QUESTION BANK

VOL-2

DIRECT TAX

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TAXATION

VISHAL SOMAI

CA, CS, LL.M

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Dedication:

This book is dedicated to My Parents

Sh. Chandra Kumar Somai; and

Smt. Godawari Somai

Acknowledgement:

I am also indebted to my beloved wife Mrs. Priya Somai for her all-time support.

Prayer:

May the blessing of Maa Sarawati and Lord Shiva persist on us.

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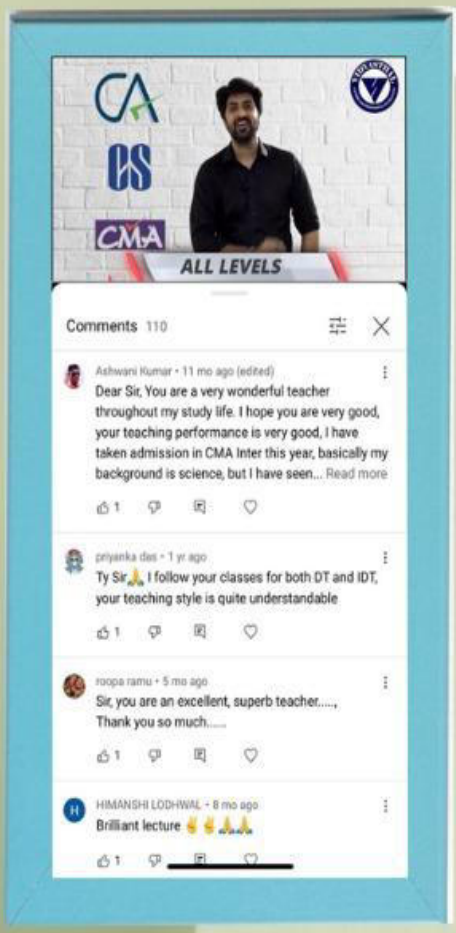
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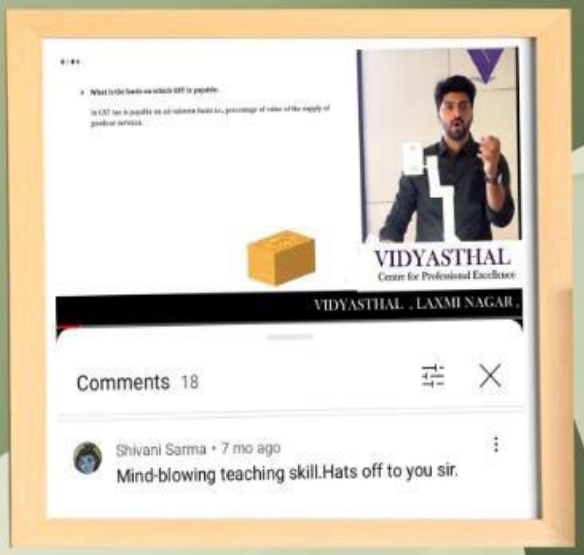
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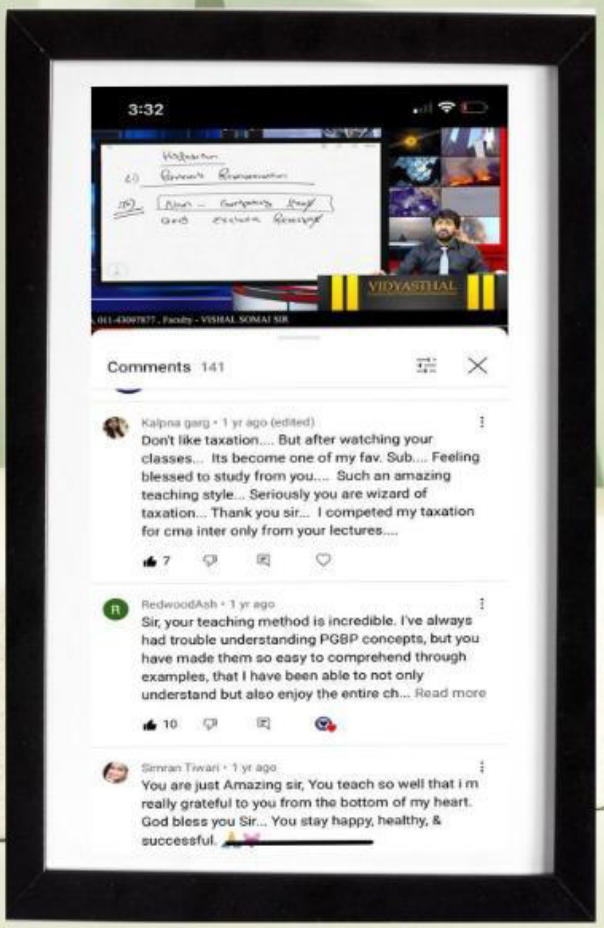
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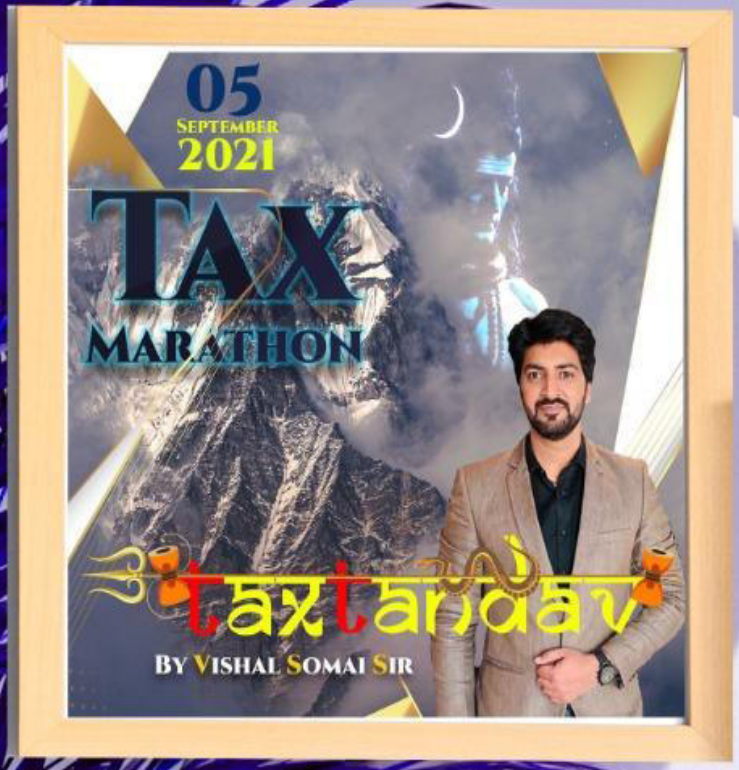
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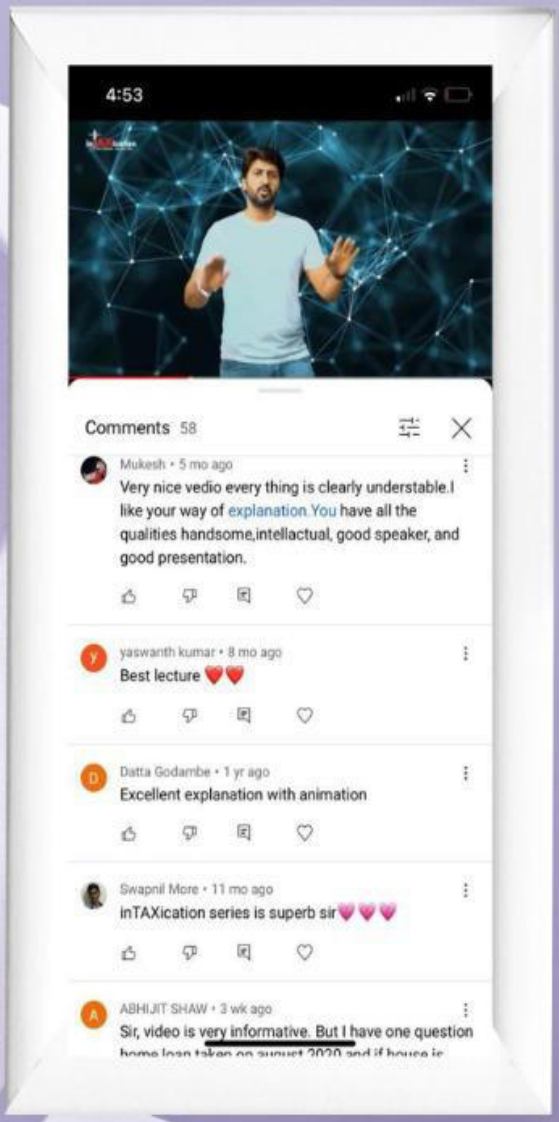
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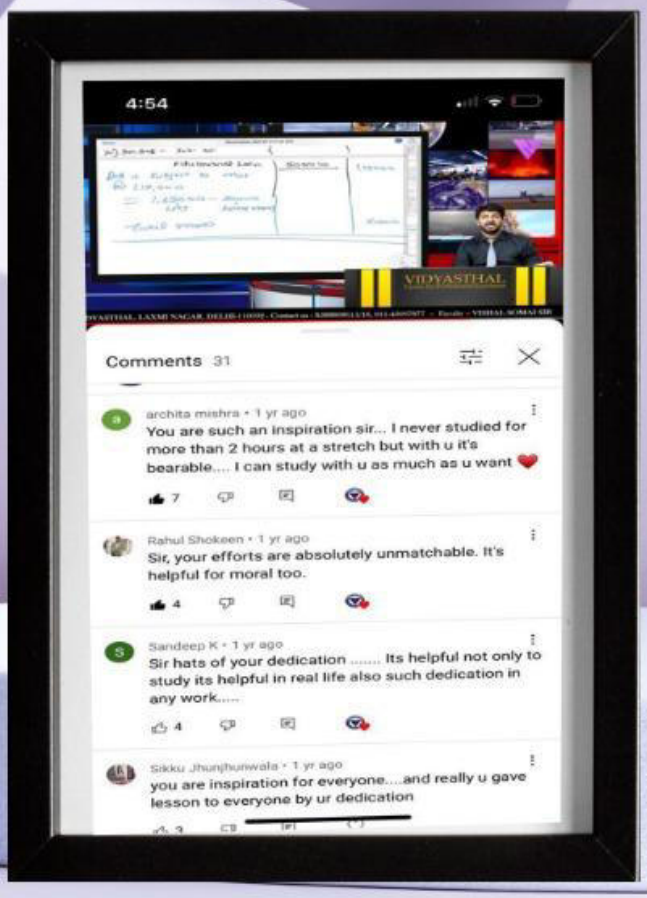
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Clubbing Income

Illustrations

Illustration 1 - Clubbing of income: Sankar has transferred a house property to Uma on 1-4-2014. Uma married Sekar, who is the son of Sankar on 1st April 2023. The income from the property received by Uma during the previous year 2023-24 is Rs. 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?. (CS June 2001)

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 Rs. 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 2 - Clubbing of income : Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of Rs. 36,000 per annum shall be utilised for the benefit of her son's wife. Mrs. Kasturi claims that the amount of Rs. 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property. State with reasons whether contention of Mrs. Kasturi is valid in law. (5 Marks, PCC Nov. 2010)

Solution: As per Section 64(1)(viii), the clubbing provisions are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife.

Thus, in the given case, the said income of Rs. 36,000 shall be clubbed in the total income of the transferor i.e. Mrs. Kasturi

Note : It is assumed that the transfer is made otherwise than for adequate consideration.

Illustration 3 - Transferred assets invested by spouse : A proprietary business was started by Mrs. R in the year 2022. As on 1-4-2022, her capital in business was Rs. 3,00,000. Her husband gifted Rs.2,00,000 on 10-4-2022, which amount Mrs. R invested in her business on the same date. Mrs. R earned profits from her proprietary business for the financial years 2022-23, Rs. 1,50,000 and financial year 2023-24 Rs. 3,90,000. Compute the income to be clubbed in the hands of R's husband for the assessment year 2024-25 with reasons. (5 Marks, November 2004)

Solution: Assessment year 2023-24 - There shall be no clubbing of income in the hands of Mr. R in the assessment year 2023-24 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. 1-4-2022. Thus, profits of Rs. 1,50,000 is to be fully taxed in the hands of Mrs. A for the assessment year 2022-23.
Assessment year 2024-25 - Total capital as on 1st day of the previous year i.e. 1-4-2023 = Rs. 3,00,000 + Rs. 2,00,000 + Rs. 1,50,000 (profits of FY 2022-23) = Rs. 6,50,000, out of which Rs. 2,00,000 represents investment of Mr. A's funds.

Therefore, income to be clubbed in the total income of Mr. A = (Rs. 2,00,000 + Rs. 6,50,000) x Rs. 3,90,000 = Rs. 1,20,000.

Illustration 4 -Clubbing of income: Mr. H, a mentally retarded minor has a total income of Rs.1,20,000 for the assessment year 2024-25. The total income of his father L and of his mother R for the relevant assessment year is Rs. 2,40,000 and Rs. 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, Rs. 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 Rs. 75,000 or Rs. 1,25,000 towards normal disability or severe disability as contemplated under section 80U.

Illustration 5 Computation of total income and clubbing: Mr. Dhaval and. his wife Mrs. Hetal furnish the following information:

		(amounts in Rs.)
(i)	Salary income (Computed) of Mrs. Hetal	4,60,000
(ii)	Income of minor son ' B' who suffers from disability specified in Section 80U	1,08,000
(iii)	Income of minor daughter 'C' from singing	86,000
(iv)	Income from profession of Mr. Dhaval	7,50,000
(v)	Cash gift received by 'C' on 02-10-2023 from friend of Mrs. Hetal on winning of singing competition	48,000
(vi)	Income of minor married daughter'A'from company deposit	30,000

Compute the total income of Mr. Dhaval and Mrs. Hetal. ***(8 Marks, PCC May 2008)***

Solution: Computation of total income of Mr. Dhaval and Mrs. Hetal (amounts in Rs.):

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:

(1) Income of minor son 'B' shall not be clubbed since he suffers from disability specified in Section 80U.

(2) Income of minor daughter 'C' shall not be clubbed since she has earned the same by the application of her skill & competence.

(3) Cash gift received by minor daughter 'C' is not taxable u/ s 56(2)(x) since the amount of gift doesn't exceed Rs.50,000.

(4) 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 6 - Computation of total income and clubbing: Compute the total income of Mr. & Mrs. A from the following information (amounts in Rs.): (7 Marks, PE-II Nov. 2005)

Salary income (computed) of Mrs. A	2,30,000
Income from profession of Mr. A	3,90,000
Income of minor son B from company deposits	15,000
Income of minor daughter C from special talent	32,000
Interest from bank received by C on deposit made out of her special talent	3,000
Gift received by C on 30-09-2023 from friend of Mrs. A	2,500

Solution: Computation of total income Mr. A & Mrs. A for the assessment year 2024-25

(amounts in Rs) :

Particulars	**Mr. A**	**Mrs. A**
Income from profession/Income from salary	3,90,000	2,30,000
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. Rs. 1,500 x 2)	-3,000	
Total Income	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 his 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(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 Rs. 50,000.

