom.	1,80,000
d)	(i) Public Provident Fund paid in the name of her minor daughter	75,000
	(ii) Interest credited in the said PPF account during the year	8,900
e)	Share of profits received from Vidyut & Co.	1,90,000

You are required to compute the total income of the assessee and the tax payable for the assessment year 2026-27 if has not opted for default tax regime. Computation should be made under proper heads of income.
(10 Marks, Nov. 2018-NS)



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Solution

Computation of Total income and Tax payable (amounts in ₹)

Particulars	₹	₹
Income from House Property:		
Arrears of rent received under Section 25A	1,50,000	
Less: Standard deduction@ 30%[WN-1]	45,000	1,05,000
Profits and gains of business or profession:		
Share of profit from Vidyut & Co. amounting 1,90,000 is exempt from tax u/s 10(2A)	-	
Amount received under Key-man Insurance Policy	2,20,000	
Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @ 12%) $3,00,000 \times 12\% \div 15\%$	2,40,000	4,60,000
Income from other sources:		
Winnings from a TV Game show (Gross)[WN-2]	1,00,000	
Gift received from mother's father [Gift received from mother's father has been brought to tax u/s 56(2)(x) on the basis of the view that maternal grandparents are not "lineal ascendants" and hence, do not fall within the definition of 'relative' given there under, However, there is an alternate view that maternal grandparents are lineal ascendants and hence, fall under the definition of relative u/s 56(2). If this view is considered, gift of 80,000 from mother's father would not be taxable.]	80,000	
Gift received from Ramya, her close friend [Taxable u/s 56(2)(x), since it exceeds 50,000]	60,000	
Amount forfeited by a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement[WN-3]	3,10,000	
Interest credited in PPF account [Exempt from tax]	Nil	
Agricultural Income from land situated in Colombo	1,80,000	
Rent received for a vacant plot of land	2,00,000	9,30,000
Gross Total Income		14,95,000
Less: Deduction u/s chapter VI-A		
U/s 80C: Contribution to Public Provident Fund in name of minor daughter [Contribution made in name of any child of the Individual qualifies for deduction u/s 80C]	75,000	
U/S 80G: Donation given in cash to a charitable trust registered u/s 12AA [No deduction shall be allowed u/s 80G in respect of donation of any sum exceeding 2,000 unless such sum is paid by any mode other than cash.]	Nil	75,000
Total Income (rounded off)		14,20,000
Computation of tax liability:		
Winnings from TV Game show under Section 115BB @ 30% $(1,00,000 \times 30\%)$		30,000





Balance Income taxable at normal rates (14,20,000 - 1,00,000) i.e. 13,20,000		2,08,500
Total Tax		2,38,500
Add: HEC 4%		9,540
Total tax liability		2,48,040
Less: TDS on lottery winnings		30,000
Tax payable		2,18,040

Working Notes:

- (1) According to Section 25A, recovery of arrears of rent received is taxable as "Income from House Property" whether the assessee is owner of the house or not. Hence, in the given case, the amount of 1,50,000 received by Miss Sakshitha from Sharks Pvt. Ltd. by way of arrears of rent after giving deduction of 30%, shall be taxable as her income for the previous year 2025-26 even if she ceases to be the owner of the house property during the previous year.
- (2) Winnings from TV game show should be grossed up for the chargeability under the head "Income from other sources" since tax is deducted at source @ 30% under Section 194B as amount of winnings exceeds 10,000. Hence, taxable amount is $(70,000 \times 100 \div 70) = ₹ 1,00,000$.
- (3) Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if, such sum is forfeited and the negotiations do not result in transfer of such capital asset shall be chargeable to tax under Section 56(2)(ix) as Income from other Sources.

Illustration 34

Computation of Total Income, AMT & Tax liability: From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31-03-2026, 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 A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- (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 2019-20. 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, 2026 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 10-06-2025 for 10 lakhs. The stamp duty value of land at the time of transfer was 18.68 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 2025-26 and 2001-02 are 376 and 100 respectively.

CHAPTER - 13

COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

(vii) He paid the following amounts, out of his taxable income:

- Insurance premium of 39,000 paid on life insurance policy of son, who is not dependent on him.
- Insurance premium of 48,000 on policy of his dependent father,
- Tuition fees of 42,000 for his three children to a school. The fees being 14,000 p.a. per child.

(14 Marks, Nov. 2020-NS)

Solution

Computation of total income of Mr. Ganesh for A.Y. 2026-27 (amount in ₹):

	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]	2,28,000	
	Less: Municipal taxes paid by him during the PY pertaining to let out portion 60,000/2]	30,000	
	Net Annual Value (NAV)	1,98,000	
	Less: Deduction u/s 24 Standard Deduction - 30% of 1,98,000	59,400	
		1,38,600	
	Self-occupied portion [Ground Floor] Annual Value [No deduction is allowable in respect of municipal taxes paid]	Nil	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)	47,000	25,47,000
III	Capital Gains Long-term capital gains on sale of land (since held for more than 24 months) full Value of Consideration [Higher of stamp duty value of 14.68 lakhs and Actual consideration of 10 lakhs, since stamp duty value exceeds actual consideration by more than 10%]	18,68,000	
	Less: Cost of acquisition	4,00,000	14,68,000
	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		
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		44,41,600
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. 2025-26 being the 6 th year of operations] [Profits of the SEZ Export Turnover/Total Turnover] × 50% [25 lakhs × 140 lakhs/ 200 lakhs × 100%]		8,75,000
Less: Deduction under Chapter VI-A Deduction under section 80C Tuition fee paid for maximum of two children is allowable (14,000 × 2)	28,000	
Life Insurance premium paid on policy of son allowable, even though not dependent on Mr. Ganesh	39,000	
Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Ganesh	-	
Deduction under section 80QQB Royalty [2,88,000 × 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]	1,90,000	
Deduction under section 80TTA Interest on savings bank account, restricted to 10,000	10,000	
		2,67,000
Total income		32,99,600

Note: Computation of Capital gains after indexation (Applicable tax rate 20%).

Particulars	₹	₹
Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset]		
As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration	18,68,000	
Less: Indexed cost of acquisition [4,00,000 × 376 ÷ 100]	15,04,000	
Cost of acquisition, being higher of -		3,64,000
Actual cost (3,40,000 + ₹15,000) 3,55,000		
lower of FMV of ₹ 6,00,000 and stamp duty value of ₹ 5,00,000 as on 1-4-2001 5,00,000		
Tax liability on LTCG being Lower of -		
Tax liability on LTCG without indexation @ 12.5% of ₹ 14,68,000		1,83,500
Tax liability on LTCG @ 20% of ₹3,64,000 (after indexation)		72,800

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COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

Computation of tax liability of Mr. Ganesh for A.Y. 2026-27 under the normal provisions of the Act :

Tax on total income	
Tax on LTCG of 3,64,000 @ 20%	72,800
Tax on remaining total income of 18,31,600	3,61,980
	4.34.780
Add: Health and education cess @ 4%	17,391
Total tax liability	4,52,170

Computation of tax liability of Mr. Ganesh for A.Y. 2026-27 under the special provisions of the Act :

Computation of adjusted total income:	
Total income as per the normal provisions of the Act	32,99,600
Add: Deduction u/s 10AA	8,75,000
Deduction u/s 80QQB	1,90,000
Adjusted Total Income :	43,64,600
AMT @ 18.5%	8,07,451
Add: HEC @ 4%	32,298
AMT liability (rounded off)	8,39,750

Since the regular income tax payable is less than the AMT, the adjusted total income of 43,64,000 would be deemed to be the total income and tax would be payable @ 18.5% plus HEC @ 4%. The total tax liability would be 8,39,750

Illustration 36

Computation of Total Income & Tax liability: Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for the previous year 2025-26 after debiting/crediting the following items:

Debits:

- (1) 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- (2) 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- (3) Interest paid 1,67,000 on loan taken for purchase of E-vehicle on 15-05-2024 from a bank. The E-vehicle was purchased for the personal use of his wife.
- (4) His firm has purchased timber under a forest lease of 20,00,000 for the purpose of business.

Credits:

- (1) Income of 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
- (2) He received 3,00,000 from a debtor which was written off as bad in the year 2019-20. Amount due from the debtor (which was written off as bad) was 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for assessment year 2023-24.
- (3) He sold some furniture to his brother for 7,00,000. The fair market value of such furniture was 9,00,000.