Illustration 7 - Computation of capital gains and clubbing: On 21-3-2023, Mr. Janak gifted to his wife Mrs. Thilagam 200 listed shares, which had been bought by him on 19-4-2022 at Rs. 2000 per share. On 1-6-2023, bonus shares were allotted in the ratio of 1:1 All these shares were sold by Mrs. Thilagam as under —

Date of Sale	Marnier of Sale	No. of Shares	Net sales value (Rs.)
21-05-2023	Sold in recognized stock exchange, STT paid	100	2,50,000
21-07-2023	Private sale, to an outsider	All bonus shares	1,25,000
28-02-2024	Private sale to her friend Mrs. Hema (Market value on this date was Rs. 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 ***(amount in Rs.):***

Particulars	Sale on 21-5-2023 (100 gifted shares)	Sale on 28-2-2024 (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 of the Act]	2,00,000	2,08,304
Long-term Capital Gains	50,000	-38,304
Taxable LTCG in hands of Janak		11,696
Since, Long-term Capital gains is does not exceed Rs. 1,00,000, hence no tax shall be levied as per Section 112A		

(2) Computation of capital gains on the sale of bonus shares ***(amount in Rs.):***

Particulars	**Sale on 21-7-2023 (100 eBonus 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 8 - Clubbing of income: Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	**(Rs.)**
(i)	Income from B's profession	45,000
(ii)	Mrs. B's salary as fashion designer (computed)	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

Discuss the tax implications in the hands of Mr. and Mrs. B. ***(IPCC Nov. 2012, 8 Marks)***

Solution: Clubbing of income and other tax implications ***(amount in Rs.):***

	Mr. B	**Mrs. B**	**Minor son D**	**Minor daughter P**
Income from B's profession	45,000	-	_	_
Mrs. B's salary as fashion designer (computed)	-	76,000	_	_
Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle) [WN-1]	-	10,000	_	_
Minor daughter P's earnings from sports [WN-3]			_	95,000
D's winnings from lottery (gross) [WN-4]		1,95,000	_	_
Less: Exemption u/ s 10(32) [WN-2]		-1,500	_	_
Total Income	45,000	2,79,500	_	95,000

Working Notes:

(1) Income from fixed deposit of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of the mother, Mrs. B as "Income from other sources", since her income is greater than income of Mr. B before including the income of the minor child.

(2) 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 Rs. 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

(3) Income of Rs. 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.

(4) Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mrs. B as "Income from other sources", since her income is greater than the income of Mr. B before including the income of minor child.

Note: She can reduce the tax deducted at source from such lottery income while computing her net tax liability.

Illustration 9 - Clubbing of Income : Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were Rs. 9,000 and Rs. 4,500 and of sons were Rs. 6,200 and Rs. 4,300 respectively. The daughter who has income of Rs. 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. (4 Marks, IPCC May 2012)

Solution: As per section 64 (1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma. Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or Rs. 1,500, whichever is lower. The remaining income Would be included in the hands of the parent.

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

	Particulars	**Rs.**
(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 (Rs. 6,200 + Rs. 4,300)	10,500
	Less: Income exempt under section 10(32) - (Rs. 1,500 x 2)	3,000
	Total (B)	**7,500**
	Total Income to be clubbed as per section 64(1A) (A+B)	**15,000**

Working Notes: It has been assumed that –

(1) All the four children are minor children.

(2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience.

Illustration 10 - Conversion of SOP into Joint Family Property and Partition thereof: 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 01-10-2023, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2023-24 is ₹ 1,00,000. Determine the tax implications. (4 Marks, May 2022)

Solution: The tax implications are under –

Particulars	**Rs**
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., 30-9-2023 (6/12×70,000 [Net Annual Value of ₹ 1,00,000 less deduction under section 24(a) @30%) would be included in the total income of Mr. Sarthak.]	35,000
Since the HUF was partitioned on 1-10-2023, 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. Sarthak's Share [25% of ₹35,000 (₹ 70,000 × 6/12)] Juhi's Share [25% of * 35,000] included in the total income of Sarthak	 8,750 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 11 - Clubbing of Income: Mr. A is an employee of Larsen Limited and has substantial interest in the company. His salary is Rs. 25,000 p.m. Mrs. A also is working in that company at a salary of Rs. 10,000 p.m. without any professional qualification. Mr. A also receives Rs. 30,000 as income from securities, Mrs. A owns a house property which she has let out. Rent received from such house property is Rs. 12,000 p.m. Mr. & Mrs. A have three minor children-two daughters and one son. Income of the twin daughters is Rs. 2,000 p.a. and that of his son is Rs. 1,200 p.a. Compute the income of Mr. and Mrs. A. (8 Marks, IPCC May 2013)

Solution: Computation of Total Income Mr. & Mrs. A ***(amount in Rs.) -***

Particulars	**Mr. A**	**Mrs. A**	
Income from salary:			
Salary (Rs. 25,000 x 12)	3,00,000		
Less: Standard Deduction u/s 16(ia)	50,000	2,50,000	
Salary received by Mrs. A from Larsen Limited [WN]	1,20,000		
Less: Standard Deduction u/ s 16(ia)	50,000	70,000	
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	2,000		
Less: Exempt u/s 10(32)	2,000	Nil	
Income of Minor Son	1,200		
Less: Exempt u/s 10(32)	1,200	Nil	
Total Income		**3,50,000**	**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 12 - Computation of total income and clubbing: During the previous year 2023-24 the following transactions occurred in respect of Mr. A.

(a) Mr. A had a fixed deposit of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01-04-2023 to 31-03-2024 to the savings bank account of Mr. B, son of his brother, to help him in his education.

(b) Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of Rs. 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, 2022. During the previous year the flat generated a net income of Rs. 52,000 to Mrs. A.

(d) Mr. A gifted Rs. 2,00,000 to his minor son who invested the same in a business and he got a share income of Rs. 20,000 from the investment.

(e) Mr. A's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent.

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

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child if they have shifted out of the provisions of default tax regime under Section 115BAC. ***(8 Marks, IPCC May 2012)***

Solution: Computation of total income of Mr. A, Mrs. A and their minor child

(amount in Rs.):

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

Working 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 Rs.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 Rs. 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% 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.

(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 Rs. 1,500 per child.

Therefore, the income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs. 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs. ,1,90,000. Therefore, Rs. 18,500 (i.e., Rs. 20,000 - Rs. 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 Rs. 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 Rs. 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 13 - 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 2024-25 were as follows. ***(4 Marks, Nov. 2014)***

	Rs.
First daughter (Including Scholarship received Rs. 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 Rs. 2,00,000 to his minor Son who invested the same in the business and derived income of Rs. 20,000 which is included above.

Compute the amount of Income earned by Minor Children to be clubbed in the hands of Mr. Mittal.

Solution: Computation of income earned by minor children to be clubbed with the income of Mr. Mittal: ***(amt. Rs.)***

(i)	Income of first daughter	5,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	**3,500**
(ii)	Income of Second daughter	8,500
	Less: Income exempt under section 10(32)	1,500
	Total (B)	**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	40,000
	Less: Income exempt under section 10(32)	1,500
	Total (C)	**38,500**
	Total Income to be clubbed as per section 64(1 A) (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 14 - Clubbing in case of cross transfer: Mr. Ramesh gifted a sum of Rs. 5 lacs to his brother's minor son on 16-04-2023. On 18-04-2023, his brother gifted debentures worth Rs. 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 Rs. 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 Rs. 5 lakhs to his brother's minor son on 16-04-2023 and simultaneously, his brother gifted debentures worth Rs. 6 lakhs to Mr. Ramesh's wife on 18-04-2023. The gifted amounts were invested as fixed deposits in banks by brother's minor son. 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) 66ITR142.

Accordingly, the interest income arising to Mrs. Ramesh in the form of interest on debentures i.e. Rs. 45,000 would be included in the total income of Mr. Ramesh and interest income arising in the hands of his brother's minor son would be taxable in the hands of Mr. Ramesh's brother as per section 64(1).
This is because both Mr. Ramesh and his brother are the indirect transferors of the income to their relatives with an intention to reduce their burden of taxation.

Note : In the hands of Mr. Ramesh, interest income earned by his spouse on debentures of Rs. 5 lakhs alone would be included and not the interest income on the entire debentures of Rs. 6 lakhs, since the cross transfer is only to the extent of Rs. 5 lakhs. Hence, only proportional interest (i.e., 5/6th of interest on debentures received) Rs. 37,500 would be includible in the hands of Mr. Ramesh.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

Illustration 15 - Clubbing of Income: Kamal gifted Rs. 10 lakhs to his wife, Sulochona on her birthday on, 1st January, 2022. Sulochona lent Rs. 5,00,000 out of the gifted amount to Krishna on 1st April, 2023 for 6 months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15th October, 2023, which were sold for Rs. 75,000 on 30th December, 2023. 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 Rs. 15,000 in the business in Financial Year 2023-24.
In whose hands the above income and loss shall be included in Assessment Year 2024-25? 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 Rs. 50,000 from moneys lent to Krishna shall be clubbed in hands of her husband Mr. Kamal.

The loss of Rs. 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. Sulochna invested the interest income of Rs. 50,000 in shares of listed company and earned short term capital gains amounting Rs. 25,000 there from, 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 16 - Clubbing of Income : Mr. Madhav made a gift of Rs. 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2022, 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 1st April, 2023 was Rs. 2,75,000 and the bank credited a sum of Rs. 27,500 as interest on 31st March, 2024.

Madhav's father gifted equity shares worth Rs. 50,000 of an Indian company (unlisted) to Master Manan, another son of Mr. Madhav (Date of birth 10th April, 2012) in July 2012 which were purchased by him on 8th December, 2005 for Rs. 80,000. Manan received a dividend of Rs. 5,000 on these shares in October 2023. He sold these shares on 1st November, 2023 for Rs. 5,00,000 and deposited Rs. 3,00,000 in a company at 1.5% interest per annum.

Cost Inflation Index: Financial Year 2005-06 = 113,2011-12 = 167 and 2023-24 = 348. Mr. Madhav has a taxable income of Rs. 3,50,000 from his profession during the financial year 2023-24.

Compute his Gross Total Income for the A.Y. 2024-25. (5 Marks, May 2018-NS)

Solution: Computation of Gross Total Income for the A.Y. 2024-25 ***(amount in Rs.):***

Taxable Income from Profession		3,50,000
Capital Gains		
Full Value of consideration	5,00,000	
Less: Indexed cost of acquisition [Rs. 80,000 x 348 ÷ 113]	2,46,372	2,53,628
Income from Other Sources		
Dividend from shares of Indian company [Taxable in hands of share holder]	5,000	
Interest received by Master Tapan (Income cannot be clubbed in hands of Madhav, since Master Tapan is suffering from disability specified under Section 80U)	-	
Interest on company deposits invested by Master Manan will be clubbed in hands of Madhav [Rs. 3,00,000 x 15% x 5 ÷12]	18,750	
Less: Exemption under Section 10(32)	-1,500	22,250
Gross Total Income		6,25,878

Illustration 17 - 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 31-03-2024:

(i) M received a gift of Rs. 70,000 from her friend's father on the occasion of her birthday.
(ii) M won a prize money of Rs. 3,00,000 in National Quiz competition.
(iii) This was invested in debentures of a company, from which interest of Rs. 19,000 (gross) accrued during the year.
(iv) N won prize in a lottery. The net amount received after deduction of tax at source was Rs. 1,05,000.

Mr. 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 Rs. 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:

(i) Gift received by M amounting Rs. 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.

(ii) Rs. 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 Rs. 19,000 is liable to be clubbed even when investment is made out of income arising from application of special talent.

(iii) Income of Rs. 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 Rs. 1,500 per child under Section 10(32) of the Act.

Illustration 18 - 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 2024-25.

	Particulars	**Rs.**
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 2024-25. ***(5 Marks, Nov. 2021)***

Solution: Computation of total income Mr. Mahadev & Mrs. Dariya for the assessment year 2024-25 ***(amounts in Rs.)***

Particulars	**Mr. Mahadev**	**Mrs. Dariya**
Income from profession/ Income from salary		
Income from other sources:	5,65,000	3,80,000
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:

(1) 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.

(2) 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 Rs. 50,000.

(3) Income earned by minor married daughter shall be clubbed in hands of his parent whose other income is greater.

Illustration 19 - Clubbing of Income; Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment war 2024-25 from the following:

(i) Salary received by Shri Kam Kumar from a company Rs. 1,80,000 per annum and Smt. Kam Kumar also doing job in a company and getting salary of I 2,40,000 per annum. "

(ii) Shri Ram Kumar transferred a flat to his wife Smt. Kam Kumar on 1st September 2023 for adequate consideration. The rent received from this let-out flat is Rs. 9,000 per month.

(iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received Rs. 36,000 and Smt. Ram Kumar received Rs. 64,000 as interest from the firm and also had a share of profit of Rs. 12,000 and Rs.26,000 respectively.

(iv) Smt. Ram Kumar transferred 10% debentures worth Rs. 3,00,000 to Shri Kam Kumar, the whole amount of 3,30,000 invested by Shri Rom Kumar in the similar investments anil earned income of Rs. 39,000.

(v) Mother of Shri Ram Kumar transferred a property lo Master Rohit (son of Shri Ram Kumar) in the year 2022. Master Rohit (aged H years) received Rs. 15,000 as income from this property on 20th February HPRs. **((Marks nov. 2020)**

Solution: Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A Y 2024-25

Particulars	Shri Ram Kuma		Smt. Ram Kumar	
	Rs.	Rs.	Rs.	Rs.
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)				
Less: Deduction u/s 24(a) @ 30% of Annual Value	45,000		63,000	
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.	13,500	31,500	18,900	44,100
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 Rs. 3 lakh [WN-1]	-		30,000	
Income from investments Rs. [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 Rs. 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 (i.e., income earned by investing debenture interest of Rs. 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., Rs. 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 Rs. 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is Rs. 13,500 (Rs. 15,000 - Rs. 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 Rs. 30,000 as well as income from investment of Rs. 39,000 will be taxable in the hands of Shri Ram Kumar.

(2) In respect of property transferred to Rohit, the question simply states Rs. 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 Rs. 9,000 [Rs. 15,000 - Rs. 4,500 (30% of Rs. 15,000 allowable as deduction u/s 24(a)) - Rs. 1,500 (exemption u/s 10(32)], and the same would be included under the head "Income from house property". Consequently, her total income would be Rs. 3,72,555.

Illustration 20 - Clubbing of Income: During the previous year 2023-24, 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	Rs. 60,000
Municipal taxes paid	Rs. 7,500	Nil
Interest on loan (taken for purchase of property)	Rs. 3,50,000	Rs. 5,00,000
Principal repayment of loan (taken from HDFC bank)	Rs. 2,00,000	Rs. 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 2023-24 from such house property is Rs. 5,50,000.

(iii) Mr. Raghav receives following income from M/s. M Pvt. Ltd. during P.Y. 2023-24:
- (a) Interest on Debentures of Rs. 7,50,000; and
- (b) Salary of Rs. 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 31-3-2024 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 Rs. 1 crore to such firm. Firm had no income or expense other than the interest of Rs. 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 2023-24 is Rs. 13,00,000.

(vi) Other income of Mr. Raghav includes
(a) Interest from saving bank account of Rs. 2,00,000
(b) Cash gift of Rs. 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Rag ha v for the Assessment Year 2024-25. (8 Marks, jan. 2022)

Solution: Computation of Total Income of Mr. Raghav for A.Y. 2024-25:

Particulars	Rs.	Rs.
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 in the same company without any professional qualifications commensurate with his salary, the salary of Rs. 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		Nil
Income from house property		
House 1 [Self-occupied]		
Net annual value	-	
Less: Interest on loan [upto Rs. 2,00,000]	2,00,000	-2,00,000
House 2 [Let out]		
Gross annual value [Rs. 60,000 x 12] [Rent receivable has been taken as the gross annual value in the	7,20,000	
absence of other information]		
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 Rs. 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 Rs. 5 lakh, restricted to Rs. 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 21 - Clubbing of Income: Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information :

	Particulars	**Amount (Rs.)**
(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 (.laughter "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 02-10-2022 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. Dharmcsh and his wife Mrs. Anandi for Assessment Year 2024-25 assuming that they have not opted to be taxed under section 115BAC. (5 Marks, July 2022)

Solution: Computation of Total Income of Mr. Dharmesh and Mrs. Anandi (amount in Rs):

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"		
Income of Rs. 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 Rs. 1,00,000 from scholarship [Exempt u/s 10(16)]		
Income from fixed deposit with PNB [Since Mr. Dharmesh's income is 5,000 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 Rs. 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.		
Cash gifts of Rs. 45,000 received from friend of Mrs. Anandi [Gift not exceeding Rs. 50,000 received from a non-relative is not taxable u/s 56(2)(x)]	Nil	
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).

Aggregation of Income &Set-off of Loss

Illustrations

Illustration 1 - Unexplained expenditure and tax liability: Mr. Ganesh is a wholesale trader and his total income for the last few years ranged between Rs. 7 lakh to Rs. 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 Rs. 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 Rs. 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 Rs. 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 Rs. 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 2 - 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 31-03-2024 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 31-3-2024 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., Rs.40 lakhs as the income of the assessee for A.Y. 2024-25, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @ 78% (@60% plus surcharge @ 25% and cess @ 4%).

Illustration 3 - 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 31-3-2024

(amounts in Rs.):

(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 2024-25, assuming that

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

Solution:

(i)Computation of total income of Sanyasi as per normal provisions of Act :

(amounts in Rs.):

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	3,32,000
Short-term capital loss on sale of securities and shares	[WN-2]		-
Total Income			**3,32,000**

Working Notes:

(1) Loss from house property can be set-off only to the extent of Rs. 2,00,000. Balance loss of house property amounting Rs. 80,000 shall be carried forward to be set-off from Income from house property.

(2) Short-term capital loss of the current year can be set-off only from Capital gains, hence the same shall be carried forward.

(ii)Computation of total income of Sanyasi as per normal provisions of Act :

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**

(1)Under the 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 4 - 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 31-3-2024 ***(amounts in Rs.):***

(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. 2023-24	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. 2019-20 not set off till A.Y. 2023-24	15,000

Compute the total income of Simran if she has not opted for the provisions of Section 115BAC.

Solution: Computation of total income of Simran ***(amounts in Rs.):***

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	
	40,000	
Less: Brought forward loss of catering business closed in A.Y. 2023-24 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. 2019-20 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 5 - Computation of total Income after adjusttnent of Losses: Mr. Rakesh Gupta has derived the following income/loss, as computed below, for the previous year 2023-24 :

	Rs.
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. 2024-25, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-07-2024. he has not opted for the provisions of Section 115BAC. ***(5 Marks, Nov. 2018-NS)***

Solution: Computation of total income of Mr. Rakesh Gupta ***(amounts in Rs):***

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 Rs. 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. 2025-26:		
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. 2025-26		**4,60,000**

Working Notes:

1. As per Section 71 (3A), Loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only.

   As per section 71B, balance loss (Rs. 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.

2. Any loss computed in respect of any specified business referred under section 35AD can be set-off only against profits of any specified business carried on by the assessee.

Illustration 6 - Computation of total Income after adjustment of Losses: Determine the total income of Mr. Chand from the following information: ***(5 Marks, PCC Nov. 2010)***

	Particulars	**Rs.**
(i)	Interest received on enhanced compensation (It relates to transfer of land in the financial year 2013-14. Out of the above Rs.65,000 relates to financial year 2023-24 and the balance relates to preceding years)	4,00,000
(ii)	Business loss relating to discontinued business of the A.Y. 2018-19 brought forward and eligible for set-off	1,50,000
(iii)	Current year business income (i.e., financial year 2023-24) (Computed)	1,10,000

Solution: Computation of total income of Mr. Chand ***(amount in Rs.) :***

Profits and gains of business or profession: Current year business income	1,10,000	
Less: Brought forward business loss of discontinued business Rs. 1,50,000 shall be set-off to the extent of current year business income as per section 72 [WN-1]	1,10,000	Nil
Income from other sources : Interest on enhanced compensation [WN-2]	4,00,000	
Less: Deduction under section 57(iv) @ 50%	2,00,000	2,00,000
Total Income		**2,00,000**

Working Notes:

(1) The unabsorbed business loss of Rs. 40,000 (Rs. 1,50,000 - Rs. 1,10,000) of A.Y, 2017-18 relating to discontinued business will be carried forward to the next year i.e. A.Y. 2025-26.

(2) Interest on enhanced compensation is taxable on receipt basis under section 56(2)(viii) irrespective of method of accounting followed by the assessee.

Illustration 7 - Computation of gross total Income and losses to be carried forward:
Ms. Geeta is a resident individual provides the following information details of her income/losses for the year ended 31-3-2024:

(i) Salary received as a partner from a partnership firm Rs. 7,50,000.
(ii) Loss on sale of shares listed in BSE Rs. 3 lakhs. Shares were held for 15 months and STT paid on sale.
(iii) Long-term capital gain on sale of land Rs. 5 lakhs.
(iv) Rs. 51,000 received in cash from friends in party.
(v) Rs. 55,000 received towards dividend on listed equity shares of domestic companies.
(vi) Brought forward business loss of assessment year 2023-24 Rs. 12.5 lakhs. The return was filed in time.

Compute gross total income of Ms. Geeta and ascertain the amount of loss that can be carried forward.

Solution: Computation of gross total income of Ms. Geeta ***(amount in Rs.) :***

(8 Marks, PCC June, 2009)

Business income : Salary received as partner from partnership firm	[WN-1]	7,50,000	
Less: Brought forward loss of A.Y. 2023-24 set off to the extent of income	[WN-2]	7,50,000	Nil
Long-term capital gains: Sale of land		5,00,000	
Less: Long-term capital loss on shares on STT paid	[WN-3]	3,00,000	2,00,000
Income from other sources:			
Cash gifts	[WN-4]	51,000	
Gross Total Income			**3,06,000**

Working Notes:

(1) Salary received as a partner from a partnership firm is taxable under the head profits and gains of business and profession. It is assumed that the salary so received is within the permissible limits of section 40(b), hence fully taxable,

(2) The balance business loss of Rs. 5 lakhs not set-off can be carried forward to next years.

(3) 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).

(4) Cash gift in excess of Rs. 50,000 is fully taxable.

(5) Dividends from domestic companies is taxable in hands of shareholder.

Illustration 8— Computation of total Income after adjustment of Losses : The summarized Profit and Loss Account of Sri Raj (from his grocery stores) for the previous year ended 31-3-2024 is as under ***(amounts in Rs.) :***

To Expenses	4,20,000	By Gross Profit	6,00,000
To Net Profit	2,80,000	By Dividends(from Indian Listed Companies)	1,00,000
	7,00,000		7,00,000

The following further information was provided for the same previous year:

(i)	Raj had other business (Proprietary) - Cloth Trade (Loss)	42,000
	Speculation (Profit)	30,000
(ii)	Loss in Proprietary business carried on in the name of his minor son	45,000
(iii)	He had carried forward loss in Electrical Spares for assessment year 2020-21, which business was closed down (Return filed in time)	39,000
(iv)	Income of Mrs. Raj	55,000

Compute the taxable income of Mr. Raj. ***(Nov. 2002)***

Solution: Computation of taxable income of Raj ***(amounts in Rs.):***

Profits and gains of business or profession:			
Net profit as per Profit and Loss Account of Grocery Stores		2,80,000	
Less: Dividends from Indian Listed Companies is taxable under Income from other sources.		1,00,000	
		1,80,000	
Speculation Profits		30,000	
		2,10,000	
Less: Set-off under section 70 and 72 -			
(1) Loss from cloth trade		42,000	
(2) Loss from business of minor	[WN-1]	45,000	
(3) Brought forward loss of electric spare business	[WN-2]	39,000	84,000
Income from other sources :			
Dividends from Indian Listed Companies is taxable under Income from other sources.			1,00,000
Taxable Income			**1,84,000**

Working Note:

(1) As per section 64, "income" includes loss. Therefore, loss sustained in business run in the name of minor child can be set-off by the parent whose income, before taking into account the minor's income, is higher.

(2) Total Income of Mr. Raj = Rs. 3,10,000 - Rs. 42,000 - Rs. 39,000 = Rs. 2,29,000 whereas total income of Mrs. Raj = Rs. 55,000, Since Mr. Raj's income is higher, hence minor's income (loss) will be clubbed with the income of Mr. Raj.

(3) Brought forward loss of electric spares business can be set-off against business income even after business is discontinued.

Illustration 9 - Computation of total Income and losses to be carried forward:
Mr. Rajat submits the following information for the financial year ending 31st March, 2024. He desires that you should:

(a) Compute the Total Income and

(b) Ascertain the amount of losses that can be carried forward.

(i)	**He has two houses :**	
(a)	House No. I—Income after all statutory deductions	72,000
(b)	House No. II—Current year loss	-30,000
(ii)	**He has three proprietary businesses :**	
(a)	Textile Business:	
(i)	Discontinued from 31st October, 2023-Current year loss	40,000
(ii)	Brought forward business loss of the assessment year 2020-21	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 the assessment year 2021-22	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 2014	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

(10 Marks, IPCC Nov. 2009) (8 Marks, IPCC May 2013)

Solution:

(a) Computation of Gross Total Income of Mr. Rajat ***(amount in Rs.):***

Income from House Property:		
House No. I: Income from house property	72,000	
House No. II: Current year's loss (Inter-source set-off u/s 70)	-30,000	42,000
Profits and Gains of Business and Profession:		
Profits from leather business	1,00,000	
Share in profit from firm [WN-1]	Exempt	
Recovery of Bad debts deemed to be income u/ s 41(4) [WN-2]	35,000	
Current year's loss of textile business (Inter-source adjusted)	-40,000	
Balance Income	95,000	
Brought forward textile business loss of A.Y. 2020-21	-95,000	Nil
Capital Gains:		
Short term Capital Gains		60,000
Gross Total Income		1,02,000
Less: Deduction u/s 80C in respect of contribution to LIC		10,000
Total Income		**92,000**

Working Notes:

(1) Share in profit is exempt under section 10(2). It is assumed that the share in profit doesn't represent any salary, interest or other remuneration.

(2) Recovery of bad debts earlier allowed as deduction is taxable under the head Profits and gains of business or profession in accordance with the provisions of Section 41(4).

(b) Statement of the amount of losses that can be carried forward ***(amount in Rs.):***

Brought forward business of loss of chemical business to be carried forward under section 72	50,000
Long term Capital loss to be carried forward under section 74	35,000

Illustration 10- Computation of total Income after adjustment of Losses: Mr. Banerjee furnishes you the following details for the year ended 31-03-2024

(amount in Rs.):

Income (loss) from house property:	
House-1	36,000
House-2-Self occupied	(20,000)
House-3	60,000
Profits and gains from Business of Profession:	
Textile Business	2,00,000
Automobile Business	(3,00,000)
Speculation Business	2,00,000
Capital Gains:	
Long-term capital gain from sale of shares (STT paid)	1,50,000
Long-term capital gain from sale of vacant site	2,00,000
Short-term capital loss from sale of building	1,00,000

Note: Assume that the figures given above are computed and arrived at after considering eligible deductions.

Other sources:

Gift from a Friend (non-relative) on 05-06-2023	60,000
Gift from. Maternal Uncle on 25-02-2024	1,00,000
Gift from Grandfather's Younger Brother on 10-02-2024	1,00,000

Compute the total income of Mr. Banerjee for the Assessment Year 2024-25. (6 Marks, PCC May 2010)

Solution: Computation of total income of Mr. Banerjee ***(amount in Rs.):***
K 9P

Income from House Property:			
House-1		36,000	
House-2 - Self occupied (Intra-head set-off)		-20,000	
House-3		60,000	76,000
Profits and gains from Business or Profession:			
Textile Business		2,00,000	
Automobile Business	[WN-1]	-3,00,000	
Speculation Business		2,00,000	1,00,000
Capital Gains:			
Long-term capital gain from sale of shares (STT paid) - Taxable in excess of Rs. 1,00,000 u/s 112A	[WN-2]	50,000	
Long-term capital gain from sale of vacant site	[WN-3]	2,00,000	
Short-term capital loss from sale of building		-1,00,000	1,50,000
Other Sources:			
Gift from a Friend (non-relative) on 05-06-2023 - Taxable		60,000	
Gift from Maternal Uncle on 25-02-2024	[WN-4]	Not taxable	
Gift from Grandfather's Younger Brother on 10-02-2024	[WN-5]	1,00,000	1,60,000
Total Income			**4,86,000**

Working Notes:

(1) Automobile business loss can be set-off against speculation business profits also.

(2) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto Rs. 1 lakh as per Section 112A of the Income-tax Act, 1961.

(3) Short-term capital loss can be set-off against long-term capital gains from sale of vacant site.

(4) Maternal uncle is brother of the mother of the individual, hence, relative. Thus, the said gift shall not be taxable.

(5) Grandfather's younger brother is not relative. Hence, gift received from him will be taxable.

Illustration 11 - Computation of gross total Income and losses to be carried forward: Mr. P is a resident individual and furnishes you the following particulars of his income and other details for previous year 2023-24 ***(amounts in Rs.):***

Income from salary (Computed)	18,000
Net annual value taxable under the income from house property	70,000
Income from business	80,000
Income from speculation business	1.2,000
LTCG on sale of land	15,800
Loss on the maintenance of race horse	9,000
Loss on the gambling	8,000
Depreciation allowable under the Act comes out to Rs. 8,000 for which no treatment has been given above. The other details of unabsorbed depreciation and brought forward losses are :	
Unabsorbed depreciation	9,000
Loss from speculation business	16,000
Short term capital loss	7,800
Unrealized rent	17,000

Compute the gross total income of Mr. P and the amount of loss that can or can't be carried forward. ***(6 Marks, PCC Nov. 2008) (Similar: 4 Marks, May 2017)***

Solution: Computation of gross total income of Mr. P ***(amount in Rs.):***

Income from salary (Computed)			
Income from house property: Net Annual Value		70,000	18,000
Less: Statutory deduction u/s 24(a) @ 30%		21,000	49,000
Profits and Gains of Business or Profession:			
Income from Speculation Business	12,000		
Less: Brought forward loss of speculation business (Balance Rs. 4,000 to be carried forward)	12,000	Nil	
Income from non-speculation business	80,000		
Less: Depreciation allowable under the Act [WN-1]	8,000		
Unabsorbed depreciation	9,000	63,000	63,000
Income from Capital Gains: LTCG on sale of land		15,800	
Less: Brought forward short-term capital loss		7,800	8,000
Gross total income			**1,38,000**

Working Notes:

(1) It is assumed that whole of the depreciation relates to non-speculation business only.

(2) Loss on the gambling cannot be set-off against any income and carried forward.

(3) Loss from the activity of maintenance of race horses can only be set-off against income from such source, hence, the same shall be carried forward for set-off for 4 subsequent assessment years.

(4) The information relating to unrealized rent has no relevance whatsoever; had such information been loss from house property, the same could have been set-off against income from house property.

Illustration 12 - Computation of Gross Total Income and losses to be carried forward: Mr. Sohan submits the fallowing details of his income -

Particulars	**Rs.**
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 b/f (discontinued in PY 2018-19)	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
Winning in card games	6,000
Agricultural income	20,000
Long term capital gain from shares (STT paid)	10,000
Short term capital loss under section 111A	10,000
Bank interest	**5,000**

Calculate gross total income and losses to be carried forward. ***(5 Marks, IPCC Nov. 2010)***

Solution: Computation of gross total income of Mr. Sohan ***(amounts in Rs.):***

Salaries:		
Income from salary (computed)	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		
Less: Brought forward loss from iron-ore business set-off as per section 72	50,000 -50,000	Nil
Capital gains :		
Long term capital gain	40,000	
Long term capital gain from shares (STT paid) [WN-3]	10,000	
Less: Short term Capital loss set-off	-50,000	Nil
Income from other sources:		
Dividend	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank interest	5,000	66,000
Gross Total Income		**3,26,000**
Losses to be carried forward to A.Y. 2025-26		
Loss of iron-ore business (Rs. 1,20,000 - Rs. 50,000 set-off)	70,000	
Short term capital loss [Rs. 60,000 + Rs. 10,000 (STCL of section 111A) - Set-off Rs. 40,000]	30,000	

Working Notes:

(1) It is assumed that dividend is received from domestic company which is taxable in hands of shareholder.

(2) Agricultural income is exempt under section 10(1).
(3) Long-term capital gain on sale of shares on which STT is paid both at the time of acquisition & sale is exempt upto Rs. 1 lakh as per Section 112A of the Income-tax Act, 1961.
(4) It is presumed that loss from iron-ore business relates to P.Y. 2018-19, the year in which the business was discontinued.