Other information:



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- (1) Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
- (2) Mr. Krishna purchased a new car of 12,00,000 on 1 September, 2025 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
- (3) Mr. Krishna had sold a house on 30th March, 2023 and deposited the long term capital gains of 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2026, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of 50,00,000 on sale of this property. On 25th March, 2026, he withdrew money out of his capital gain account and invested 1 crore on construction of one house.
- (4) Mr. Krishna also made the following payments during the previous year 2024-25.
 - Lump-sum premium of 30,000 paid on 30th March, 2026 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2026 to 29th March, 2029.
 - 8,000 paid in cash for preventive health check-up of self and spouse

Compute the total income and tax payable by Mr. Krishna for the assessment year 2026-27 if he has not opted for the provisions of Section 115BAC. (14 Marks, Jan. 2021)

Solution

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

	Particulars	₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		5,64,44,700	
	Add: Items of expenditure debited but not allowable while computing business income			
	1. Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	20,000		
	2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000		
	3. Contribution to a university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @ 100%. Since, 100% of the expenditure is already debited to profit and loss account, hence no adjustment will be required]	-		
	4. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are	-		



	not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of 2 lakh]		1,87,000	
			5,66,31,700	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	5. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	4,00,000		
	6. Bad debt recovered [Actual bad debt is 2 lakhs i.e., 5 lakhs less 3 lakh, being the amount of bad debt recovered. Bad debt written off is 3 lakhs. Bad debt recovered to the extent of 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire 3 lakhs is credited to the profit and loss account, 2 lakhs has to be reduced]	2,00,000	6,00,000	
			5,60,31,700	
	Less: Allowable expenditure			
	7. Depreciation on car [Rate of depreciation on car is 15%, since the car is put to use for more than 180 days, hence depreciation will be admissible at full rate [12 lakh × 15%]		1,80,000	5,58,51,700
II	Capital Gain Long term capital gain on sale of house property		50,00,000	
	Less: Exemption u/s 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.] [Capital gain of 25 lakhs in capital gain account scheme is not taxable in P.Y. 2025-26, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of 75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of 50 lakhs being long-term capital gain on sale of house property during the P.Y. 2025-26]		50,00,000	



III	Income from Other Sources Royalty on patent [Taxable as "income from other sources", since he is engaged in business of manufacturing furniture]			4,00,000
	Gross Total Income			5,62,51,700
	Less: Deduction under Chapter VI-A Deduction u/s 80D: Mediclaime premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [30,000/6 years, being relevant previous years in which the insurance is in force]	5,000		
	Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of ₹5,000]	5,000	10,000	
	Deduction u/s 80G [Donation of 20,000 to Gurudwara not allowable as deduction since amount exceeding 2,000 paid in cash]			
	Deduction u/s 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of 3 lakh]		3,00,000	3,10,000
	Total income			5,59,41,700

Computation of tax liability of Mr. Krishna for A.Y. 2026-27:

Particulars	₹	₹
Tax on total income of 5,59,41,700		
Upto ₹ 3,00,000	Nil	
3,00,001 - 5,00,000 [@ 5% of 2 lakh]	10,000	
5,00,001 - 10,00,000 [@ 20% of 5,00,000]	1,00,000	
10,00,001-5,49,41,700 [@ 30% of 5,49,41,700]	1,64,82,510	1,65,92,510
Add: Surcharge @ 37%, since total income exceeds 5,00,00,000		61,39,229
		2,27,31,739
Add: Health and education cess @ 4%		9,09,270
Total tax liability		2,36,41,008
Less: TCS u/s 206C (1) @ 2.5% on 20 lakh i.e., timber	50,000	
TCS u/s 206C(1F) @ 1% of 12 lakh i.e., sale of motor car where consideration exceeds ₹ 10 lakh	12,000	
TDS u/s 194-IA @ 1% of 1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	1,00,000	1,52,000
Tax payable (rounded off)		2,34,89,010

Illustration 37



Computation of Total Income & Tax liability: *Computation of Total income & Tax liability: Rajesh was employed in Axis Ltd., Mumbai. He received a salary of 45,000 p.m. From 01-04-2025 to 20-09-2025. He resigned and left for Dubai for the first time on 28-09-2025 and got monthly salary of rupee equivalent of 90,000 from 01-10-2025 to 31-03-2026. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2026 was credited in his Dubai bank account.*

The cost of his air tickets to Dubai costing 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing 40,000 was funded by one of his friends staying in Delhi.

He further received interest of 10,500 on his fixed deposits and 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹10,000 for spouse and 25,000 for dependent mother aged 71 years.

Compute taxable income of Mr. Rajesh for the Assessment Year 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC (1A (7 Marks, Jan. 2021))

Solution

In case of an Indian citizen leaving India for employment during the relevant previous year, the period of their stay during that previous year for being treated as a resident of India must be 182 days or more.

During the previous year 2025-26, Mr. Rajesh, an Indian citizen, was in India for 181 days only (ie 0091 31 + 31 + 28 days). Thereafter, he left India for employment purposes. 919039 30 + 31 + 30 +

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2026-27.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to him in India. Hence, salary for January to March 2026,

which was credited in his Dubai bank account for services rendered in Dubai, would not be taxable in the hands of Mr. Rajesh.

Computation of taxable income of Mr. Rajesh for A.Y. 2026-27:

Particulars	₹	₹
Salary		
Salary from 1-4-2025 to 20-9-2024 [45,000 × 5+45,000 × 20/30]	2,55,000	
Salary from 1-10-2025 to 31-12-2024 [90,000 × 3]	2,70,000	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(ia)		50,000
Net Salary		4,75,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	7,500	18,000
Gross Total Income		4,93,000
Less: Deduction under Chapter VI-A		
• Deduction u/s 80C LIC premium for self and spouse [LIC premium for mother is not allowed for deduction]		25,000
Deduction u/s 80TTA [Interest on savings account with Mumbai bank]		7,500

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COMPUTATION OF TOTAL INCOME



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Total Income	4,60,500

Working Notes:

- (1) Cost of his air tickets to Dubai costing 1,50,000 funded by his sister is not taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since "sister" is a relative.
- (2) Cost of initial stay at Dubai costing 40,000 funded by his friend is also not taxable u/s 56(2)(x) since the amount does not exceed 50,000.

Illustration 38

Computation of Total Income & Tax liability: Mr. Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit under section 44AB of Income-tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31" March, 2025

Expenditure	₹	Income	₹
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	15,74,500		
Total	60,61,500	Total	60,61,500

Explanatory information:

- (i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of 4,50,000 and Closing stock of 5,58,000 was shown.
- (ii) Salaries & wages include following items:
 - (a) Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ganesh who has withdrawn basic salary of ₹ 3,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
 - (b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of 2,40,000 was paid to them on 1st January, 2025.
- (iii) Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 which was taken from State Bank of India on 01-05-2022 for purchase of new electric car of 15,00,000. The car is used for personal purpose.
- (iv) Depreciation allowable as per Income-tax Rules, 1962 is 4,50,000 but during the calculation of such depreciation following addition was not considered: Motor car purchased for ₹3,00,000 for supply of finished goods to dealers on 25-08-2025.
- (v) An asset was purchased for 6,00,000 on 17-11-2024 for conducting scientific research and the deduction was claimed u/s 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2025 for a consideration of ₹ 8,00,000.

Other information:

A plot of industrial land which was used by Mr. Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 07-05-2025. The compensation of 12,50,000 was received on 27-02-2026. Such property was purchased by him on 08-08-2005 for ₹2,00,000.



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He has purchased another plot of industrial land on 21-04-2026 for ₹ 6,00,000. Government has also paid 54,000 as interest on such compensation on 28-03-2026.

Compute the total income and tax liability of Mr. Shivansh for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Ignore Provisions relating to AMT.

Cost Inflation Indices: F.Y. 2025-26: 376, F.Y. 2005-06: 117

(14 Marks, Dec. 2021)

Solution

Computation of total income of Mr. Shivansh for A.Y. 2026-27:

	Particulars	₹	₹	
I	Income from business or profession			
	Net Profit	15,74,500		
	Add: Items debited but not allowable/item not credited but taxable while computing business income	9,600		
	Employer's contribution to NPS in excess of 14% of salary -Employer's contribution to the extent of 14% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., 9,600 [60,000, being 20% of ₹3,00,000 less 36,000 being 14% of 3,60,000 (3,00,000 + 20% of ₹ 3,00,000) has to be added back.			
	VRS expenditure- $\frac{1}{5}$th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to Profit and Loss A/c, $\frac{4}{5}$th has to be added back [2,40,000 × $\frac{4}{5}$]	1,92,000		
	Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, ₹ 1,80,000 [12,00,000 × 15% × 1] has to be added back, since the same forms part of interest on loan debited to profit and loss A/c.	1,80,000		
	Sale proceeds of asset acquired for conducting scientific research taxable as business income u/s 41(3) in the year of sale to the extent of lower of ₹ 6,00,000 (being the deduction allowed u/s 35) and 8,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e.,	6,00,000		