Illustration 13 - Computation of Total Income and losses to be carried forward: Mr. Aditya furnishes the following details for the year ended 31-03-2024:

Particulars	**Amount (Rs.)**
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 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)	1,02,000

Following are the brought forward losses:
(i) Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 Rs.2,000.
(ii) Brought forward loss from trading business Rs. 5,000 relating to A.Y. 2020-21.
Compute the total income of Mr. Aditya and show the items eligible for carry forward. (Modified 8 Marks, May 2016)

Solution: Computation of total income of Mr. Aditya ***(amounts in Rs.):***

Salaries: Income under the head salary (Computed)	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	-2,00,000	1,00,000
Profits and gains of business or profession: Income from trading business	45,000	
Less: Brought forward loss from trading business set-off as per section 72	-5,000	40,000
Loss from specified business covered under Section 35AD (to be c/f) [WN-3]	20,000	
Income from speculative business B	5,000	
Loss from speculative business A	-25,000	
Balance loss to be carried forward [WN-4]	-20,000	
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)	-75,000	
Less: Long-term Capital Loss on sale of listed shares in recognized stock exchange (STT Paid) [WN-1]	-1,02,000	23,000
Total Income		**1,63,000**
Losses to be carried forward to A.Y. 2025-26 :		
Loss from house property [WN-5]	50,000	

Loss from speculation business	20,000	
Loss from specified business covered under Section 35AD	20,000	
Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 [WN-2]	2,000	
Total amount of losses to be carried forward to A.Y. 2025-26		**92,000**

Working Notes:

(1) 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.

(2) Loss from the activity of maintenance of race horses can only be set-off against income from such source, hence, the same shall be carried forward for set-off for 3 subsequent assessment years.

(3) Any loss computed in respect of any specified business referred under section 35AD can be set-off only against profits of any specified business carried on by the assessee.

(4) A loss in speculation business can be set off only against the profits of any other speculation business and cannot be set off against general business profits. Hence, the remaining loss shall be carried forward for 4 assessment years.

(5) As per Section 71 (3A), Loss from house property can be set-off against any other head of income to the extent of Rs. 2,00,000 only.

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 assessment year.

Illustration 14 - Computation of Total Income: Mr. Rahul an assessee aged 61 years gives the following information for the previous year 31-03-2024.:

Sr.	**Particulars**	**(Rs.)**
(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 let out 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 2024-25 ***(8 Marks, IPCC Nov. 2012)***

Solution: Computation of total income of Mr. Rahul ***(amount in Rs.):***

Income from house property		
Loss of self occupied property and let out property (Rs. 15,000 + Rs. 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	
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" (Rs. 15,000 + Rs. 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 VIA [WN-4]		Nil
Total Income		**1,55,000**

Working Notes:

(1) As per Section 74, short term capital loss of Rs. 55,000 can be set-off against long-term capital gains of Rs. 2,05,000 on sale of shares.

(2) Loss of Rs. 1,05,000 from profession and loss of Rs. 45,000 from house property (both let out and self-occupied) can be set-off against the net income of Rs. 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 15 - Compute of Total Income: Compute the total income of Mr. Krishna for the assessment year 2024-25 from the following particulars:

	Particulars	**Amount (Rs.)**
	Income from business before adjusting the following items :	1,75,000
(a)	Business loss brought forward from assessment year 2021-20	70,000
(b)	Current depreciation	40,000
(c)	Unabsorbed depreciation of earlier year	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., 2023 for a consideration of Rs. 6,40,000, which had been purchased by him on 20th Dec. 2021 at a cost of Rs. 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 2023-24, Mr. Krishna has repaid Rs. 1,67,000 towards housing loan from a scheduled bank. Out of Rs. 1,67,000, Rs. 97,000 was towards payment of interest and rest towards principal payments.

Cost inflation indices are as under: F.Y. 2021-22 : 317 and F.Y. 2023-24: 348. ***(8 Marks, Nov. 2013)***

Solution: Computation of Total Income ***(amount in Rs.):***

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 Rs. 15,000 shall be carried forward to be set-off from LTCG)	60,000	
Long-term capital gains	Nil	

Short term capital gains on sale of plot of land at Noida (Rs. 6,40,000 - Rs. 4,10,000)	2,30,000	
Less: Unabsorbed depreciation (Rs. 1,55,000 – Rs. 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 agri 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 16 - Computation of Gross Total Income: Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2023-24.

(1)	Income from Salary (Computed)	15,000
(2)	Income from Business (before providing depreciation)	66,000
(3)	Long term capital gain on sale of Land	10,800
(4)	Loss on maintenance of Race Horses	15,000
(5)	Loss from Gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y. 2023-24 are as follows:

Unabsorbed depreciation	11,000
Loss from Speculative business	22,000
Short term capital loss	9,800

Compute the Gross Total Income of Mr. Garg for the Assessment Year 2024-25 and the amount of loss, if any, that can be carried forward, or not. ***(4 Marks, May 2014)***

Solution: Computation of the Gross Total Income of Mr. Garg ***(amount in Rs.):***

(1)	Income from Salary (Computed)		15,000
(2)	Income from Business (before providing depreciation)	66,000	
	Less: Unabsorbed depreciation	11,000	55,000
(3)	Long term capital gain on sale of Land	10,800	
	Less: Brought forward short term capital loss	9,800	1,000
	Gross Total Income		**71,000**

Notes:

- Loss from Gambling cannot be set off from any head of income.
- Loss from maintenance of race horses cannot be set-off from any head of Income. The same shall be carried forward for 4 years in accordance with the provisions of Section 74A.
- Loss from a speculative business can be set-off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of Rs. 22,000 brought forward from A.Y. 2023-24 has to be carried forward to A.Y. 2024-25 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of 4 years as per section 73(4).

Illustration 17 Computation .of taxable income: Mr. Venus provides the following details for the previous year ending 31-03-2024:

(i)	Salary from HNL Ltd.	Rs. 50,000 per month
(ii)	Interest on FD with SBI for the Financial Year 2023-24	Rs. 72,000 (Net of TDS)
(iii)	Determined long term capital loss of AY 2022-23 (to be carried forward)	Rs. 96,000
(iv)	Long term Capital Gain	Rs. 75,000
(v)	Loss of minor son Rs. 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.	
(vi)	Loss of his wife's business She carried business with funds which Mr. Venus gifted to her.	Rs. (2,00,000)

You are required to compute taxable income of Mr. Venus for the AY 2024-25. ***(8 Marks, Nov. 2015)***

Solution: Computation of total income of Mr. Venus for the assessment year 2023-24 ***(amount in Rs.) :***

Income from Salary			
Salary from HNL Ltd. 50,000 x 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	Nil
Income from other sources			
Income from fixed deposit (Gross) [Rs. 72,000 x 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:

(1) Loss from business or profession can be set off from any head of income except income from salaries.

(2) Current year loss will be given priority over set off of brought forward losses. Hence, brought forward loss of Rs. 96,000 will be carried forward as the current year income after setting off of business loss is nil.

(3) Rate of TDS on income from fixed deposits is 10%.
(4) Remaining business loss of Rs. 45,000 [Rs. 2,00,000 - Rs. 75,000 - Rs. 80,000] shall be carried forward.

Illustration 18 - Computation of Total income: Mr. Jaji is a chartered accountant and his income from profession for the year 2023-24 is 110,00,000. He provides you with the following information for the year 2023-24.

	Rs.
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 2019 out of her special talent	20,000
Gift received by Chitra on 30-09-2023 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 111 A of Mr. Jaji	10,00,000

Compute the Total Income of Mr. Jaji for Assessment Year 2024-25 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 Rs.) :***

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 [Taxable exceeding Rs. 1,00,000]	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 111	8,00,000	Nil
A 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 2019 out of her special talent shall be clubbed in hands of Mr. Jaji since it is not out of professional skill [WN-3]	20,000	
Gift received by Chitra on 30-09-2023 from friends of Mr. Jaji on winning National award (Since the value of gift does not exceed Rs.50,000, the same shall not be taxable.)	Nil	1,70,000
Less: Exemption under Section 10(32) [Rs. 1,500 + Rs. 1,500] [WN-2]		-3,000
Gross Total Income/Total Income		**11,67,000**
Losses to be carried forward to A.Y. 2025-26		
Short term capital loss (Rs. 6,00,000 + Rs. 10,00,000 (STCL of section 111A)- Rs. 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 Rs. 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.
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 Rs. 1,500 per child.

(3) 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 Rs. 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 19 - Computation of Total income: Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended 31-03-2024:

	Particulars	**Amount (Rs.)**
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai which is self-occupied. Loan was taken from PNB on 01-01-1999 for purchase of this property	1,57,000
(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01-04-2020 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long term capital gains on sale of equity shares computed in accordance with Section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000

(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2024-25 and the amount of loss that can be carried forward. For the above solution, you may assume principal repayment of loan as under:

(i) Loan taken for purchase of house property in Delhi - Rs. 2,50,000
(ii) Loan taken for purchase of house property in Mumbai - Rs. 50,000
(iii) Loan taken for repair of house properties in Delhi and Mumbai - Rs. 75,000

Working notes should form part of your answer. Wherever necessary, suitable assumption may be made by the candidates and disclosed by way of note. ***(10 Marks, May 2021-NS)***

Solution: Computation of total income of Ms. Geeta (amount in Rs.):

Income from Salary			41,20,000
Income from House property			
Delhi House:			
Rent received being net annual value	5,00,000		
Less: Standard deduction (30% of NAV)	1,50,000		
Less: Interest on borrowed capital 7,50,000 + 50% of Rs. 1,50,000]	8,25,000	-4,75,000	
Jaipur (House)			
Rent received being net annual value	3,20,000		
Less: Standard deduction (30% of NAV)	96,000	2,24,000	
Self Occupied House (Mumbai):			
Annual value	Nil		
Less: Interest on borrowed capital Rs. 1,57,000 + 50% of Rs. 1,50,000 but restricted to Rs. 30,000 since loan been taken for acquisition of house prior to 1-4-1999 and loan taken on 1-4-2018 was for repair of house property]	30,000	-30,000	
(Loss from house property to be set-off from salaries to the extent of Rs. 2,00,000). Balance loss of Rs. 81,000 shall be carried forward to be set-off from Income from House property.		-2,81,000	-2,00,000
Profits and Gains of Business and Profession :			
Salary received from partnership firm [Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession]		50,000	
Loss incurred by firm, in which she is a partner [Share of loss from a partnership firm cannot be set-off against business income, since share of income of the firm is exempt under section 10(2A)]		-	
Speculation profit		2,30,000	
		2,80,000	
Less: Loss from textile business - Rs. 7,50,000 (set-off to the extent of business income i.e. Rs. 2,80,000)		2,80,000	Nil

Balance loss (Rs. 7,50,000 - Rs. 2,80,000) i.e. Rs. 4,70,000 to be set-off from Income from other sources to the extent of Rs. 73,000 and remaining loss from Income under the head capital gains i.e. Rs. 3,97,000. Such loss cannot be set-off from Salaries			
Capital Gain's:			
Long-term Capital Gains on sale of equity shares computed as per Section 112A		8,95,000	
Less: Loss from textile business (Current year loss is to be given priority over set-off of brought forward loss)		3,97,000	
Less: Brought forward short-term capital loss on sale of gold		2,75,000	
Less: Brought forward loss on sale of equity shares of the nature specified u/s111A		25,000	1,98,000
Income from Other Sources :			
Winnings from lottery		75,000	
Interest on fixed deposit		73,000	
Less: Loss from textile business		73,000	75,000
Gross total income			41,93,000
Less: LIC premium paid for her son (Shall qualify for deduction u/s 80C even if son is not dependent on her)		15,000	
Repayment loan taken for purchase of house property in Delhi (Not eligible for deduction u/s 80C since loan is taken from friend)		Nil	
Repayment of loan taken for purchase of house property in Mumbai		50,000	
Repayment of loan taken for repair of house properties in Delhi and Mumbai shall not be eligible for deduction u/s 80C since loan is taken for repair of house.		Nil	65,000
Total income			**41,28,000**

Illustration20 -Computation of Total income : Following are the details of incomes/losses of Mr. Rishi for the financial year 2023-24:

(Figures in brackets represents losses)	Rs.
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 2024-25. (5 Marks, Nov. 2021)

Solution: Computation of Gross total income of Mr. Rishi (amount in Rs.):

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	-2,20,000	
Loss to the extent of Rs. 2,00,000 shall be set-off from salary and balance loss of Rs. 20,000 shall be carried forward to be set of from Income from house property.		
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 hoses 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 21 - Computation of CT1 & Amount of losses to be carried forward : Ms. Pooja a resident individual provides the following information of her income/losses for the vcar ended on 31st March, 2024:

	Particulars	**Rs.**
1.	Income from salary (Computed)	2,20,000
2.	Income from I louse Pro pert} (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
	(c) Current vear depreciation	60.000
	(d) Unabsorbed depreciation of earlier year	2,25,000
	(e) Brought forward loss of textile business of the A.Y. 2022-23	90,000
6.	Long-term capital gain on sale of debentures	75,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,00,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (SIT paid at the lime of acquisition and sale)	1,50,000
9.	Dividend from units of UTI	5,000

During the previous year 2023-24, Ms. Pooja has repaid 5,25,001) towards housing loan from a scheduled bank. Out of this Rs. 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. (S Marks, Nov. 2020)

Solution: Computation of gross total income of Ms. Pooja for the A.Y. 2024-25:

Particulars		Rs.	Rs.
Salary Income (computed)		2,20,000	
Less: As per sec 71 (3A), loss from house property of Rs. 2,11,000 can be set-off, to the extent of		2,00,000	20,000
Income from House Property			
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	3,61,000	
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. 2024-25 for set-off against income from house property, if any, in that year.		-11,000	
Profits and gains of business or profession			
Share of loss from firm [loss from exempt source cannot be set-off against profit from taxable source. Hence such loss can neither be set-off nor be carried forward]		-	
Loss from specified business u/s 35AD Rs. 20,000 [Can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y. 2025-26]		-	
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	Nil
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	
		Nil	
Long-term capital gains on sale of listed equity shares (STT paid)		1,50,000	
Less: Set-off of balance long-term capital loss on sale of equity shares (STT not paid [Rs. 1,00,000 - Rs. 75,000]		25,000	
		1,25,000	

Less: Set-off of balance unabsorbed depreciation [Rs. 2,25,000 - Rs 1,50,000 s/o against business income]	75,000	
Long-term capital gains on sale of listed equity shares (No tax is payable u/s 112A in respect of LTCG of Rs.50,000, since the same is less than Rs.1,00,000)		50,000
Income from Other Sources Dividend from units of UTI [Taxable in hands of unit-holder]		5,000
Gross Total Income		**75,000**

Losses to be carried forward to A.Y. 2025-26:

(amount in Rs.)

(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 22 - Computation of GTI: Mr. X a resident individual submits the following information, relevant to the previous year ending March 31,2024:

	Particulars	**Amount (Rs.)**
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property	
	House in Delhi	22,000
	House in Chennai	-2,60,000
	House in Mumbai (self occupied)	-20,000
(iii)	Profit and gains from business or profession	
	• textile business	18,000
	• Cosmetics business	-22,000
	• Speculative business-1	-74,000
	• Speculative business-2	46,000
(iv)	Capital gains	
	• Short term capital loss from sale of property	-16,000
	• Long term capital gains from sale of properly	15,400
(V)	Income from other sources (Computed)	
	• Income from betting	34,000
	• Income from Card games	46,000
	• Loss on maintenance of race horses	-14,600

Determine the gross total income of Mr. X for the assessment year 2024-25 and the losses to be carried forward assuming that he does not opt lo taxed under section 115BAC. (5 Marks, July 2022)

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

Particulars	**Rs.**	**Rs.**
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of Rs. 2,58,000 to the extent of Rs. 2 lakhs by virtue of section 71 (3A)	2,00,000	22,000
Income from house property		
- House in Delhi	22,000	
- House in Chennai	-2,60,000	
- House in Mumbai (self-occupied)	-20,000	
	-2,58,000	
Loss upto Rs. 2 lakhs can be set off against income from salary. Balance loss of Rs. 58,000 from house property has to be carried forward to A.Y. 2025-26.		
Profits and gains from business or profession		
Profits from Speculative business - 2	46,000	
Less: Loss of Rs. 74,000 from speculation business -1 set off to the extent of profits of Rs. 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business	-46,000	-
Hence, the balance loss of Rs. 28,000 from speculative business has to be carried forward to A.Y. 2025-26.		
Profits from textile business	18,000	
Less: Loss from cosmetic business of Rs. 22,000 set off against profits from textile business to the extent of Rs. 18,000 as per section 70(1). Balance loss of Rs. 4,000 from cosmetic business has to be carried forward to A.Y. 2025-26, since the same cannot be set-off against salary income.	-18,000	-
Capital Gains		
Long term capital gain from sale of property	15,400	
Less: Short-term capital loss can be set-off against both short-term capital gains and long- term capital gains. Short term capital loss of Rs. 16,000 set off against long-term capital gains to the extent of Rs. 15,400 as per section 74(1). Balance short term capital loss of Rs. 600 has to be carry forward to A.Y. 2025-26	-15,400	-
Income from Other Sources		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of Rs. 14,600 has to be carried forward to A.Y. 2025-26]	Nil	80,000
Gross Total Income		1,02,000

Deduction from Gross Total Income

Illustrations

Illustration 1 - Deduction in respect of re-payment of loan when house is under construction: Mr. Kalpesh borrowed a sum of Rs. 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 2024, repayments towards principal and interest had been made during the year-ended 31-3-2024.

In the light of the above facts, state:

(i) Whether Mr. Kalpesh can claim deduction u/s 2.4 in respect of interest for assessment year 2024-25.

(ii) 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?. ***(6 Marks, PCC May 2008)***

Solution:

(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 construction is completed in May, 2024. Hence, deduction in respect of interest on housing loan cannot be claimed in the assessment year 2024-25.

(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 2024-25, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for assessment year 2024-25.

Illustration 2 - Computation of deduction admissible u/s 80C: Compute the eligible deduction u/s 80C for A.Y. 2024-25 in respect of life insurance premium paid by Mr. Balma during the P.Y. 2023-24, the details of which are given hereunder -

	Date of issue of policy	**Person insured**	**Actual capital sum assured (Rs.)**	**Insurance premium paid during 2023-24 (Rs.)**
(i)	15-04-2011	Self	2,50,000	52,000
(ii)	10-05-2014	Spouse	1,80,000	18,500
(iii)	01-06-2023	Handicapped minor Son (Section SOU disability)	4,50,000	72,000

Solution: Computation of deduction admissible under section 80C to Mr. Balma

(amount in Rs.):

	Date of Issue of policy	**Person insured**	**Actual capital sum assured**	**Insurance premium paid during 2023-24**	**Deduction u/s80C for A.Y. 2024-25**	**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)	01-06-2023	Handicapped minor Son(Section 80U disability)	4,50,000	72,000	67,500	15%
Total					**1,35,500**	

Illustration 3 - Section 80CCD - Taxability on withdrawal: Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme Rs. 50,000 every year since 2016 and was claiming deduction under section 80CCD. In December 2023, he opted out of the pension scheme and withdrew a lump sum amount of 12,00,000. Is the amount so withdrawn taxable Rs. If yes, how much is the taxable amount? (5 Marks, Nov. 2017)

Ans: 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 Rs. 2,00,000 received by Mr. Srivastava, 60% of Rs. 2,00,000 = Rs. 1,20,000 shall be exempt from tax under Section 10(12A) and balance amount of Rs. 80,000 shall be taxable in his hands.

Illustration 4 - Deduction under Section 80CCD : Mr. X, Central Government employee, furnishes you the following information for the previous year 2023-24. Compute his total income. ***(amount in Rs.)***

(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 01-04-2015 - capital sum assured Rs. 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 contribution	84,000
	(c) Payment to PPF account in his own name	1,00,000

Solution: Computation of Total Income of Mr. X ***(amount in Rs.):***

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		6,49,000	
Less: Standard Deduction u/ s 16(ia)		50,000	
Salary Income/Gross Total Income			6,99,000
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 Rs. 1,50,000.

(3) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. X to claim deduction of Rs. 50,000 under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 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 Rs.1,50,000 specified in section 80CCE.

Illustration 5 - 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 2023-24:

(1) Deposited in Sukanya Samriddhi Yozna in name of his daughter: Rs. 15,000
(2) Deposited Rs. 30,000 in public provident fund.
(3) Paid Tuition fees of Rs. 24,000 for full time education for his child in India.
(4) Paid life insurance premium of Rs. 25,000 on the policy taken on 01-05-2023 to insure his life (Sum assured - Rs. 2,00,000).
(5) Contributed Rs. 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 2024-25.

Would your answer be different, if Mr. A contributed Rs. 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 Rs.):***

	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 [Rs. 1,80,000 x 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 [Rs. 1,80,000 x 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 Rs. 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 Rs. 1,30,000 can be claimed as deduction under section 80CCD(1), subject to a maximum of 10% of salary i.e. Rs. 1,20,000.

(2) As per Section 80CCE, the aggregate amount of deduction under section 80C, 80CCC and 80CCD(1) shall not exceed Rs. 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.

(ii) If the contribution towards NPS is Rs. 1,20,000, here again, it is beneficial for Mr. A to first claim deduction of Rs. 50,000 under section 80CCD(1B) and the balance of Rs. 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 Rs. 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs. 3,20,000.

Illustration 6 - Deduction u/s 80C & 80CCD : Determine the eligibility and quantum of deduction under Chapter Vl-A in the following cases :

(1) Subscription to notified long-term infrastructure bonds Rs. 30,000 paid by Mr. A, he also paid life insurance premium of Rs. 70,000 during the year. (Sum Assured Rs. 3,50,000 policy issued on 31-03-2011). **(2 Marks, Nov. 2014)**

(2) Contribution to notified pension scheme (referred to in section 80 CCD) by the employer Rs. 40,000 for an employee whose basic salary plus dearness allowance is Rs. 3,00,000 for the year. **(2 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 Rs. 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, Rs. 30,000 shall qualify for deduction under Section 80CCD.

Illustration 7 - 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 Rs. 15,000 and his spouse Rs. 18,000 during the previous year. He also incurred medical expenditure of Rs. 55,000 on his father's health who is a senior citizen and not dependent 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. (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 Rs.):***

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 SOD	**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 Rs. 25,000.

(2) Since the father is a senior citizen (whether dependent or not), hence deduction in respect of medical expenditure shall be allowed to Rs. 50,000.

Illustration 8 - Deduction in respect of medical insurance premium : Mr. A, aged 40 years, paid medical insurance premium of Rs. 2.2,000 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 Rs. 47,000 who has not been insured. He contributed Rs. 2,400 to Central Government Health Scheme during the year. He has incurred Rs. 3,000 in cash on preventive health check-up of himself and his spouse and Rs. 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D.

Solution: Deduction allowable under section 80D (amount in Rs.):

	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	22,000	22,000
(ii)	Contribution to CGHS	2,400	2,400
(iii)	Expenditure on preventive health check-up of self & spouse	3,000	600
		27,400	25,000
(B)	Premium paid and medical expenditure incurred for father, who is a senior citizen-		
(i)	Medical treatment of his father who is not insured and a senior citizen	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction u/s 80D (Rs. 25,000 + Rs. 50,000)		**75,000**

Working Notes:

(1) The total deduction under A. (i), (ii) and (iii) above should not exceed Rs. 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs. 600, being (Rs. 25,000 -Rs.22,000 -Rs.2,400).

(2) The total deduction under B. (i) and (ii) above should not exceed Rs. 50,000. Therefore, the expenditure on preventive health check-up for father would be allowed to Rs. 3,000 (Since the overall limit has been increased to Rs. 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 Rs. 3,600 (i.e., Rs. 600 + Rs. 3,000), which is less than the maximum permissible limit of Rs. 5,000.

Illustration 9 - Deduction in respect of health insurance premium: Mr. Karan (54 years old) furnishes the following particulars in respect of the following payments:

S.No.	**. Particulars**	**Rs.**
(1)	Premium paid for insuring the health of -	
	➢ Self	9,000
	➢ spouse	8,000
	➢ dependent son	5,000
	➢ mother	19,000
(2)	Paid for Preventive Health Check up of-	
	➢ himself	2,500
	➢ spouse	1,000
	➢ mother	3,000
(3)	Incurred medical expenditure of Rs. 22,000 and Rs. 28,000 for his mother, aged 80 years and father, aged 87 years. Both mother and father Eire resident in India.	

Compute the deduction available to Mr. Karan under Section 80D for the A.Y. 2024-25.

Solution: Computation of deduction under section 80D for the A.Y. 2024-25 (amount in Rs.):

(1)	(I) In respect of premium paid for insuring the health of -		
	➢ Self	9,000	
	➢ spouse	8,000	
	➢ dependent son	5,000	
		22,000	
	(II) In respect of expenditure on preventive health check up of –	2,500	
	➢ Self and spouse	1,000	
		3,500	
(2)	Restricted to [Rs. 25,500 - Rs. 22,000, since maximum deduction is Rs. 25,000]	3,000	
	Aggregate of deduction (I + II) under (1) restricted to -		**25,000**
(I)	In respect of payment towards health insurance premium for his mother	19,000	
(II)	In respect of preventive health check up of his mother [Rs. 3,000, restricted to Rs. 2,000, (Rs. 5,000 - Rs. 3,000), since maximum deduction for preventive health check up under section 80D is Rs. 5,000]	2,000	
(III)	Medical expenditure for father would only be eligible for deduction [See Note below]	28,000	

	Amount of deduction	49,000	49,000
	Total deduction under section SOD [(1) + (2)]		**74,000**

Note: Irrespective of the fact that the mother of Karan is a senior citizen the deduction under section 80D would not be available to him in respect of the medical expenditure incurred for his mother, since Mr. Karan has taken a health insurance policy for his mother.

Illustration 10- Deductions in respect of certain payments : Compute the eligible deduction under Chapter VI-A for the A.Y. 2024-25 of Ms. Roma, who has a gross total income of Rs. 15,00,000 for the A.Y. 2024-25 and provide the following information about his investment/ payments during the year 2023-24 : ***(Modified 4 Marks, May 2015)***

	Particulars	**Rs.**
(1)	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is Rs. 1,50,000)	35,000
(2)	Public Provident Fund contribution	90,000
(3)	Repayment of Housing loan to Bhartiya Mahila Bank, Banglore	20,000
(4)	Payment of L.I.C. Pension Fund	25,000
(5)	Mediclaim Policy taken for self, wife and dependent children, premium paid	30,000
(6)	Medical Insurance premium paid for parents (Senior Citizen)	65,000

Solution: Computation of eligible deduction under Chapter VI-A ***(amount in Rs.) :***

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, Banglore [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 Rs. 1,50,000.

(2) Deduction in respect of health insurance premium paid shall be restricted to, in case of himself Rs. 25,000, and in case of his parents (being a senior citizens) Rs. 50,000. Therefore, total amount of deduction = Rs. (25,000 + 50,000) = Rs. 75,000.

Illustration 11 - Deduction in respect of certain payments: Mr. Shyam, a private sector employee, furnishes you the following information for the previous year 2023-24 Compute his total income. ***(amount in Rs.)***

(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 01-04-2023 - capital sum assured Rs. 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 dependent father (being a senior citizen) Rs. 47,000 and Rs. 25,000 on himself. Further, Rs. 5,000 paid in cash for preventive health check up of his father.	
(e)	Medical treatment of his dependent mother (resident individual of age 63 years) suffering from prescribed disease and disability (sum received from insurer Rs. 10,000 and sum reimbursed by employer Rs. 20,000)	1,50,000
(f)	Payment to Public Provident Fund	75,000

Solution: Computation of total income of Mr. Shyam ***(amount in Rs.):***

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 VIA -			
(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]	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 dependent mother [Sec. 80DD] [WN-6]		75,000

(ix)	Medical treatment of prescribed disease of dependent mother being senior citizen [Section 80DDB] [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 Rs. 1,50,000.

(3) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs. 1,50,000 under section 80CCE. Therefore, it is more beneficial for Mr. Shyam to claim deduction of Rs. 50,000 under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs. 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 Rs. 1,50,000 specified in section 80CCE.

(5) Deduction in respect of health insurance premium paid shall be restricted to, in case of himself Rs. 25,000, and in case of his father (being a senior citizen) Rs. 47,000. Further, the deduction in respect of amount paid in cash for preventive health check up of his father shall be allowed to t 3,000, since the total amount of deduction in case of senior citizen cannot be allowed in excess of Rs. 50,000.
Therefore, total amount of deduction = Rs. (25,000 + 47,000 + 3,000) = Rs. 75,000.

(6) Since assessee has incurred expenditure on medical treatment of dependent mother suffering from disability, therefore, a fixed deduction of Rs. 75,000 irrespective of amount paid shall be allowed under section 80DD.

(7) Deduction shall be allowed for expenditure incurred on medical treatment of dependent mother (being a senior citizen) to the extent of lower of following —
(a) Sum actually paid i.e. Rs. 1,50,000; or
(b) Rs. 1,00,000;
From the amount of deduction (i.e. Rs. 1,00,000), the sum received from insurer and employer shall be reduced. Hence, net amount of deduction = (Rs. 1,00,000 - Rs. 30,000) = Rs. 70,000.

Illustration 12 - Deduction in respect of payments: Mr. Raghu, Marketing Manager of KL Ltd. based at Mumbai, furnishes you the following information for the previous year:

Basic salary	Rs. 1,00,000 per month
Dearness allowance	Rs. 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 Rs.):

(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(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1.999),	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, PCC Nov. 2010)***

Solution: Computation of total income of Mr. Raghu (amount in Rs.):

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]	3,00,000
Gross salary		23,54,000
Less: Standard Deduction u/ s 16(ia)		50,000
Income chargeable under the head Salaries/GTI		23,04,000
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		**19,10,000**

Working Notes:

(1) Employer's contribution to Recognised Provident Fund in excess of 12% of salary (Basic salary + DA) is taxable. Therefore, taxable amount = Rs. 18,00,000 x 3 % = Rs. 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 Rs. 25 lakhs, therefore value of RFA = 15% of (basic salary + DA + bonus) = Rs. 3,00,000.

(3) Deduction in respect of contribution to RPF shall be restricted to Rs. 1,50,000.

(4) Deduction in respect of health insurance premium paid shall be restricted to, in case of his family Rs. 25,000, and in case of his parents (being senior citizens) Rs.50,000. Therefore, total amount of deduction = (Rs.25,000 + Rs.50,000) = Rs.75,000.

(5) A fixed deduction of Rs. 1,25,000, irrespective of expenditure incurred, shall be allowed.

Illustration 13 - Deduction u/s 80 EEA: Mr. A purchased a residential house property for self-occupation at a cost of Rs. 45 lakh on 1-6-2021, in respect of which he took a housing loan of Rs. 40 lakh from Bank of India @ 10% p.a. on the same date. The stamp

duty value of the property is Rs. 45 lakhs. Compute the eligible deduction in respect of interest on housing loan for A.Y. 2024-25 under the provisions of the Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31.-3-2024 and he does not own any other house property.

Solution: Computation of interest allowable under section 80EEA (amount in Rs.) -

Total Interest payable during financial year 2023-24 [Rs. 40,00,000 x 10% x 1]	4,00,000
Deduction u/s 24(b) allowable in computing income from house property. (Restricted to Rs.2,00,000)	2,00,000
Balance Interest deductible under section 80EEA (Rs. 4,00,000 - 2,00,000) (Restricted to Rs.1,50,000)	1,50,000

Illustration 14 - Section 80EEB; X, an individual, takes a loan of 2.5 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 2023-24 is Rs. 2,10,000. Determine the total income of Mr. X if his annual salary income (before standard deduction) is Rs. 40,50,000. He has made investment of Rs. 1,50,000 in public provident fund and health insurance premium paid for himself through account payee cheque is Rs. 25,000.

Solution: Computation of Total Income of Mr. X ***(amount in Rs.):***

Gross Salary	40,50,000	
Less: Standard Deduction u/s 16(ia)	50,000	
Salary Incom 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 Rs. 1,50,000]		1,50,000
Total Income		**36,75,000**

Illustration 15 - Computation of Total Income: X is a businessman. He has taken a loan of Rs. 25 lakh on April 10, 2022 from SBI to purchase an electric car to be delivered in the same month. Interest liability on such loan for the previous year 2023-24 is Rs. 2,10,000 after such electric vehicle is put to use for the purpose of business. His annual business income is Rs. 35,00,000 (before interest and expenditure pertaining to vehicle). Maintenance expenditure pertaining to electronic vehicle (including depreciation) for the previous year 2023-24 is Rs. 4,10,000. Every year X is entitled to deduction under sections 80C and 80CCD of Rs. 2,00,000. Your are required to compute the total income of Mr. X for AY 2024-25.