	(8,00,000 + 6,00,000) over the capital expenditure incurred of ₹ 6,00,000			
	- Undervaluation of stock [(5,58,000 - 4,50,000) 10/90] Note: Alternatively, undervaluation of closing stock i.e., 62,000 can be added back and under valuation of opening stock i.e., 50,000 can be reduced from net profits. - Depreciation as per books of A/c	12,000		
		6,17,000	16,10,600	
	Less: Depreciation as per Income-tax Rules		31,85,100	
	Depreciation on Motor car purchased for supply of finished goods 3,00,000 15%]	4,50,000		
		45,000	4,95,000	
			26,90,100	
	Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income			
	- Profit on sale of asset of scientific research [Taxable under the head "Capital Gains"] - Winning from lottery [Taxable under the head "Income from other sources"]	2,00,000		
		31,500	2,31,500	24,58,600
II	Capital Gain			
	Short-term capital gains:			
	Sale of asset acquired for conducting scientific Research			
	Sales consideration	8,00,000		
	Less: Cost of acquisition	6,00,000		
	Short-term capital gain		2,00,000	
	Long-term capital gains:			
	Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5)			
	Compensation received	12,50,000		
	Less: Indexed cost of acquisition	2,00,000		
	Long-term capital gain [since such plot is held for more than 24 months]	10,50,000		
	Less: Exemption u/s 54D - Acquisition of industrial plot	6,00,000	4,50,000	6,50,000
III	Income from other sources			
	Winning from lottery [31,500 × 100/70]		45,000	
	Interest on enhanced compensation	54,000		
	Less: 50% of enhanced compensation	27,000	27,000	72,000
	Gross Total Income			31,80,600
	Less: Deduction under Chapter VI-A Deduction u/s 80EEB: Interest on loan taken for purchase			

	of electric vehicle allowable as deduction to the extent of			1,50,000
	Total Income (rounded-off)			30,30,600

Note: Computation of Capital gains after indexation (Applicable tax rate 20%):

Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5) -		
Compensation received	12,50,000	
Less: Indexed Cost of acquisition [$\text{₹ } 2,00,000 \times 376.117$]	6,42,735	
Long-term capital gain [Since such plot is held for more than 24 months]	6,07,265	
Less: Exemption u/s 54D- Acquisition of industrial plot within 3 years	6,00,000	7,265
Tax liability on LTCG being lower of -		
Tax liability on LTCG without indexation @ 12.5% of ₹ 4,50,000		56,250
Tax liability on LTCG @ 20% of 7,265 (after indexation)		1,453

Computation of tax liability of Mr. Shivansh for A.Y. 2026-27:

Tax on long-term capital gains @ 20% of ₹7,265	56,250
Tax on winning from lottery @ 30% of 45,000	13,500
Tax on total income (excluding LTCG and winning from lottery) of ₹25,35,600 [since Mr. Shivansh,	5,70,680
a senior citizen he is eligible for higher exemption limit ₹ 300,000]	
Total Tax	6,40,430
Add: Health and education cess 4%	25,617
Tax liability (rounded off)	6,66,050

Illustration 39

Computation of Total Income & Tax liability: Mrs. Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the previous year 2024-25 was 250 lakhs and in the current previous year 2025-26, it is 600 lakhs. The net profit as per the profit and loss account as on 31-03-2026 is 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2025-26.

- (i) Depreciation has not been debited to profit and loss account. The details of the plant & machinery employed in the business are given as under:

	Particulars	₹
01-04-2025	Opening written down value of machinery used for manufacturing purpose	4,75,000
03-07-2025	New machinery purchased during the year, payment made by an account pay cheque.	7,25,000
10-03-2026	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

- (ii) Received subsidy of 20% on new machine purchased on 03-07-2025 during the previous year under technology upgradation fund Scheme from the Central Government.



- (iii) She paid a job charges for the value addition on the fabrics 90,000 without deduction of tax to job worker by an account payee cheque.
- (iv) Commission paid to one agent allowed as deduction in earlier assessment year amounting 50,000, has now been received back during previous year 2025-26, from the agent due to settlement with commission agent.
- (v) 25,000 paid to creditor for goods in cash.
- (vi) Incurred loss of 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.
- (vii) Interest received amounting 2,00,000, duly authorised by partnership deed of M/s Ramji textiles @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.
- (viii) She Received 60,000 by pre-mature withdrawals from deposit including interest 5,000, in post office time deposit, eligible for deduction under Section 80C.
- (ix) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2025 for 5,00,000, which was acquired for 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2024-25:363)
- (x) She received a gold coin (bullion) worth 55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2025-26.
- (xi) She incurred long term loss from sale of share of the Indian company. (The STT is paid on the sale and purchase of the shares) 75,000.
- (xii) She deposited a sum of 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.
- (xiii) She purchased the new residential house during the previous year and paid stamp duty and registration fee 1,55,000 to get transfer the property in her name.

You are required to compute the total income and tax payable by Mrs. Nisha for the assessment year 2026-27. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary

(14 Marks, May 2022)

Solution

Computation of total income of Mrs. Nisha for A.Y. 2026-27:

	Particulars	₹	₹	₹
	Income from business or profession Net Profit as per profit and loss account Add: Items not credited but taxable while computing business income		5,61,000	
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2025-26 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]	50,000		
	Interest on capital from partnership firm [2,00,000 × 12% + 15%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest @ 12% p.a. would be allowed as deduction in the hands of firm u/s 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha u/s 28. For	1,60,000		

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	hence, the same is allowed to be set off from textile business income as per section 70.			
II	Capital Gains Long term capital gain on sale of gold bracelet since it is held for more than 36 months Sales consideration	5,00,000		
	Less: Cost of acquisition	40,000		
	Less: Cost of improvement (50,000 × 363/129) Long-term capital gain on sale of gold bracelet Note: In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case exemption u/s 54F would be $4,10,000 \times 1,55,000/5,00,000 = 1,27,100$ Accordingly, long term capital gain would be 2,82,900 (instead of ₹ 4,10,000)	50,000	4,10,000	
	Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70.		75,000	3,35,000
III	Income from Other Sources			
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x) since cousin is not a relative and the fair market value exceeds 50,000]		55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha]		60,000	1,15,000
	Gross Total Income			7,77,500
	Less: Deduction under Chapter VI-A Deduction u/s 80C: Stamp duty and registration fee of 1,55,000 for the purpose of transfer of house property, restricted to		1,50,000	
	Deduction u/s 80DD: Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction 1,25,000 in case of severe		1,25,000	



	disability irrespective of amount deposited with LIC]			2,75,000
	Total Income			5,02,500

Computation of tax liability of Mrs. Nisha for A.Y. 2025-26 (amount in ₹)

Tax on long-term capital gains @ 12.5% on 2,52,500 [3,35,000-₹82,500, being un-exhausted basic exemption limit (2,50,000-1,67,500)]	31,563
Tax on other income of 1,67,500 [₹5,02,500-3,35,000, being LTCG], being lower than the basic exemption limit	Nil
Less: Rebate u/s 87A	13,563 Nil
Add: Health and education cess @ 4%	31,563 1,263
Tax liability (rounded off)	32,830

ILLUSTRATION 40

Computation of Total income & Tax liability : Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2026.

Receipts	₹	Payment	₹
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2024 received in April, 2025		Entertainment Expenses	1,10,000
IPD 40,000	85,000	Purchase of Television	48,000
OPD 45,000		Gift to daughter-in law	60,000
Dividend from shares (net)	18,900	Interest on loan for repairs to property	65,000
Fees received during the year	10,25,000	Personal medical expenses	70,000
Gifts received from relatives of patients	45,000	Deposits in PPF A/c	55,000
Honorarium for painting services in Jai Hind Art School (net)	54,000	Nursing Home expenses	3,75,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,50,000		19,50,000

Other Information:

- He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- Salary includes 60,000 paid to his sister who is a qualified nurse paid in cash.
- Entertainment expenses include 25,000 for dinner to doctors in a five star hotel.

- (d) Interest on loan for repairs to property includes 40,000 for his residential property.
- (e) His daughter in law earned income of 10,000 from the amount received as gift.
- (f) Fixed Assets values as on 01-04-2025 are as under:
- (g) Nursing Home Equipment's 2,20,000, Medical Books (incl. annual publications 10,000) ₹35,000, Laptop 40,000.
- (h) Television purchased for nursing home purpose on 21-09-2025 is put to use
- (i) He has donated 10,000 towards PM CARES Fund on 15-08-2025.

You are required to -

You are required to

- (i) Compute the total income and tax payable by him for A.Y. 2026-27 as per the regular provisions of the Income-tax Act, 1961 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)
- (ii) What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA?

(14 Marks, Nov. 2022)

SOLUTION

Computation of Total income and Tax payable by Dr. Rohan for A.Y. 2026-27 as per the regular provisions of the Act :

	Particulars	₹	₹	₹
I	Income from house property Annual value [Assuming residential property is self occupied]		Nil	
	Less: Deduction under section 24(b) Interest on loan for repairs to property, ₹ 40,000 restricted to Loss from self-occupied property [can be set-off against Profits and gains of business or profession or Income from other sources]		30,000	-30,000
II	Profits and gains from business and profession Gross Receipts Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2025 received in April 2024 [Fees for March 2025 is chargeable to tax during P.Y. 2025-26, since Dr. Rohan is following cash system of accounting] [₹ 40,000 + ₹ 45,000]	85,000		
	Fees received during the year Gifts received from relatives of patients [taxable as business income]	10,25,000 45,000	18,05,000	
	Less: Permissible deductions Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 - ₹ 60,000]	2,90,000		
	Taxes and insurance	26,000		

	Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
	Interest on loan for repair to property [to the extent relating to business] = ₹ 65,000 - ₹ 40,000, relating to residential property	25,000		
	Nursing home expenses	3,75,000		
	Professional fees paid for consulting services	1,20,000	9,46,000	
			8,59,000	
	Less: Depreciation under section 32 Nursing home equipment's [₹ 2,20,000 × 15%]	33,000		
	Medical books [₹ 35,000 × 40%]	14,000		
	Laptop [₹ 40,000 × 40%]	16,000		
	Television [₹ 48,000 × 15%, since the television is put to use for 180 days during the P.Y. 2025-26]	7,200		
			70,200	7,88,800
III	Income from Other Sources			
	Dividend from shares [18,900/90%]		21,000	
	Honorarium for painting services in Jai Hind Art School [54,000/90%] (since net word has been used in question, hence it is grossed up as TDS rate u/s 194J is 10%)		60,000	
	Interest on income-tax refund		1,500	
	Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		10,000	92,500
	Gross Total Income			8,51,300
	Less: Deduction under Chapter VI-A U/s 80C - Deposits in PPF U/s 80D - Medical expenses to the extent of ₹ 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy)		55,000 50,000	
	U/s 80G - Donation towards PM CARES Fund		10,000	1,15,000
	Total Income			7,36,300
	Tax Payable : Upto ₹ 5,00,000 [since Dr. Rohan is aged 80 years or above] ₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300 @ 20%]		Nil 47,260	47,260
	Add: HEC @ 4%			1,890
	Tax liability :			49,150



Less: TDS on fees from visits to other hospitals	65,000	
TDS on dividend from shares	2,100	
TDS on honorarium for painting services in Jai Hind art School	2,500	
		73,100
Tax Refundable		-23,950

Computation of Total income and tax payable by Dr. Rohan for A.Y. 2026-27 if he opts for section 44ADA::

	Particulars	₹	₹	₹
I	Income from house property Loss from self occupied property			-30,000
II	Income from business or profession Income from profession [18,05,000 × 50%] [No other expenditure or depreciation is allowed]			9,02,500
III	Income from Other Sources			92,500
	Gross Total Income			9,65,000
	Less: Deduction under Chapter VI-A			1,15,000
	Total Income			8,50,000
	Tax payable:			
	Upto ₹ 5,00,000		Nil	
	₹ 5,00,001 to ₹ 8,15,000 [₹ 3,15,000 @ 20%]		70,000	70,000
	Less: HEC @ 4%			2,800
	Tax liability			72,800
	Less: TDS			73,100
	Tax Refundable			-380
	Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.			

ILLUSTRATION 41

Computation of Total income & Tax liability: Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2026 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration	15,00,000	By Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Interest on Savings Bank Account	25,000



To Rates and Taxes	15,000	By Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To Interest Expenses	80,000	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	36,97,500		
	64,24,500		64,24,500

The following details relates to F.Y. 2025-26 :

- (i) Employees' Remuneration includes a sum of 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.
- (ii) Mr. Bhasin owns a big house with 2 independent units. Unit-1 (with 50% floor area) has been let out for residential purposes at a monthly rent of 20,000 for the entire year. Unit-2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence-cum-office. Other particulars of the house are: Other particulars of the house are:
 - (a) Municipal Valuation - ₹ 3,60,000 p.a.
 - (b) Fair Rent - ₹ 4,20,000 p.a.
 - (c) Standard Rent under Rent Control Act - ₹ 4,00,000 p.a.
- (iii) Rates and taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.
- (iv) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y. 2011-12. Neither the loan nor the interest was paid till the due date of filing the return of income.
- (v) Based on the actual rent received for Unit-1, Mr. Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.
- (vi) The expense on insurance premium of ₹72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1st July, 2025 to 30th June, 2028 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
- (vii) The expenses on professional fees paid includes a sum of ₹ 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.
- (viii) There was only one block containing computers which came into existence only on 2nd April, 2025 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% in the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.
- (ix) Mr. Bhasin has also taken a loan of ₹ 5,00,000 from a nationalised bank for higher education of his son. During F.Y. 2025-26, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2026-27 under regular provisions of Income-tax Act 1961, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) Also calculate the total tax payable by him.

(14 Marks, May 2023)

SOLUTION



Computation of total income and tax payable by Mr. Bhasin for A.Y. 2026-27

	Particulars	₹	₹	₹
I	Income from Salaries Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		50,000	2,50,000
II	Income from house property Let out portion (Unit 1 - 50% area) Gross Annual Value [Higher of expected rent of ₹ 2,00,000 and actual rent of ₹ 2,40,000 (₹ 20,000 × 12)] [Expected rent is higher of municipal value of ₹ 1,80,000 (3,60,000 × 50%) and fair rent of ₹ 2,10,000 (₹ 4,20,000 × 50%), restricted to standard rent of ₹ 2,00,000 (₹ 4,00,000 × 50%)]	2,40,000		
	Less: Municipal taxes paid for let out portion (₹ 10,000 × 50%)	5,000		
	Net Annual Value (NAV) Less: Deduction under section 24	2,35,000		
	(a) 30% of NAV	70,500		
	(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 × 50%) (allowed on accrual basis)	40,000		
	Income from let out portion Self-occupied (Unit 2 - 25%) [Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]		1,24,500	
	Gross Annual Value	Nil		
	Less: Municipal taxes [not allowed for self-occupied property]	Nil		
	Net Annual Value	Nil		
	Less: Deduction under section 24(b) Interest on loan for construction of house, ₹ 80,000 × 50% × 1/2 (allowable on accrual basis) Loss from self-occupied portion	20,000		
	[Loss from self-occupied portion can be set off against income from let out portion]		-20,000	1,04,500



III	Profits and gains from business and profession Excess of income over expenditure Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]		36,97,500	
	Municipal taxes attributable to let out and self-occupied portions not allowable [$₹10,000 \times 75\%$]	7,500		
	Interest on capital borrowed for construction of house attributable to let out and self-occupied portion not allowable [$₹80,000 \times 75\%$]	60,000		
	Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of $₹80,000$ [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000		
	Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000		
	Insurance premium [Personal expenditure not allowable]	72,000		
	Professional fees to Mr. Raunak without deducting TDS [$₹1,00,000 \times 30\%$] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds $₹50$ lakhs during the P.Y. 2024-25. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2025-26]	30,000		
	Depreciation as per books	1,20,000	5,49,500	
			42,47,000	
	Less: Income credited to Income & Expenditure A/c but not taxable as business income			
	Interest on savings bank account [taxable under the head "Income from other sources"]	25,000		
	Winnings from lottery [taxable under the head "Income from other sources"]	99,500		



	Rent received [taxable under the head "Income from house property"]	2,40,000	3,64,500	
	Less: Depreciation allowable [2,00,000 (₹ 1,60,000, being new laptops + ₹ 40,000, being printers) × 40%, i.e., 64,000 + 16,000 as it was put to use for more than 180 days in the P.Y. 2024-25. Printers and scanners for ₹ 40,000 are eligible for higher depreciation of 40%]		38,82,500 80,000	
				38,02,500
IV	Income from Other Sources			
	Interest on savings bank account		25,000	
	Winnings from Lottery [No expenditure or allowance is allowed from lottery income]		1,00,000	1,25,000
	Gross Total Income			42,82,000
	Less: Deduction under Chapter VI-A			
	Deduction u/s 80D Medical insurance premium [₹ 72,000 × 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children		18,000	
	Deduction u/s 80E : Interest on loan taken from a nationalised bank for higher education of son		40,000	
	Deduction u/s 80TTA : Interest on saving bank account to the extent of		10,000	68,000
	Total Income			42,14,000
	Tax Payable			
	On lottery income [30% of ₹ 1,00,000]		30,000	
	On other income of ₹ 41,14,000		10,46,700	10,76,700
	Add: HEC @ 4%			43,068
	Tax liability			11,19,768
	Less: TDS on lottery winnings @ 30% u/s 194B			30,000
	Tax payable (rounded off)			10,89,770

Illustration 42

Computation of tax liability: Mr. Xavier, an Indian resident individual, set up an unit in Special Economic Zone (SEZ) in the F.Y. 2019-20 for production of Mobile Phones. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961.

During the financial year 2025-26, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to 93 lakhs (including cost of land 13 lakhs). The warehouse became operational w.e.f. 1st April, 2025 and the expenditure of 63 lakhs was capitalized in the books on that date.