Solution: Computation of Total Income of Mr. X for AY 2024-25 ***(amount in Rs.):***

Business income before allowing vehicle related expenses	35,00,000
Less: Vehicle maintenance and depreciation	4,10,000
Less: Interest on loan under section 36	2,10,000
Profits and Gains of Business or Profession / Gross total income	28,80,000
Less: Deduction u/s 80C and 80CCD [Restricted to Rs.2,00,000]	2,00,000
Less: Deduction u/s 80EEB [Since interest on loan is allowed while computing business income]	Nil
Total Income	**26,80,000**

Illustration 16 - Section 80EEA & 80EEB: The following are the particulars relating to Mr. A, Mr. B, Mr.-C and Mr. D, salaried individuals, for A.Y. 2024-25

Particulars	**Mr. A**	**Mr. B**	**Mr. C**	**Mr. D**
Amount of loan taken	Rs.43 lakhs	Rs. 45 lakhs	Rs. 20 lakhs	Rs. 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	01-04-2022	01-04-2022	01-04-2022	30-03-2022
Date of disbursement of loan	01-05-2022	01-05-2022	01-05-2022	01-05-2022
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for occupation	Purchase of electric vehicle for personal self-use	Purchase of electric vehicle for personal use
Stamp duty value of house property	Rs. 45 lakhs	Rs. 48 lakhs	-	-
Cost of electric vehicle	-	-	Rs. 22 lakhs	Rs.18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y. 2024-25 in the hands of Mr. A, Mr. B, Mr. C and Mr. D. Assume that there has been no principal repayment during the P.Y. 2023-24.

Solution: Computation of Deduction under Chapter VI-A ***(amount in Rs.):***

Mr. A	
Interest deduction for A.Y. 2024-25 (i) (i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs. 3,54,750 [Rs. 43,00,000 x 9% x 1] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA Rs. 1,54,750 (Rs. 3,87,000 - Rs. 2,00,000) Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y. 2024-25 (i) Deduction allowable while computing income under thehead "Income from house property" Deduction u/s 24(b) Rs. 4,05,000 [Rs. 45,00,000 x 9% x 1] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (a) loan is taken from NBFC (b) stamp duty value exceeds Rs. 45 lakh. Deduction u/s 80EEA would not be permissibledue to either violation listed above.	Nil
Mr. C	
Deduction under Chapter VI-A Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs. 20 lakhs x 10% x 1 = Rs. 2,00,000 , restricted to Rs. 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A Deduction u/s 80EEB is not permissible since loan was not taken from financial institution.	Nil

Illustration 17 - Computation of Total Income: Compute total income of Mr. X from the following if all the contributions and payments have been made through account payee cheque –

(a)	Salary (computed)	5,50,000
(b)	Short term capital gains u/s 111 A	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 Rs.)*** **–**

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		5,000
(i) Contribution to PPF [Section 80C]		82,250
(ii) Donations [Section 80G]	[WN-1]	
Total income		**5,07,750**

Working Notes:

(1) Calculation of amount eligible for deduction under section 80G ***(amounts in Rs.)***

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: [Note]			
(i) State Government for family planning	30,000	100%	30,000
(ii) Approved charitable institution - restricted to (Rs. 54,500 - Rs.30,000) = Rs. 24,500 or Rs. 25,000, whichever is lower.	24,500	50%	12,250
Total deduction u/s 80G			**82,250**

Note : Computation of Adjusted Gross Total Income ***(amounts in Rs.)*** **–**

Gross total income		5,95,000
Less: Short term Capital Gains u/s 111A	45,000	
Deduction u/s 80C	5,000	50,000
Adjusted GTI		**5,45,000**

(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 18 - Deduction u/s 80GG : Anand is retired Government Officer aged 65 years, who derived the following income. He resides in Cochin (amounts in Rs.):

(Modified May 2000)

Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

He has paid Rs. 50,000 as premium to effect an insurance on his health. He pay a rent of Rs. 8,000 p.m. in respect of furnished accommodation. What is his eligibility for deduction under section 80GG? Also, compute his total income.

Solution: Computation of total income of Mr. Anand ***(amounts in Rs.):***

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]	39,500	1,39,500
Total Income		**5,25,500**

Working Note: Least of the following shall be allowed as deduction under section 80GG -

(i) Rent paid - 10% of adjusted total income
96,000 - 10% (Rs. 6,65,000 - 1,00,000)] = Rs. 39,500
(ii) Rs. 5,000 per month Rs. 60,000
(iii) 25% of adjusted total income Rs. 141,250

Adjusted Total Income = Rs. 6,65,000 - [Rs. 50,000 (deduction u/s 80D) + Rs. 50,000 (deduction u/s 80TTB)] = Rs. 5,65,000.

Illustration 19 - 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 : (amount in Rs.)

(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 Rs. 15,000 a month. Compute eligible exemption under Section 10(13A) of Income-tax Act, 1961, in respect of house rent allowance received.

(ii) If Mr. Khanna opts for rent free accommodation whereby IOL would be paying a rent of Rs. 15,000 per month, to the landlord and recovers a sum of Rs. 6,000 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?

(iii) Which of the above would be beneficial to Mr. Khanna i.e., House Rent Allowance or rent free accommodation?

Solution: The relevant calculations are as follows -

(i) Least of the following shall be exempt u/s 10(13A) in respect of HRA received -

Actual HRA received	1,80,000
Rent paid -10% of salary i.e. Rs. 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 = Rs. 1,80,000 - Rs. 1,24,000	**56,000**

(ii) 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 Rs. (5,60,000 + 70,000) or Rs. 15,000 x 12, whichever is less - 5,000 x 12)
= Rs. 63,000 - Rs. 60,000 i.e. Rs. 3,000

(iii) 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	63,000
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.

Working Note: Computation of tax liability under both cases ***(amount in Rs.) -***

Particulars	Case (i) - HRA	Case (ii) - Rent-free House
Basic pay and Special allowance	6,30,000	6,30,000
Taxable HRA/ Accommodation	56,000	22,500
	6,86,000	6,33,500
Less: Standard Deduction u/s 16(ia)	50,000	50,000
Gross Total Income	6,36,000	5,83,500
Less : Deduction u/ s 80GG, being the least of - (a) Rs. 5,000 x 12 i.e. Rs. 60,000; or (b) 25 % of Rs. 6,02,500 i.e. Rs.1,50,625; or (c) Rs.72,000 - 10% of Rs. 6,02,500 **i.e. Rs.11,750/-**	-	1,700
Total Income	6,36,000	5,81,300
Tax liability	39,700	28,760
Add: HEC @ 4%	1,588	1,150
Total Tax (including HEC) (rounded off)	**41,290**	**29,910**

Illustration 20 - Computation of total income: Mr. Chaturvedi having gross total income of Rs. 6,35,000 for the previous year 2023-24 furnishes you the following information :

(i) Deposited Rs. 50,000 in tax saver deposit in the name of major son in a nationalized bank.
(ii) Paid Rs. 25,000 towards premium on life insurance policy of his married daughter.
(iii) Purchased units of UTI for Rs. 25,000 in January 2023.
(iv) Contributed Rs. 10,000 to Prime Minister's National Relief Fund through account payee cheque.
(v) Donated Rs. 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. ***(7 Marks, PCC May 2011)***

Solution: Computation of total income of Mr. Chaturvedi ***(amounts in Rs.):***

Gross Total Income			6,35,000
Less: Deductions under Chapter VI-A -			
Deposit of Rs. 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 21 - Computation of total income: Mr. Rohan, a resident individual has Gross Total Income of Rs. 7,50,000 comprising of Income from Salary and Income from House Property for the assessment year 2024-25. He provides the following information:

(1) Paid Rs. 70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability). Sum assured Rs. 4,00,000; and date of issue of policy 1-8-2023.

(2) Deposited Rs. 90,000 in tax saver deposit in the name of his major son in State Bank of India.

(3) Contributed Rs. 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. 2024-25. ***(4 Marks, May 2017)***

Solution: Computation of Total Income and deduction under Chapter VI-A***(amount in Rs.):***

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 Rs. 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 Rs. 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 Fund is eligible for 100% deduction under section 80G provided the sum is paid otherwise than by cash exceeding Rs. 2,000. It is assumed that donation is made by cheque, hence 100% of the amount donated i.e. Rs. 25,000 shall be eligible for deduction.

Illustration 22 - Computation of deduction admissible under Section 80JJAA: Ms. XYZ & Co. partnership firm started its business on 01-04-2023. During the previous year 2023-24, it appoints the following persons –

Date of appointment	No. of employees	Designation	Emoluments (in Rs. per person)
01-04-2022	4	Accounting Staff	20,000
01-06-2022	15	Technical Staff	25,000
01-07-2022	15	Supervisors	30,000
01-10-2022	25	Helpers	22,000
Total	**59**		

Determine the amount of deduction available under section 80-JJAA for the assessment year 2024-25 if turnover of XYZ & Co. for the previous year 2023-24 is Rs. 4 crore and tax audit under section 44AB is applicable.

Solution: Computation of admissible deduction under Section 80JJAA for AY 2024-25 ***(amount in Rs.):***

Particulars	**Emoluments eligible for 80JJAA**
Accounting Staff appointed on 01-04-2023 (Rs. 20,000 x 4 x 12 months)	9,60,000
Technical Staff appointed on 01-06-2023 (Rs. 25,000 x 15 x 10 months)	-
Supervisors appointed on 01-07-2023 (Rs. 30,000 x 15 x 9 months) [WN1]	-
Helpers Staff appointed on 01-10-2023 (Rs. 22,000 x 25 x 6 months) [WN 2]	37,50,000
Total additional employee cost	**47,10,000**
Deduction admissible under Section 80JJAA [30% of Rs. 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 Rs. 25,000 per month.

(2) 25 Helpers employed on 1-10-2023 do not qualify as additional employees for the P.Y. 2023-24, since they are employed for less than 240 days in that year.

(3) 25 Helpers employed on 1-10-2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Ms. XYZ & Co. for the A.Y. 2025-26.

Illustration 23 - Computation of deduction admissible u/s 80JJAA: Mr. A has commenced the business of manufacture of computers on 1-4-2023. He employed 350 new employees during the P.Y. 2023-24, the details of whom are as follows —

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (Rs.)
(i)	75	01-04-2023	Regular	24,000
(ii)	125	01-05-2023	Regular	26,000
(iii)	50	01-08-2023	Casual	25,500
(iv)	100	01-09-2023	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024-25, if the profits and gains derived from manufacture of computers that year is Rs. 75 lakhs and his total turnover is Rs. 2.16 crores.
What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1-9-2023?

Solution: Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for A.Y. 2024-25, as his total turnover from business exceeds Rs. 1 crore and he has employed "additional employees" during the P.Y. 2023-24.

(I) If Mr. A is engaged in the business of manufacture of computers:
Additional employee cost = Rs. 24,000 x 12 x 75 [See Working Note below]
= Rs. 2,16,00,000
Deduction under section 80JJAA = 30% of Rs. 2,16,00,000 = Rs. 64,80,000.

Working Note: Number of additional employees:

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1-8-2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1-5-2023, since their total monthly emoluments exceed Rs. 25,000	125	
Regular employees employed on 1-9-2023, since they have been employed for less than 240 days in the P.Y. 2023-24.	100	275
Number of "additional employees"		75

Notes -

(i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1-5-2023 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1-9-2023 do not qualify as additional employees for the P.Y. 2023-24, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1-4-2022 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y. 2023-24 is deemed to be the additional employee cost.

(ii) As regards 100 regular employees employed on 1-9-2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

(II) If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1-9-2023, since they have been employed for more than 150 days in the previous year 2023-24.

Additional employee cost = Rs. 2,16,00,000 + Rs. 24,000 x 7 x 100 = Rs. 3,84,00,000

Deduction under section 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000

Illustration 24 - Computation of deduction admissible u/s 80JJAA: Mr. Satya is a manufacturer of goods in a factory located in Navi Mumbai. On 1st April 2023, 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 2023-24 which included :

(1) 15 casual workmen
(2) 25 contract labourers
(3) 40 workmen employed on 20th April, 2023
(4) 35 workmen employed on 1st May, 2023
(5) 25 workmen employed on 8th August, 2023

Compute the Deduction under Section 80JJAA, if available to Mr. Satya for Assessment Year 2024-25, if wages are paid to each worker @ Rs. 3,000 per month. His profit from the manufacture of goods for Assessment Year 2024-25 is Rs.5.50 lakhs and his total turnover is Rs. 2.5 crore. ***(4 Marks, Nov. 2016)***

Solution: Computation of admissible deduction under Section 80JJAA for AY 2024-25 ***(amount in Rs.):***

	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, 2023 [(Rs. 3,000 x 11 /30) + (Rs. 3,000 x 11)] x 40	13,64,000
(4)	35 workmen employed on 1st May, 2023 [Rs. 3,000 x 11 x 35]	11,55,000
(5)	25 workmen employed on 8th August, 2023 (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. 2024-25, as his total turnover from business exceeds Rs. 1 crore and he has employed "additional employees" during the P.Y. 2023-24.

As regards 25 workmen employed on 8-8-2023, they would be treated as additional employees for PY 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction u/ s 80JJAA in the hands of assessee for the A.Y. 2025-26.

Illustration 25 - 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 ***(amounts in Rs.):***

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 Rs.):***

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 Rs.):***

Royalty earned on books	[A]	2,00,000
Royalty computed @ 15% of value of books sold (Rs. 2,00,000/20% x 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 26 - Deduction u/s 80TTB : Mr. A, a resident individual aged about 61 years, has earned business income (computed) of Rs. 1,35,000, lottery income of Rs. 1,20,000 (gross) during the P.Y. 2023-24. He also has interest on Fixed Deposit of Rs. 30,000 with banks. He invested anamount of Rs. 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2024-25?

Solution: Computation of total income of Mr. A for A.Y. 2024-25 ***(amount in Rs.):***

Profits and gains of business or profession Income from other sources		1,35,000
Interest on Fixed Deposit with banks		30,000
Lottery income		1,20,000
Gross Total Income		**2,85,000**
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C : Deposit in Public Provident Fund	1,50,000	
Under section 80TTB : Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		**1,20,000**

Note: Though the value of eligible deductions is Rs. 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the assessee.
Therefore, the maximum permissible deduction under Chapter VI-A = Rs. 2,85,000 - Rs. 1,20,000 = Rs. 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 Rs. 50,000 under section 80TTB.

Illustration 27 - Computation of total income: Mr. X (blind from birth) furnishes you the following information for previous year 2023-24. Compute his total income.

		(amount in Rs.)
(1)	Salary from a publishing house for working as an artist (no allowances received) (Computed)	1,35,000
(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	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 Rs. 80,000 for treatment of cancer, out of which Rs. 20,000 were reimbursed by his employer.

Solution: Computation of Total Income of X ***(amounts in Rs.):***

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	[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]	39,400	
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	1,98,400
Total Income			**3,73,100**

Working Notes:

(1) Dividend received from Indian Company is exempt from tax under section 10(34).

(2) Deduction shall be allowed for expenditure incurred on treatment of cancer to the extent of lower of following -
   (a) Sum actually paid i.e. Rs. 80,000
   (b) Rs. 40,000.

   From the amount of deduction (i.e. Rs. 40,000), the sum received from employer shall be reduced. Hence, net amount of deduction = (Rs. 40,000 - Rs. 20,000) = Rs. 20,000.

(3) Contribution to National Defence Fund is eligible for 100% deduction under section 80G.

(4) Least of the following shall be allowed as deduction u/s 80GG:

(a) Rs. 5,000 per month	Rs. 60,000
(b) Rent paid - 10% of Adjusted total income [Rs. 72,000 -10% of Rs. 3,41,000]	Rs. 37,900
(c) 25% of Adjusted total income [25% of Rs. 3,41,000]	Rs. 85,250

Computation of Adjusted Total Income ***(amounts in Rs.):***

Gross total income		5,70,000
Less: Winnings from horse races	70,000	
Deduction u/s 80C	8,000	
Deduction u/s80DDB	20,000	
Deduction u/s 80G	6,000	
Deduction u/s80U	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 28 - Computation of total income: Mr. Raman, aged 62 years, earned professional income (computed) of Rs. 5,50,000 during the year ended 31-03-2024. He has earned interest of Rs. 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 2024-25 from the following particulars:

(i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to Rs. 35,000 for insurance of life of his dependent parents. The insurance policy was taken on 15-07-2023 and the sum assured on life of his dependent parents is Rs.1,55,000.

(ii) Life insurance premium of Rs. 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 Rs. 1,75,000 and the life insurance policy was taken on 18-04-2011.

(iii) Life insurance premium paid by cheque of Rs. 32,500 for insurance of his life. The insurance policy was taken on 08-09-2017 and the sum assured is Rs. 2,00,000.
(iv) Premium of Rs. 46,000 paid by cheque for health insurance of self and his wife.
(v) Rs. 1,500 paid in cash for his health check-up and Rs. 4,500 paid in cheque for health check-up for his parents.
(vi) Paid interest of Rs. 6,500 on loan taken from bank for IIT course pursued by his daughter.
(vii) A sum of Rs. 15,000 donated in cash to an institution approved for purpose of Section 80G for promoting family planning.
(viii) Contribution Rs. 10,500 made in cash to an electoral trust.

Solution: Computation of total income of Mr. Raman ***(amount in Rs.):***

Professional Income (Computed) Interest on fixed deposit in bank				5,50,000
Gross Total Income				54,500
Less: Deduction under Chapter VIA				6,04,500
Under section 80C				
Life insurance premium paid for life insurance of :				
Dependent parents	[WN-1]	Nil		
Major son	[WN-2]	25,000		
self Rs. 32,500 restricted to 10% of Rs. 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 Rs. 1,500 + His Parents Rs. 4,500= Rs. 6,000 restricted to Rs. 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 Under section 80GGC	[WN-6]		NIL	
Contribution to electoral trust	[WN-4]		NIL	
Under section 80TTB				
Interest on fixed deposit in bank account Rs. 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 Rs. 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 Rs. 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 Rs. 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 Rs. 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 Rs. 50,000. Further, deduction up to Rs. 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 Rs. 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 Rs. 47,500 (Rs. 46,000 + Rs. 1,500), which is less than Rs. 50,000. Further, deduction up to a maximum of Rs. 5,000 is allowable in respect of health check-up of self and his parents.

This implies that Rs. 3,500 is allowable for health check-up of parents which falls within the additional limit of Rs. 50,000 for mediclaim premium and expenditure on preventive health check-up of parents.

Thus; deduction admissible for self and his parents shall be Rs. 51,000 which is within the overall limit of Rs. 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 Rs. 50,000. Therefore, a deduction of Rs. 50,000 is allowable from the gross total income of Mr. Raman, though the interest from fixed deposit in bank account is Rs. 54,500.

(6) Cash donation exceeding Rs. 2,000 for family planning expenditure will not be allowed as deduction u/s 80G.

Illustration 29 - 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. 2024-25. ***(8 Marks, May 2015)***

Particulars	**Rs.**
Salary including Dearness Allowance	6,50,000
Conveyance allowance of Rs. 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 Rs. 35,00,000 in April 2013, which was finance by a loan from Bank of India of Rs. 20,00,000 @ 11% interest and his own savings of Rs. 5,00,000 and a deposit of Rs. 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 Rs. 35,000 per month. Other relevant particulars are given below:

(i) Municipal taxes paid by Dinesh for his flat in Dwarka are Rs. 18,000 per annum and for his house in Rohini are Rs. 12,000 per annum.
(ii) Principal loan amount outstanding as on 01-04-2023 was Rs. 18,50,000.
(iii) He also paid Rs. 8,000 towards insurance of both the houses.
(iv) In the financial year 2023-24, he had gifted Rs. 40,000 each to his wife and minor son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
(v) Mr. Dinesh's son is studying in a school run by the employer company throughout the financial year 2023-24. The education facility was provided free of cost. The cost of such education in similar school is Rs. 2,500 per month.
(vi) Dinesh also received gifts of Rs. 45,000 each from his two friends during the financial year 2023-24.

Solution: Computation of Gross Total Income of Mr. Dinesh ***(amounts in Rs.):***

Income under the head Salary:

Salary including dearness allowance	6,50,000	
Conveyance allowance (Rs. 10,800 - Rs. 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 (Rs. 2,500 x 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 x 11% subject to maximum of Rs. 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) [Rs. 35,000 x 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(1 A) (Rs. 40,000 x 18%) = Rs. 7,200. However, as per Section 10(32) an exemption of Rs. 1,500 shall be available (Rs. 7,200 - Rs. 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) (Rs. 40,000 x 18%)	7,200	
Gift from two friends @ Rs. 45,000 each - Since the aggregate amount exceeds Rs. 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 extend 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 Rs. 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of Rs. 2,500 per month is taxable as perquisite. In such a case, the value of the perquisite would be Rs. 30,000 (i.e. Rs. 2,500 x 12).

TDS, TCS & Advance Tax

Illustrations

Illustration 1 Computation of TDS on salaries : Rajkumar is employed in a company in Ahmedabad. He received salary of Rs. 8,00,000 (Computed) from his employer during financial year 2023-24.
During financial year 2023-24, he made payments of Rs. 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	Rs. 60,000
Loss from business	Rs. 50,000
Professional fees gross income	Rs. 1,00,000 (TDS deducted Rs. 10,000)

(expenses incurred to earn professional income Rs. 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 Rs.):***

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**

(B) Computation of tax due on salary income including other incomes (not loss) but excluding loss from house property ***(amount in Rs.):***

Income from salary (Computed)	8,00,000
Loss from house property	-60,000
Professional Income (Rs. 1,00,000 - Rs. 80,000)	20,000
Gross total income (GTI)	**7,60,000**
Less: Deduction u/s 80C	1,50,000
Total Income	**6,10,000**
Tax due	34,500
Add: HEC @ 4%	1,380
Total tax	**35,880**
Less: Tax deducted at source under other sections	10,000
Tax to be deducted at source	**25,880**

Therefore, amount of tax to be deducted at source = Rs. 31,720
Monthly installment of TDS = Rs. 2,643

Illustration 2 - TDS u/s 194A: Examine the TDS implications under section 194A in the cases mentioned hereunder -

(1) On 1-10-2023, Mr. Paresh made a 6 month fixed deposit of 112 lakh @ 10% p.a. with XYZ Co-operative Bank. The fixed deposit matures on 31-3-2024.

(2) On 1-07-2023, Mr. Suresh made three nine month fixed deposits of Rs. 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 31-03-2024.

(3) On 1-07-2023, Mr. Rajesh started a 9 months recurring deposit of Rs. 1,80,000 per month @ 6.25% p.a. with TP Bank. The recurring deposit matures on 31-03-2024. Interest on such deposit amount is Rs. 42,590.

Solution:

(1) XYZ Co-operative Bank has to deduct tax at source @ 10% on the interest of Rs. 60,000 [Rs. 12 lakhs x 10% x 6/12] under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs. 4,500.

(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 Rs. 90,000 [Rs. 5,00,000 x 3 x 8% x 9/12], which exceeds the threshold limit of Rs. 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 Rs. 90,000 exceeds the threshold limit of Rs. 40,000, tax has to be deducted @ 7.5% under section 194A.

(3) Tax has to be deducted under section 194A by TP Bank on the interest of Rs. 42,590 falling due on recurring deposit on 31-03-2024 Mr. Rajesh, since -

(a) "recurring deposit" has been included in the definition of "time deposit"; and

(b) such interest exceeds the threshold limit of Rs. 40,000.

Illustration 3 - 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 Rs. 4.50 lakhs on 31-03-2024, towards maturity proceeds of LIC policy taken on 1-04-2021, for which the sum assured is Rs. 4 lakhs and the annual premium is Rs. 1,25,000.

(2) Mr. Y, a resident, is due to receive Rs. 3 lakhs on 31-03-2024 on LIC policy taken on 31-03-2012, for which the sum assured is Rs. 3.5 lakhs and the annual premium is Rs. 28,000.

(3) Mr. Z, a resident, is due to receive Rs. 95,000 on 1-08-2023 towards maturity proceeds of LIC policy taken on 1- 08-2016 for which the sum assured is Rs. 90,000 and the annual premium was Rs. 10,000.

Solution:

(1) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31-03-2012, the maturity proceeds of Rs. 4.50 lakhs due on 31-03-2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 3.75% under section 194DA on the amount of income comprised therein i.e., on Rs. 75,000 (Rs. 4,50,000, being maturity proceeds - Rs. 3,75,000, being the entire amount of insurance premium paid).

(2) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 01-04-2012, the sum of Rs. 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.

(3) 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 Rs.95,000 due on 1-08-2023 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

Illustration 4 - 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 Rs. 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 = Rs. 25,000 x 20.8% = Rs. 5,200.

Illustration 5 - TDS u/s 194-IA: Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs. 60 lakh and Rs. 15 lakh, respectively, to Mr. Y on 1-8-2023. He has purchased the house property and the land in the year 2022 for Rs. 40 lakh and Rs. 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1-8-2023, is Rs. 85 lakh and Rs. 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. (Similar, 4 Marks, May 2015)

Solution:

(1) Tax implications in the hands of Mr. X : As per section 50C, the stamp duty value of house property (i.e. Rs. 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceed 110% of the consideration received. Therefore, Rs. 45 lakh (i.e., Rs. 85 lakh - Rs. 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y. 2024-25.

Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.

(2) **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 Rs. 50,000 and 10% of the consideration.

Therefore, in this case Rs. 25 lakh (Rs. 85 lakh - Rs. 60 lakh) would be taxable in the hands of Mr. Y u/s 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 there under.

(3) **TDS implications in the hands of Mr. Y :** Since the sale consideration of house property exceeds Rs. 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 Rs. 45,000, being 0.75% of Rs. 60 lakh.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Illustration 6 TDS u/s 194-IA: Mr. Dhanapal wishes to purchase a residential house costing Rs. 60 lakhs from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area from Rs. 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 % where the total amount of consideration for the transfer of immovable property is not less than Rs. 50 lakh.

Since the sale consideration of house property exceeds Rs. 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 Rs. 60,000, being 1% of Rs. 60 lakhs.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Illustration 7 - TDS on Rent: Mr. X, a salaried individual, pays rent of Rs. 60,000 per month to Mr. Y from June, 2023. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source. Would your answer change if Mr. X vacated the premises on 31st December 2023? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Solution: Since Mr. X pays rent exceeding Rs. 50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @ 5% of such rent for F.Y. 2023-24 under section 194-IB.

Thus, Rs. 30,000 [Rs. 60,000 x 5% x 10] has to be deducted from rent payable for March, 2024.

If Mr. X vacated the premises in December, 2023, then tax of 15,750 [Rs. 60,000 x 5% x 7] has to be deducted from rent payable for December, 2023.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @ 20%, instead of 5%.

In case 1 above, this would amount to Rs. 1,20,000 [Rs. 60,000 x 20% x 10] but the same has to be restricted to Rs. 60,000 being rent for March, 2024.

In case 2 above, this would amount to Rs. 84,000 [Rs. 60,000 x 20% x 7] but the same has to be restricted to Rs. 60,000, being rent for December, 2023.

Illustration 8 - TDS on Rent: Mr. A owns a building situated at New Delhi which is given on monthly rent of Rs. 75,000. to Mr. B w.e.f. 01-06-2023. Rent is paid by Mr. B on first day of every month. Discuss whether TDS provisions are applicable for the financial year 2023-24 in the following cases—

Case 1: Mr. B is carrying on business having annual turnover of business amounting Rs. 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 Rs. 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 Rs. 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 = Rs. 75,000 x 10 x 10% = Rs. 75,000.

Case 2: In this case since the turnover of Mr. B does not exceed Rs. 1 crore, he is not liable to deduct tax at source under Section 194-1. 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 1st March, 2024 is as under: Rs. 75,000 x 10 x 5% = Rs. 37,500.

Case 3: The answer will remain same as of case 2.

Illustration 9 - Section 194]: XYZ Ltd. makes a payment of Rs. 2.9,000 to Mr. Ganesh on 1-10-2023 towards fees for professional services and another payment of Rs. 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 Rs. 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y. 2023-24.

Illustration 10 - TDS under Section 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 Rs. 25,00,000 an 10 August, 2023 and Rs. 30,00,000 on 22 November, 2023. 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 under section 194C. Aggregate payment to the recipient during the financial year 2023-24 is Rs. 55,00,000 (more than the threshold of Rs. 50,00,000 under section 194M). Tax is deductible under section 194M. The amount of TDS is 3.75% of Rs. 55,00,000. In case X is businessman and whose turnover does not exceed Rs. 1 crore, he is not required to deduct tax at source under Section 194C but will be required to deduct tax at source under Section 194M and the answer shall remain same.

Illustration 11 - 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, 2023 : Rs. 15 lakh
- from SBI Jaipur by branch office on 10 October, 2023 70 lakh
- from SBI Delhi by head office on 10 January, 2024: Rs. 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. 2023-24 is 1.25 crore. Cash payment by SBI up to 9th January, 2024 does not exceed Rs. 1 crore. It exceeds Rs. 1 crore only after cash payment of Rs. 40 lakh on 10th January, 2024 . Tax deductible by SBI on 10th January, 2024 is Rs. 50,000 (being 2% of the sum paid of Rs. 25 Lakhs).

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 three 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 Rs. 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 Rs. 20 lakhs but does not exceed Rs. 1 crore; and
- 5% of the sum paid in cash exceeding Rs. 1 crore.

Thus, the amount of TDS shall be as under :

Date of cash withdrawal	**Amount of cash withdrawal (Rs. in lakh)**	**Cumulative Amount (Rs. in lakh)**	**Amount of TDS**
10th July 2023	15	15	Nil
10th October 2023	70	85	2% of Rs. 65lakh = Rs. 1,70,000
10th January 2024	40	125	2% of Rs. 15 lakh and 5% of Rs. 25 lakh = Rs. 30,000 + Rs. 1,25,000 = Rs. 1,55,000/-

Illustration 12 - TDS Implications: Examine the TDS implications in the following cases along-with reasons thereof:

(i) Ms. Varsha received a sum of Rs. 95,000 on 31st December 2023 towards maturity proceeds of LIC taken on 1st October 2017 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.

(ii) Mr. Deepak transferred a residential house property to Mr. Karan for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.

(iii) XYZ Private Limited pays the following amounts to Mr. Narayan during previous year 2023-24:
- Rs. 22,000 towards fee for professional services
- Rs. 18,000 towards royalty

(iv) Payment of Rs. 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 Rs. 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 18-03-2024, the total amount credited by Shyam Limited in the ledger account of Radha Limited is Rs. 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2024 by Shyam Limited. ***(7 Marks, May 2021-NS)***

Ans: 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 Rs. 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 Rs. 1 lakh.

(ii) Since the sale consideration of residential house property does not exceed Rs. 50 lakh, Mr. Karan is not required to deduct tax at source under section 194-IA.

(iii) TDS provisions under section 194J would not get attracted, since the limit of Rs. 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. 2023-24 .

(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 Rs. 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 Rs. 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 Rs. 12,000 paid by Talent Private Limited to its director Ms. Sudha. Amount of TDS = Rs. 12,000 x 10% = Rs. 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 Rs. 30,000. Thus the amount of tax to be deducted at source = Rs. 70,000 x 2% = Rs. 1,400.

Illustration 13 - 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 of Income-tax Act, 1961. He pays a monthly rent of Rs. 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 Rs. 10,000 per month to Mr. R towards the use of furniture, fixtures and vacant land appurtenant thereto.