Further details relevant for the financial year 2025-26 are as follows:

Particulars	Amount ₹

CHAPTER - 13

COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

Profit from operation of warehousing facility before claiming deduction under section 35AD	1,10,00,000
Net Profit of SEZ (Mobile Phone) Unit	50,00,000
Export sales of SEZ (Mobile Phone) Unit	90,00,000
Domestic Sales of SEZ (Mobile Phone) Unit	60,00,000

Compute income tax (including AMT u/s 115JC) payable by Mr. Xavier as per regular provisions of the Income-tax Act, 1961 for A.Y. 2026-27. (6 Marks, Jan. 2021)

(6 Marks, Jan. 2021)

Solution

Computation of total income and tax liability of Mr. Xavier for A.Y. 2026-27 :

Particulars	₹	₹
Profits and gains of business or profession Profit from unit in SEZ	50,00,000	
Less: Deduction u/s 10AA [50,00,000 × ₹90,00,000/₹1,50,00,000 × 50%, since it is 7 th year of manufacturing]	15,00,000	
Business income of SEZ unit chargeable to tax		35,00,000
Profit from operation of warehousing facility	1,10,00,000	
Less: Deduction u/s 35AD [Deduction @ 100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1-4-2025. Deduction is not available on expenditure incurred on acquisition of land] [63 lakhs - 13 lakhs]	50,00,000	
Business income of warehousing facility chargeable to tax		60,00,000
Total Income		95,00,000
Computation of tax liability:		
Tax on 95,00,000		26,62,500
Add: Surcharge @10% [Since the total income exceeds 50 lakhs but does not exceed 1 crore]		2,66,250
		29,28,750
Add: Health and Education cess @ 4%		1,17,150
Total tax liability		30,45,900

Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2026-27:

Particulars	₹	₹
Total Income (as computed above)		95,00,000
Add: Deduction under section 10AA		15,00,000
		1,10,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation u/s 32 [On building @ 10% of 50 lakhs (Assuming the capital expenditure of 50 lakhs is incurred entirely on building)]	5,00,000	45,00,000
Adjusted Total Income		1,55,00,000
Alternate Minimum Tax @ 18.5%		28,67,500



CHAPTER - 13

COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

Add: Surcharge @ 15% (since adjusted total income >1 crore)		4,30,125
		32,97,625
Add: Health and Education cess @ 4%		1,31,905
Tax Liability (Rounded off)		34,29,530

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @ 18.5% thereof plus surcharge @ 15% and cess @ 4%. Therefore, the tax liability is 34,29,530.

AMT Credit to be carried forward under section 115JEE

Tax liability under section 115JC	34,29,530
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	30,45,900
AMT Credit to be carried forward	3,83,630

Illustration 43

Computation of tax liability: Computation of tax liability: From the following particulars furnished by Mr. Suresh, aged 53 years, a resident

Indian for the previous year ended March 31, 2026, you are requested to compute his total income and tax payable if he has shifted out of default tax regime and opted for regular provisions of the Income-tax Act, 1961 for A.Y. 2026-27.

- He sold his vacant land on 09-12-2025 for 15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was 19 lakhs. The fair market value of the land as on 1st April, 2001 was 6 lakhs (SDV is 5,00,000). This land was acquired by him on 05-08-1996 for 3.40 lakhs. He had incurred registration expenses of 15,000 at that time. The cost of inflation index for the year 2025-26 and 2001-02 are 376 and 100, respectively.
- He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was 300 lakhs, which includes 120 lakhs from export turnover. This industrial undertaking fulfils all the conditions of Section 10AA of the Income-tax Act, 1961. Profit from this undertaking is 30 lakhs.
- He has income of 10,000 from crossword puzzles and 15,000 gross interest from bank fixed deposit.
- Tuition fees of 36,000 for his three children to a school. The fees being 12,000 p.a. per child.

Solution

Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2026-27:

Particulars	₹	₹
Profits and gains from business or profession		
Profit from SEZ. Undertaking		30,00,000
Capital Gains		
Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset] As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration	19,00,000	
Less: Indexed cost of acquisition	5,00,000	
Cost of acquisition, being higher of		14,00,000





-Actual cost (3,40,000+15,000)	₹3,55,000		
- lower of FMV of 6,00,000 and stamp duty value of			
₹ 5,00,000 as on 1-4-2001	5,00,000		
Income from other sources			
Income from crossword puzzles		10,000	
Interest on fixed deposit		15,000	25,000
Gross Total Income			44,25,000
Less: Deductions under Chapter VI-A			
Under section 80C - Tuition fees of two children			24,000
Less: Deduction u/s 10AA (30,00,000 × 120 lakhs/300 lakhs) × 50%, being 7 th year of operation			6,00,000
Total Income			38,01,000
Computation of Tax payable on total income under the regular provisions of the Income- tax Act, 1961			
Tax on LTCG @ 20% of 20,000 after benefit of indexation			4,000
Tax on income from crossword puzzles @ 30% of 10,000			3,000
Tax on remaining amount of 23,91,000 [2,37,300 (30% of ₹ 13,91,000) +1,12,500]			5,29,800
			5,36,800
Add: Health and education cess @ 4%			21,472
Tax Payable under the regular provisions of the Act (rounded off)			5,58,270

Note: Computation of Capital gains after indexation (Applicable tax rate 20%):

Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset]			
As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration	19,00,000		
Less: Indexed cost of acquisition [₹ 5000 × 376 / 100]	18,80,000		30,86,000
Cost of acquisition, being higher of -			20,000
Actual cost (3,40,000+₹15,000)	₹3,55,000		
lower of FMV of ₹ 6,00,000 and stamp duty value of ₹5,00,000 as on 1-4-2001	₹5,00,000		
Tax liability on LTCG being Lower of -			
Tax liability on LTCG without indexation @ 12.5% of 14,00,000			1,75,000
Tax liability on LTCG @ 20% of 20,000 (after indexation)			4,000

Computation of Adjusted Total Income and Alternate Minimum Tax (AMT) payable :

Total Income computed under the regular provisions of the Act	38,01,000
Add: Deduction u/s 1044	6,00,000
Adjusted Total Income	44,01,000
Since Adjusted Total Income exceeds 20 lakhs, the provisions of AMT are attracted in this case	



Alternate Minimum Tax @ 18.5%	8,14,185
Add: Health and Education cess @ 4%	32,567
AMT (rounded off)	8.46.750

Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 44,01,000 shall be deemed as the total income and tax is leviable @ 18.5% thereof plus cess @ 4%. Therefore, his tax liability would be 8,46,750. However, he would be entitled to AMT credit of 288480(8,46,750-5,58,270)

ILLUSTRATION 44

Computation of Total income & Tax liability : Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31-03-2026.

Manufacturing, Trading and Profit & Loss Account for the year ended 31-03-2026 :

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	43,50,000
To Purchase of Raw Materials	17,20,500	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,80,500		
To Gross Profit	21,78,000		
	45,50,000		45,50,000
To Administrative Charges	2,90,000	By Gross Profit	21,78,000
To SGST Penalty Paid (It is not compensatory nature)	7,000	By Dividend From Domestic Companies	15,000
To GST Paid	1,10,000	By Winning from Lotteries (Net of TDS) (TDS 4,500)	10,500
To General Expenses	55,000	By Profit on Sale of Shares	45,000
To Miscellaneous Expenses	1,50,500		
To Loss on Sale of Shares	20,000		
To Interest to Bank (on machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	13,56,000		
	22,48,500		22,48,500

Following are the further information relating to Financial Year 2024-25 :

- Administrative Charges include ₹ 46,000 paid as commission to brother of assessee. The Commission amount at the market rate is ₹ 36,000.
- The assessee paid ₹ 33,000 in cash to a Transport Carrier on 26-12-2025. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on this payment.)
- A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in books of account.
- Bank Term Loan Interest actually paid upto 31-03-2026 was ₹ 20,000 and the balance was paid in October 2026.
- Miscellaneous Expenses include ₹ 10,000 contributed to Prime Minister's Relief Fund.

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- (vi) Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.
- (vii) Profit on Sale of Shares represents shares held for 2 years & Securities Transaction Tax was paid on it.
- (viii) Housing Loan Principal repaid during the year was ₹ 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was ₹ 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is ₹ 45 Lakhs, loan value ₹ 25 Lakhs and sanction date 31-03-2017). These amounts were not dealt with in the Profit and Loss Account given above. (Assume this housing loan is eligible for 80EE deduction).
- (ix) Depreciation allowable under the act to be computed on the basis of following information :

Plant & Machinery (Depreciation Rate @ 15%)	₹
Opening WDV (as on 01-04-2024)	12,00,000
Additions During the year (Used for more than 180 Days)	2,00,000
Total Additions during the year	4,00,000
Note : Ignore Additional Depreciation u/s 32(ia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(15 Marks, May 2024)

SOLUTION

Computation of total income and tax liability of Mr. Sahil for A.Y. 2026-27

	Particulars	₹	₹
I	Income from house property		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b)		
	Interest on housing loan of ₹ 2,60,000 restricted to ₹ 2,00,000	2,00,000	
		-2,00,000	
II	Profits and gains of business or profession		
	Net Profit	13,56,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head		
	- Commission paid to brother [Commission paid to a related person/ relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	
	- Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators]	Nil	
	- Interest to bank on term loan [Interest paid to bank after the due date of filing of return u/s 139(1) is disallowed as per section 43B]	40,000	



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- Contribution to Prime Minister's Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]	10,000	
- SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]	7,000	
- Loss on sale of shares	20,000	
- Depreciation as per books of account	2,00,000	
-	16,43,000	
Less: Incomes credited to profit and loss account but not taxable as business income		
- Dividend from Domestic Companies	15,000	
- Winnings from lotteries	10,500	
- Profit on sale of shares	45,000	
-	15,72,500	
Less: Depreciation allowable as per Income-tax Rules, 1962		
- On Plant & Machinery [@ 15% on ₹ 14,00,000, being opening WDV of ₹ 12 lakhs and additions put to use for more than 180 days of ₹ 2 lakhs + @ 7.5% on ₹ 2,00,000, being additions put to use for less than 180 days]	2,25,000	
-	13,47,500	
[8% of sales i.e. ₹ 43,50,000 × 8% assuming entire amount of sales are not received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes]	3,48,000	
Business Income		
[As per section 44AD, in case of Mr. Sahil, being an eligible assessee, a sum equal to ₹ 3,48,000 (8% of total turnover i.e., ₹ 43,50,000) or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by him would be deemed to be the business income. In this case, since Mr. Sahil has maintained books of account, he can claim the higher sum actually earned ₹ 13,47,500 as his income from business.]	2,00,000	
Less: Set off of loss from house property as per section 71(3A)	11,47,500	
Add: Salary paid to staff not recorded in the books [Assuming the expenditure is in the nature of unexplained expenditure, the same is deemed to be income as per section 69C of Mr. Sahil. No deduction would be allowed in respect of such expenditure.] Alternatively, it is possible to assume that the salary not recorded in the books of account was an erroneous omission and the assessee has offered satisfactory explanation about the source of such expenditure. In such a case, it would not be considered as deemed income and the same would be allowed as deduction while computing business income on the	48,000	11,95,500



	basis of books of accounts. In such a case, business income, total income and tax liability (rounded off) would be ₹ 10,99,500, ₹ 10,44,500 and ₹ 1,23,080.		
II	Capital Gains		
	Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	45,000	
	Less: Set off of short term capital loss as per section 70(2)	20,000	25,000
III	Income from Other Sources		
	Dividend from Domestic Companies	15,000	
	Winning from lotteries (₹ 10,500 + ₹ 4,500)	15,000	30,000
	Gross Total Income		12,50,500
	Less: Deduction under Chapter VI-A		
	Deduction u/s 80C : Principal repayment of housing loan	50,000	
	Deduction u/s 80EE : Interest on housing loan of ₹ 60,000 [₹ 2,60,000 - ₹ 2,00,000, allowed u/s 24(b)] allowable u/s 80EE upto ₹ 50,000	50,000	
	Deduction u/s 80G : Contribution to Prime Minister's Relief Fund	10,000	1,10,000
	Total Income		11,40,500
	Tax Liability		
	Tax on LTCG of ₹ 25,000 u/s 112A [Exempt upto ₹ 1.25 lakh]		Nil
	Tax on winning from lotteries of ₹ 15,000 @ 30%		4,500
	Tax on unexplained expenditure of ₹ 48,000 @ 60%		28,800
	Tax on balance income of ₹ 10,52,500 at slab rate		
	Upto ₹ 2,50,000	Nil	
	From ₹ 2,50,001 to ₹ 5,00,000 @ 5%	12,500	
	From ₹ 5,00,001 to ₹ 10,00,000 @ 20%	1,00,000	
	From ₹ 10,00,001 to ₹ 10,52,500 @ 30%	15,750	1,28,250
			1,61,550
	Add: Surcharge @ 25% on tax on unexplained expenditure of ₹ 28,800		7,200
			1,68,750
	Add: Health and education cess @4%		6,750
	Tax Liability		1,75,500

ILLUSTRATION 45

Computation of total income and tax payable: Mr. Raman, a resident individual aged 62 years, is engaged in

the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is 8 lakhs as on April 1, 2025. He prepares his accounts on accrual basis. The Statement of Profit and Loss for



the previous year ended on March 31, 2026 shows a net profit of 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- (i) Travelling expenses includes 2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which 40,000 is incurred in Indian currency and 2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.
- (ii) Administrative expenses include 9,525 paid towards interest on delay in deposit of GST.
- (iii) General expenses include a sum of 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- (iv) Fire insurance premium of 66,000 for the entire building remained unpaid till 31st March, 2026.
- (v) Expenditure of 75,000, was paid to a scientific research association approved under section 35. Out of 75,000, ₹50,000 was utilised towards the purchase of land by the research association.
- (vi) He let out first floor of his commercial building to Mr. Aman on April 1, 2025 and received rent of 35,000 per month. Municipal taxes 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of 10,000 (relating to ground floor) was debited to the statement of profit and loss.
- (iii) He sold a piece of land for 44 lakhs on 12th April, 2025. He had acquired the land for 40 lakhs on 1st January, 2024. The gain of 4,00,000 is credited to the statement of profit and loss.

Additional Information:

- (i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹49,000 on March 10, 2026. However, the payment to M/s. Paul Industries was made on April 5, 2026 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid 1,34,000 in cash on April 5, 2026 for purchase of raw material on March 31, 2026. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- (ii) Mr. Raman acquired a registered trademark on July 15, 2025 for 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2026. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- (iii) Mr. Raman bought a car for personal use on 12th April, 2022 for 5,40,000. He started using this car for business purposes from 01-04-2025. As on that day, the market value of the car was 2,10,000. Assume the rate of depreciation to be 15%.
- (iv) He incurred 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2025.
- (v) He has paid tuition fees of ₹25,000 for the education of his daughter to a college.
- (vi) During the year, Mr. Raman has incurred 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and 4,500 was for his parents who are super senior citizens.
- (vii) Donation paid to a registered political party by way of cheque 20,000.

Compute the total income and tax payable for assessment year 2026-27 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman? (15 Marks, Sep. 2024)

SOLUTION

Computation of total income and tax payable by Mr. Raman for A.Y. 2026-27 under default tax regime:

	Particulars	₹	₹
I	Income from house property Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) ₹ 35,000 × 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @ 30% of NAV	1,26,000	2,94,000
II	Profits and gains of business or profession		
	Net Profit	9,25,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income		
	Travelling expenses [Allowable since the same is incurred wholly and exclusively for business purpose]	Nil	
	[Note: Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, mp 2,40,000*4/10= ₹ 96,000 would be disallowed.]		
	- Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	- Fee for technical services to non-resident [100% disallowed under section 90340(a) (i) since the TDS was not deducted]	3,88,000	
	- Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹ 66000/2]	33,000	
	- Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	



	- Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
	- Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2026 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2026]	49,000	
	- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2026 i.e., within 15 days from 31.3.2026.	Nil	
	However, since the payment is made in cash on 5.4.2026, ₹ 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2026-27 as per section 40A(3A)]		
		14,70,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	Rent received for let out portion	4,20,000	
	Gain on sale of land	4,00,000	
		6,50,000	
	Less: Depreciation		
	On trademark [2,00,000 × 25 % × 50%, since trademark is put to use for less than 180 days]	25,000	
	On Car [₹ 5, 40,000 × 15%]	81,000	
	On new Plant & machinery [₹2, 50,000 × 15%]	37,500	
	On Building [₹ 8,00,000 × 10%]	80,000	
	Additional depreciation		
	On new Plant & machinery [Not allowable under default tax regime]	Nil	
	Income from Business		4,26,500
III	Capital Gains		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	40,00,000	
	Short term capital gains on land [Since land is held for less than 24 months]		4,00,000
	Gross Total Income		11,20,500
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
	Total Income		11,20,500



	Tax Payable		52,050
	Less: Rebate u/s 87A [100% of tax or 60,000 whichever is less as Total income does not exceed 12,00,000]		52,050
	Tax Payable (Rounded off)		Nil

Computation of total income and tax payable by Mr. Raman for A.Y. 2026-27 under normal provisions of the Act,

Particulars	₹	₹
Gross Total Income as per default tax regime		11,20,500
Less: Additional depreciation on new Plant & machinery [2,50,000 × 20%]		50,000
Less: Contribution to scientific research association approved u/s 35		75,000
Gross Total Income as per normal provisions of the Act		9,95,500
Less: Deduction under Chapter VI-A -		
Deduction u/s 80C: Tuition fees to a college for daughter's education	25,000	
Deduction u/s 80D: Preventive health check-up for self and parents restricted to	5,000	
Deduction u/s 80GGC: Donation to a registered political party since the payment is made otherwise than by cash	20,000	50,000
Total Income as per normal provisions of the Act		9,45,500
Tax Payable		99,100
Add: Health and education cess @ 4%		3,964
Tax Payable (Rounded off)		1,03,060

Since no tax is payable under default tax regime, it would be beneficial for Mr. Raman to pay tax under default tax regime u/s 115BAC.

ILLUSTRATION 46

Computation of Total income & Tax liability: Mr. Pramod, a resident aged 55 years, is a retail trader; he furnished the following information for A.Y. 2026-27:

Trading and Profit and Loss Account for the year ended on 31-03-2026:

Particulars	₹	Particulars	₹
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



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- (1) All the sales are by account payee cheques 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 01-05-2026 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 15-05-2025 for 60,000 through bank transfer.
 - (5) Transport charges include 30,000 paid in cash on 01-09-2025.
 - (6) He incurred a loss of 8,000 on sale of equity shares on 10-02-2026, which were purchased on 10-06-2025.
 - (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. 2018-19 for higher education of his wife.
- Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2026-27, 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? (14 Marks, Nov. 2023)

Ans

(i) Computation of total income and tax payable by Mr. Pramod for A.Y. 2026-27 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	1,80,000	
	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	
	Add: Expenses debited to P&L A/c but not allowable as deduction		
	GST liability paid on 1-5-2026 [Since GST liability has been paid before the due date of filing return of income u/s 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 one time cash payment is 35,000 in respect of payment to transport operators.]	-	
		11,33,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	Rent from house property	1,80,000	
	Rent from furniture	1,20,000	
		8,33,000	
	Less: Depreciation		
	- On Trade Marks [Trade Marks are eligible for depreciation @ 25%] [1,200/15% × 25% - 1,200, being the wrong depreciation]	800	
	- On laptop [60,000 × 40%]	24,000	8,08,000
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. 2027-28]		-
IV	Income from Other Sources		
	Rent from furniture		1,20,000
	Gross Total Income/Total income		10,49,300
	[Deduction under Chapter VI-A is not allowed u/s 115BAC]		
	Computation of Tax payable		
	Tax on 10,49,300		44,930
	Less: Rebate u/s 87A [100% of tax or 60,000 whichever is less as Total income does not exceed 12,00,000]		44,930
	Tax payable (Rounded off)		Nil

(ii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2026-27 as per presumptive provisions under section 44AD and not opting for section 115BAC

	Particulars	₹	₹
I	Income from house property [Computed in (i) above]		1,21,100
II	Profits and gains of business or profession [6% of sales, as all sales are by account payee cheque or through bank transfers] [70,80,000 × 6%]		4,24,800
III	Income from Other Sources [Computed in (i) above]		1,20,000
	Gross Total Income		6,65,900
	Less: Deduction under Chapter VI-A		
	Deduction u/s 80C :		
	- Deposit in PPF A/c	50,000	



- Life insurance premium	60,000	1,10,000
Deduction u/s 80G: Donation to National Children's Fund [Allowed 100% without qualifying limit]		25,000
Deduction u/s 80E: Interest on loan for higher education of his wife		70,000
Total Income		4,60,900
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		10,545
Tax Payable		Nil

(iii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2026-27 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	81,360
Add: Health and education cess @ 4%	3,254
Tax payable (Rounded off)	84,610

Option advantageous to Mr. Pramod : It is beneficial for Mr. Pramod to opt for default tax regime or presumptive provisions under section 44AD in both as his tax liability will be Nil.

ILLUSTRATION 47

Computation of Net Total income & Net Tax liability: Mr. Rohit, a resident individual, aged 65 years, is a qualified medical practitioner. He runs his own clinic. Income & Expenditure A/c of Mr. Rohit for the year ending March 31st 2026 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	8,20,000	By Consultation Fees	22,00,000
To Administrative Expenses	5,90,000	By Salary received from Care Hospital Pvt. Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000

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To Interest on Housing Loan	1,00,000		
To interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & notified u/s 35	25,000		
To Net Profit	8,59,000		
Total	24,68,000	Total	24,68,000

Following is the further information relating to Financial Year 2025-26:

- (i) He is working part-time with Care Hospital Pvt. Ltd. His Salary details are as under :

Basic Pay 13,000 p.m.

Transport Allowance 2,000 p.m.

Total ₹15,000 p.m.

Further, during P.Y. 2025-26 his son had undergone a medical treatment in Care Hospital Pvt. Ltd. free of cost. The hospital would have charged a sum of ₹ 1,00,000 for a similar treatment to unrelated patients.

- (ii) He owns a residential house. The ground floor of the house (50% portion) is self-occupied by him while first floor of the house (50% portion) has been rented out since 01-10-2025. The reconstruction of the entire house was started on 01-04-2025 and was completed on 30-09-2025. The monthly rent is 10,000. The tenant also pays 3,000 p.m. as power back-up charges.

He took a housing loan of 12 lakhs on 01-04-2025. Interest on housing loan for the period 01-04-2025 to 30-09-2025 was 60,000 and for the period 01-10-2025 to 31-03-2026 was 40,000.

During the year, he also paid municipal taxes for the F.Y. 2024-25 ₹ 4,000 and F.Y. 2025-26 ₹ 6,000.

- (iii) Other Information:

- Payment of salary of 25,000 per month to sister-in-law of Mr. Rohit, who was in-charge of the Accounts & Receivables department.
However, in comparison to similar work profile, the reasonable salary at market rate is 20,000 per month.
- Conveyance expenses include a sum of 12,000 incurred for conveyance from house to Care Hospital Pvt. Ltd. and vice-versa in relation to his employment.
- Power and fuel expenses include a sum of 6,000 incurred for generator fuel for providing power back up to the tenant.
- Administrative expenses include a sum of 10,000 paid as Municipal Taxes for his house.
- Clinic Equipment details are :
Opening W.D.V. of Clinic Equipment as on 01-04-2025 was ₹ 1,00,000 and fresh purchase made on 28-08-2025 for 25,000 which was paid in cash.
- He also paid tuition fees of ₹ 40,000 for his Grand Daughter, which is debited to his capital a/c.



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CHAPTER - 13

COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

(g) He availed a loan of ₹ 8,00,000 from bank for higher education of his son. He repaid principal of 50,000 and interest of 26,000 during P.Y. 2025-26.

You are required to compute his net taxable income and net tax liability for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). (15 Marks, Jan. 2025) (Similar 14 Marks, Nov. 2019)

Ans

Computation of net taxable income and net tax liability of Mr. Rohit for A.Y. 2026-27 under the normal provisions of the Act:

	Particulars		₹	₹
I	Income from Salaries			
	Basic Pay (13,000 × 12)		1,56,000	
	Transport Allowance (2,000 × 12) [Fully taxable]		24,000	
	Cost of treatment for son in Care Hospitals Pvt. Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite]		Nil	
	Gross Salary		1,80,000	
	Less: Standard deduction u/s 16 [Actual salary or 50,000, whichever is less]		50,000	
	Net Salary		1,30,000	
	Less: Set off of loss from house property		41,500	88,500
II	Income from house property Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV = 10,000 p.m. × 6]		60,000	
	Less: Municipal taxes paid in the P.Y. 2025-26 pertaining to let out portion [(4,000 + 6,000)/2], allowable since it is paid during the year, even if it relates to earlier years		5,000	
	Net Annual Value (NAV)		55,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 55,000 16,500	16,500		
	(b) Interest on housing loan [(60,000 (+) ₹40,000)/2] 50,000	50,000	66,500	
			-11,500	
	Self-occupied portion [Ground Floor]			



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	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on housing loan for reconstruction	30,000	-30,000	
	₹ 1,00,000 [(₹40,000+₹60,000)/2] restricted to			
	Loss from house property		-41,500	
III	Profits and gains of business or profession			
	Net profit as per Income and Expenditure account		8,59,000	
	Add: Items of expenditure not allowable while computing business income			
	(a) Excessive salary paid to sister-in law [allowed, since sister-in law does not fall within the definition of relative]	Nil		
	(b) Conveyance expenses in relation to her employment with Care Hospital Pvt. Ltd. debited to Income and Expenditure A/c, not allowed	12,000		
	(c) Power and fuel expenses incurred for providing power back up to tenant not deductible	6,000		
	(d) Municipal tax paid relating to residential house included in administrative expenses, not deductible	10,000		
	(e) Interest on housing loan for reconstruction of residential house	1,00,000		
	(f) Interest on education loan for son	26,000	1,54,000	
			10,13,000	
	Less: Allowable expenditure			
	Depreciation on Clinic equipments			
	Opening WDV ₹ 1,00,000 @ 15%	15,000		
	On additions during the year paym 25,000, no depreciation is allowable, payment was made in cash and hence, it will not form part of actual cost.	Nil	15,000	
				9,98,000
	Less: Items of income to be taxed under the respective head of income			
	(i) Salary received from Care Hospitals Pvt. Ltd. 1,80,000	1,80,000		
	(ii) Rental income from house property 78,000	78,000		



	(iii) Dividend from foreign companies 10,000	10,000	2,68,000	7,30,000
	Note: Mr. Rohit, is a medical professional and if he claims that his profits and gains from profession are lower than ₹ 11,00,000 (50% of gross receipts i.e., ₹ 22,00,000) and his total income exceeds the maximum amount not chargeable to tax, he would be required to maintain books of accounts and get them audited from an accountant by virtue of section 44ADA(4).			
IV	Income from other sources			
	Power back up charges from tenant (3,000 p.m. x 6 months)	8,000		
	Less: Actual expenditure incurred for providing power back up	6,000	12,000	
	Dividend from foreign companies		10,000	22,000
	Gross Total Income			8,40,500
	Less: Deduction under Chapter VI-A			
	Deduction u/s 80C - Tuition fee paid for grand child is not allowable		Nil	
	Deduction u/s 80E - Interest on loan taken for higher education of her son		26,000	
	Principal repayment of loan taken for education is not deductible		Nil	26,000
	Total Income			8,14,500
	Net tax liability			
	Tax on total income of 8,14,500			72,900
	Add: Health and education cess @ 4%			2,916
	Net tax liability (rounded off)			75,820

ILLUSTRATION 48

Computation of Total income: Mrs. S.C. Bose (aged 62 years), a widow of a public sector employee, who died during his service in 2012. She earns income from business of running a flower bouquet shop at Kolkata and income from royalty from writing books of science and sells in India and abroad. Profit & Loss account for the year ended 31 March, 2026 furnished by her is given below:

Particulars	₹	Particulars	₹
To Opening stock	1,00,000	By Sales of flower bouquet	36,75,000
To Purchases	15,66,000	By Family pension from PSU through bank	3,60,000

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COMPUTATION OF TOTAL INCOME



CA VARDHAMAN DAGA

To Salaries and wages	4,90,000	By Royalty from California University for books sold (Foreign exchange brought into India)	4,25,000
To Expenses relating to books authored by her	75,000	By Dividend (Net of TDS)	4,50,000
To Expenses in connection with dividends	12,000	By Interest on FDS (No TDS deducted)	76,000
To Repairs & Maintenance	3,25,000	By Closing stock	1,36,000
To Amount paid to IIT Chennai for scientific research projects	35,000		
To Computers and other electronic items (Purchased on 01-12-2025)	4,50,000		
To Net Profit	20,69,000		
Total	51,22,000	Total	51,22,000

Additional information:

- Purchases include 2 lakhs relate to flowers and creepers directly purchased from a farmer in cash on 26-09-2025.
- Repairs & Maintenance includes one-time deposit of 2,00,000 paid to electricity and water department.
- Computers and other electronic items includes 1,00,000 paid for television and washing machine for her household use.
- Salary & wages includes, salary paid 2,40,000 to her illiterate brother (reasonable salary as per market rate is ₹ 1,80,000)
- She purchased a residential house in 110 lakhs for which loan of 75 lakhs was taken from State Bank of India. Accrued interest was 3,37,500 till 31-03-2026 which was paid on 10-04-2026. No principal amount and interest was paid by Mrs. S.C. Bose till 31-03-2026. Ground floor of the house was used for shop and first floor was occupied for her residence.
- She purchased an electric vehicle on 30-09-2025 for 25 lakhs for business purposes.
- She sold 10,000 listed shares of SBCL Ltd. in 11,66,000 on 11-12-2025 which were purchased in 2,65,000 on 16-08-2025. STT was paid on purchase and sale both.

Compute total income of Mrs. S.C. Bose under default tax regime u/s 115BAC and optional tax regime of the Income-tax Act, 1961. (15 Marks, May 2025)

SOLUTION

Computation of total income of Mrs. S.C. Bose for A.Y. 2026-27 under default tax regime under section 115BAC(1A):



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	Particulars	₹	₹	₹
I	Income from house property			
	Self-occupied portion [First Floor]			
	Annual Value		Nil	
	Less: Deduction u/s 24			
	Interest on housing loan [Not allowed under default tax regime]		Nil	Nil
II	Profits and gains from business or profession			
	Net profit		20,69,000	
	Add: Items of expenditure not allowable while computing business income			
	- Expenses relating to books authored by her [Allowed as deduction considering royalty income is taxable under the head "Profits and gains from business or profession"]	Nil		
	[Alternatively Royalty income may be taxed under the head "Income from other Sources". In such case, such expenditure will be disallowed while computing business income and allowed from royalty income while computing "Income from Other Sources".]			
	- Expenses in connection with dividends [Disallowed since dividend is taxable under the head "Income from Other Sources"]	12,000		
	- Amount paid to IIT Chennai from scientific research projects, not allowable under default tax regime.	35,000		
	- Computers and other electronic items [Since capital in nature, hence disallowed]	4,50,000		
	- Payment to a farmer exceeding ₹ 10,000 in cash for purchase of flower and creepers [Not disallowed u/s 40A(3), since payment to farmer comes under exclusion as per Rule 6DD]	Nil		
	- One-time deposit to electricity and water department, not allowed as deduction	2,00,000		
	- Excessive salary paid to brother [Disallowed u/s 40A(2), since brother falls under the definition of relative and salary paid is in excess of market rate] [₹ 2,40,000 - 1,80,000]	60,000	7,57,000	
				28,26,000
	Less: Items of income to be treated separately under the respective head of income			



	- Family pension from PSU [Taxable under the head "Income from Other Sources"]	3,60,000		
	- Royalty from California University [No adjustment is required since royalty is taxable under the head "Profits and gains from business or profession"]	Nil		
	- [Note - Royalty income may be taxed under the head "Income from Other Sources". In such case, the income has to be reduced while computing business income.]			
	- Dividend [Taxable under the head "Income from Other Sources"]	4,50,000		
	- Interest on FDRs [Taxable under the head "Income from Other Sources"]	76,000	8,86,000	
			19,40,000	
	Less: Allowable expenditure			
	- Interest on residential house used for shop [3,37,500/2] [Since the interest is paid on or before due date of filing return of income, disallowance u/s 43B would not be attracted.]		1,68,750	
	- Depreciation			
	On Computer and other electronic items other than television and washing machine [₹3,50,000 x 40% x 50% since it is purchased and put to use for less than 180 days]	70,000		
	On residential house used for shop [₹1,10,000 x 10% x 50% for ground floor]	5,50,000		
	- On electric vehicle (25,00,000 x 40%)	10,00,000	16,20,000	
				1,51,250
III	Capital Gains			
	Sale consideration on sale of listed shares of SBCL Ltd.		11,66,000	
	Less: Cost of acquisition		2,65,000	
	Short term capital gains taxable u/s 111A [Since shares are held for less than 12 months and STT has been paid]			9,01,000
IV	Income from Other Sources			
	Family pension from PSU	3,60,000		
	Less: Lower of 33-1/3% of ₹3,60,000 or 25,000 allowed as deduction	25,000	3,35,000	
	Dividend [4,50,000/90%]	5,00,000		



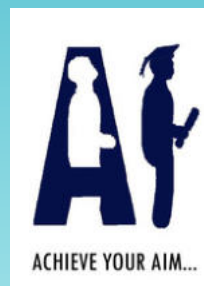
	Less: Expenditure to the extent of 20% of dividend	12,000	4,88,000	
	[Note - If it is assumed that expenditure are in the nature of expenses other than interest expenses, no deduction would be allowed from dividend income.]			
	Interest on FDRS		76,000	8,99,000
	Gross Total Income			19,51,250
	Less: Deduction u/s 80QQB and 80TTB [Not allowable under default tax regime]			Nil
	Total Income			19,51,250

Computation of total income of Mrs. S.C. Bose for A.Y. 2026-27 under the optional tax regime of the Income-tax Act, 1961

Particulars	₹	₹
Gross Total Income as per default tax regime		19,51,250
Less: Interest on borrowings for self-occupied property [3,37,500/2]	1,68,750	
100% deduction u/s 35(2AA) for amount paid to IIT Chennai from scientific research projects u/s 115BAC	35,000	2,03,750
		17,47,500
Add: Excess deduction from family pension [25,000 - ₹15,000] [Lower of 33-1/3% of 3,60,000 or 15,000 as deduction is allowed from family pension under optional tax regime]		10,000
Gross Total Income as per optional tax regime		17,57,500
Less: Deduction under Chapter VI-A		
Deduction u/s 80QQB: Deduction for royalty income of ₹3,50,000 [₹4,25,000 - ₹75,000], restricted to ₹ 3,00,000	3,00,000	
Deduction u/s 80TTB: Interest on FDRs assuming FDRs are with banks, restricted to	50,000	3,50,000
[Note - If it is assumed that FDRs are not with banks, co-operative society engaged in banking business or post office, deduction u/s 80TTB would not be available.]		
Total Income		14,07,500

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