(2) By virtue of an agreement with Nationalised Bank, a Catering Organisation [Pvt. Ltd. Co.] receives Rs. 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 194-1, if payer is an individual or HUF whose turnover of business exceed Rs. 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

Rs. 1 crore, he is liable to deduct tax at source @ 710% if rental income exceeds Rs. 2,40,000. Further, Section 194-1 provides that rent includes any payment by whatever name called, for the use of land or building together with furniture, fittings etc,. Therefore, service charges of Rs. 10,000 p.m will also be liable to TDS. Therefore, total rent = 15,000 + Rs. 10,000) x 12 = Rs. 3,00,000; TDS = Rs. 3,00,000 x 10% = Rs. 30,000.

(2) 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 Rs. 30,000, the nationalised bank is required to deduct tax at source at 2% on the payments made to catering organisation less than 194C.
Therefore, tax to be deducted at source = 50,000 x 12) x 2% = Rs.12000/-.

Illustration 14 - 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 2023-24.

(A) Mr. Bobby, a resident whose turn over during the previous financial year is Rs. 205 lakhs and for the current year 2023-24 it is Rs.80 lakhs.
- (i) Shop rent paid to Mr. Rajsekharan, a resident Rs. 20,000 per month.
- (ii) On 1-11-2023 paid towards fee for technical services of Rs. 25,000 and royalty of Rs. 20,000 to Mr. Swamy, a resident who is having PAN. No other payment made to Mr. Swamy.
- (iii) On 01-10-2023 payment of Rs. 2,00,000 made to Mr. A for purchase of diaries according to specifications. However, no material was supplied for such diaries.
- (iv) Contract payments made to Mr. Satheesan on 01-05-2023 for painting Rs. 25,000 and another contract for interior furnishing on 22-03-2024 for Rs. 20,000.

(B) Mr. Thrilok an individual not assessed to tax pays towards Rent Rs. 60,000 per month. ***(5 Marks, May 2018)***

Solution:

(A) As the turnover of Bobby for financial year 2022-23, i.e. Rs. 205 lakhs, has exceeded the monetary limit of Rs. 100 lakhs, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

(i) Shop rent paid to Mr. Rajsekharan : Tax is to be deducted under section 194-1 @ 10% as the rental payment exceeds Rs. 2,40,000. Since the amount of shop rent does not exceed Rs. 2,40,000, tax is not required to be deducted at source.

(ii) TDS provisions under section 194J would not get attracted, since the limit of Rs. 30,000 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) As per Section 194C, Any person responsible for paying any sum to any resident contractor for carrying out any work in pursuance of a contract between the contractor and a contractee shall be liable to deduct tax at source @ 1% in case payee is individual if the amount of contract exceeds Rs. 30,000.

Work shall include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer, but 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.

In this case no material was supplied by Mr. Bobby for diaries, hence, no tax will be deducted at source.

(iv) TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 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 Rs. 50,000 per month in the F.Y. 2022-23, he is liable to deduct tax at source @ 5% of such rent for F.Y. 2022-23. Thus, tax of Rs.36000/- (60,000 x 5% x 12] has to be deducted under section 194-IB from rent payable for March, 2023.

Illustration 15 - 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:

(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) A T.V. Channel pays Rs. 10 lakhs as prize money to the winner of a Quiz Programme.
(3) State bank of India pays Rs. 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 Rs. 50,000 to a cameraman for shooting of a documentary film.
(5) State Government pays Rs. 20,000 as commission to one of its agent on sale of lottery tickets.
(6) A Turf Club awards a jack-pot of Rs. 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 Rs. 10,000 shall at the time of payment deduct tax @ 30%.
Hence, TDS = Rs. 10,00,000 x 30% = Rs. 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 exceeds Rs. 30,000, therefore tax @ 10% will have to be deducted at the time of credit of Rs. 50,000 or on its payment, whichever is earlier.
TDS = Rs. 50,000 x 10% = Rs. 5000.

(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 @ 5%. Such deduction shall be made only if the amount of commission exceeds Rs. 15,000. Therefore, TDS liability in the given case = Rs. 20,000 x 5% = Rs. 1000.

(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 Rs. 10,000.
Hence, TDS liability in the given case = Rs. 5,00,000 x 30% = Rs. 1,50,000.

Illustration 16 - 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 2023-24:

(1) Payment of Rs. 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2023 for contribution of articles in relation to the sport of cricket.
(2) Rent of Rs. 1,70,000 paid by a partnership firm for use of plant and machinery.
Winning from horse race Rs. 1,50,000.
(3) Rs. 2,50,000 paid to Mr. A, a resident individual on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (4 Marks, Nov. 2014)

Solution:

(1) Payment of Rs. 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2023 for contribution of articles in relation to the sport of cricket shall be liable for deduction at source under Section 194E @ 20.8%. **Hence, tax shall be deducted at source:** Rs. 27,000 x 20.8% = Rs. 5,616.

(2) No deduction shall be made under section 194-1 where the amount of rental income credited or paid or likely to be credited or paid during the financial year to the account of, or to, the payee, does not exceed Rs. 2,40,000. Since Rent of X 1,70,000 was paid by a partnership firm for use of plant and machinery, therefore no tax shall be deducted at source.

(3) 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 Rs. 10,000. Hence, TDS liability in the given case = Rs. 1,50,000 x 30% = Rs. 45,000.

(4) 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 Rs. 2,50,000. Hence, no tax shall be required to be deducted at source on Rs. 2,50,000 paid to Mr. A, a resident individual on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Illustration 17 - Liability for TDS: State with reasons, whether tax deduction at source provisions are applicable to the following transactions and if so, the rate of tax deduction:

(1) An insurance company paid Rs. 45,000 as insurance commission to its agent Mr. Hari.

(2) X & Co. (Firm), engaged in wholesale business, assigned a contract for construction of its godown building to Mr. Ravi, a contractor. It paid Rs. 25,00,000 to Mr. Ravi as contract payment.

(3) AB Ltd. allowed a discount of Rs. 50,000 to XY & Co. (a firm) on prompt payment of its dues towards supply of automobile parts.

(4) Y & Co. engaged in real estate business, conducted a lucky dip and gave Maruti car to prize winner.

Solution: The applicability of TDS provisions is discussed herein below -

(1) TDS @ 5%: As per Section 194D, any person paying insurance commission in excess of Rs. 15,000 to any resident person is liable to deduct tax @ 5%. Therefore, the insurance company must deduct tax at source @ 5% in respect of the insurance commission paid to Mr. Hari.

(2) TDS liability @ 1%: Section 194C provides for deduction of tax at source from the payment made to resident contractors and sub-contractors. Therefore, tax @ 1% is deductible at source under section 194C for the contract payments made to individual for the construction of godown building.

(3) No TDS liability: Discount allowed to a customer for prompt payment is not covered by any of the tax deduction at source provisions of the Income-tax Act, 1961. Therefore, AB Ltd. need not deduct any tax at source since no payment was involved in allowing discount to its customer viz. XY & Co.

(4) TDS liability @ 30%: In respect of lucky dip conducted by Y & Co., the provisions of Section 194B would apply. As per Section 194B, winning from lottery or crossword puzzle or card game of any sort exceeding Rs. 10,000 payable by any

person to any other person, is subject to tax deduction @ 30%. Since the value of prize i.e. Maruti car would exceed Rs. 10,000, therefore, tax is deductible at source @ 30%. As the winning is in kind, the winner must deposit 30% of the prize value to Y & Co. for remitting the same as tax. Only after such deduction/recovery, the Maruti car is to be delivered to the prize winner.

Illustration 18 - Liability for TDS: Ashwin a resident individual carrying on business furnishes you the following information:

Turnover during financial year	**Rs.**
2022-23	1,20,00,000
2023-24	98,00,000

State whether tax deduction at source provisions are attracted for the under-mentioned expenses incurred during the financial year 2023-24:

Particulars	**Rs.**
Commission paid to Babloo	22,500
Payment to Vijay for repair of office building	23,000
Payment of fees for technical services, to Vivek	35,000

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 2022-23, i.e. Rs. 120 lakhs, has exceeded the monetary limit of Rs. 100 lakhs therefore, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

(1) **Commission paid to Babloo:** Tax is to be deducted under section 194H @ 5% as the commission exceeds Rs. 15,000. Amount of Tax deducted at source = 5% of Rs. 22,500 = Rs. 1,125

(2) **Payment of Rs. 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 Rs. 30,000 in a single payment or Rs. 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 Rs. 30,000. Amount of Tax deducted at source = 2% of Rs. 35,000 = Rs. 700.

Illustration 19 - Liability for TDS u/s 194-J: An individual practicing 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 f 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 2023 - Rs. 10,000 (advance of fees)
25th July 2023 - Rs. 20,000 (towards expenses incurred)

5th August 2023 - Rs. 40,000 (balance of fees on completion of work)
10th August 2023 - Rs.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 @ 7.5%, if the aggregate of such sum exceeds Rs. 30,000. 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 = Rs. 10,000 + Rs. 40,000 = Rs. 50,000; TDS = Rs. 50,000 x 10% = Rs. 5,000.

Illustration 20 - Liability for TDS: Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year:	***(Rs.)***
2022-23	1,05,00,000
2023-24	1,25,00,000

State whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2023-24 :

	(Rs.)
Interest paid to UCO Bank	41,000
Contract payment to Raj (2 contracts of Rs. 12,000 each)	24,000
Shop rent paid (one payee)	2,50,000
Commission paid to Balu	17,000

(4 Marks, PCC May 2011) (Similar IPCC May 2012, 4 Marks)

Solution: As the turnover of Ashwin for financial year 2022-23 i.e. Rs. 105 lakhs, has exceeded Rs. 100 lakhs, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

(1) **Interest paid to UCO Bank:** TDS u/ s 194A is not attracted in respect of interest paid to a banking company.

(2) **Contract payment of Rs. 24,000 to Raj for 2 contracts of Rs. 12,000 each:** TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs. 30,000 in a single payment or Rs. 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

(3) **Shop rent paid to one payee:** Tax is to be deducted u/s 194-1 @ 10% as the rental payment exceeds Rs. 2,40,000.

(4) **Commission paid to Balu:** Tax is to be deducted u/s 194H @ 5% as the commission exceeds Rs. 15,000.

Illustration 21 - Liability for TDS and disallowance under section 40(a): M/s. Arora Ltd., submits the following details of expenditure pertaining to the financial year 2023-24: ***(5 Marks, PCC Nov. 2010)***

(i) Payment of professional fees to Mr. Man Rs. 50,000. Tax not deducted at source.

(ii) Interior works done by Mr. Hari for Rs. 2,00,000 on a contract basis. Payment made in the month of March 2024.Tax deducted in March 2024 was paid on 30-06-2024.

(iii) Factory Rent paid to Mrs. Rao Rs. 15,00,000. Tax deducted at source and paid on 01-12-2024.

(iv) Interest paid on Fixed Deposits Rs. 2,00,000. Tax deducted on 31-12-2024 and paid on 28-09-2024.

(v) Payment made to M/s. Green & Co. towards import of raw materials Rs. 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 2024-25 under the Income-tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions.

Solution: Allowability of expenses of M/s. Arora Ltd for the assessment year 2024-25:

(i) Payment of professional fees is subject to TDS under section 194J, if the amount thereof exceeds Rs. 30,000 during a financial year. Since no tax is deducted at source, 30% of such expenditure i.e. Rs. 15,000 shall be disallowed under section 40(a).

(ii) Since the tax deducted at source was paid on or before the due date of filing the return (i.e., on or before 30th October, 2024), 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., 30lh November, 2022. In this case, since tax deducted under section 194-1 was paid after the due date of filing the return, the expenditure can be claimed only in the subsequent year i.e., P.Y 2023-24. Hence, for the P.Y. 2022-23 relevant to the assessment year 2023-24,30% of such expenditure i.e. Rs. 4,50,000 shall be is disallowed under section 40(a). The same will be allowed in financial year 2023-24.

(iv) Since the tax deducted at source was paid on or before the due date of filing the return (i.e., on or before November 30lh, 2022), 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 22 - Liability for TDS and disallowance under section 40(a) : During the financial year 2023-24, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31-3-2024 was Rs. 99 lakhs): ***(4 Marks, IPCC May 2011)***

(i) Interest of Rs. 12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
(ii) Interest of Rs. 4,000 was paid as interest to Mr. R.D. Burman, a non-resident, without deduction of tax at source;
(iii) Rs. 3,00,000 was paid as salary to a resident individual without deduction of tax at source;
(iv) He had sold goods worth Rs. 5 lakhs to Mr. Deva. He gave Mr. Deva a cash discount of Rs. 12,000 later. Commission of Rs. 20,000 was paid to Mr. Vidyasagar on 02-7-2023. In none of these transactions, tax was deducted at source. Briefly discuss whether any disallowance arises under the provisions of Section 40(a)(i)/40(a)(ia) of the Income-tax Act, 1961.

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 exceeded Rs. 100 lakhs in the immediately preceding previous year i.e., previous year 2022-23 (as his turnover is less than Rs. 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 Rs. 100 lakhs in the preceding financial year i.e., P.Y. 2022-23. From the data given, it is clear that his turnover from business does not exceed Rs. 100 lakh in P.Y. 2022-23. 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 Rs. 3,00,000 i.e. Rs. 90,000 shall be disallowed.
(iv) The obligation to deduct tax at source under section 194H from commission paid in excess of Rs. 15,000 to a resident arises in the case of an individual, only where his turnover from business exceed Rs. 100 lakh in the immediately preceding previous year. From the data given, it is clear that his turnover did not exceeded Rs. 100 lakh in the P.Y. 2022-23. Hence, there is no obligation to deduct tax at source under section 194H during the P.Y. 2023-24. Therefore, disallowance under section 40(a)(ia) is not attracted in this case. ***(4 Marks, May 2014)***

Illustration 23 - Liability for TDS: What are the provisions relating to tax deduction at source in respect of?

(A) ABC and Co. Ltd. paid Rs. 19,000 to one of its directors as sitting fees on 01-01-2024.

(B) Mr. X sold his Plouse to Mr. Y on 01-02-2024 for Rs. 60 lacs.

Ans: The relevant provisions are discussed as under -

(A) As per section 194-J, a company shall be liable to deduct tax at source @ 7.5% on any remuneration or fees or commission paid to a director, on which the tax is not deductible under section 192. The limit of Rs. 30,000 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 = Rs. 19,000 x 7.5% = Rs. 1,425.

(B) Since the sale consideration of house property exceeds Rs. 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 @ 0.75% of the sale consideration is required to be deducted by Mr. Y under section 194-IA. Tax deductible under section 194-IA = Rs. 60 lacs x 0.75% = Rs. 45,000.

Illustration 24 -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 Rs. 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 Rs. 42,000 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 Rs. 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 Rs. 10 crores to Borrower Ltd. on 31-03-2024. Borrower Ltd. paid a sum of Rs. 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, 2023 to February, 2024) at Hyderabad where he pays a monthly house rent of Rs. 52,000 for those three months, totalling to Rs. 1,56,000. Rent is paid by him on the first day of the relevant month. ***(7 Marks, Nov. 2021)***

Ans: The TDS implications are as under —

(i) No TDS liability: Section 192A provides for deduction of tax @ 7.5% 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 @ 7.5% 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 Rs. 50,000. Since in this case Mr. Hasan is senor citizen and the amount on interest credit to RD account is Rs. 42,000, tax is not required to be deducted at source.

(iii) **TDS liability @ 30%:** In respect of lucky dip conducted by M/s. Maximums Retails Ltd., the provisions of Section 194B would apply. As per Section 19413, winning from lottery or crossword puzzle or card game of any sort exceeding Rs. 10,000 payable by any person to any other person, is subject to tax deduction @ 30%. Since the value of prize is Rs. 21,000, therefore, tax is deductible at source @ 30% of Rs. 21,000 = Rs. 6,300

(iv) **No TDS Liability:** Tax is deducted at source under Section 194A in respect of Interest other than Interest on securities. As per Section 2(28A) of Income-tax Act, 1961, the term "interest" means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilised. Though service fees falls under the ambit of interest but no tax is to be deducted at source in respect of interest income credited or paid to, any banking company or any co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank). Therefore, there is no liability to deduct tax at source in respect of payment of Rs. 1,00,000 to Finance Bank Ltd.

(v) Since Mr. Ashok pays rent exceeding Rs. 50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @ 5% of such rent for F.Y. 2023-24 under section 194-IB. Thus, Rs. 5,850 [Rs. 52,000 x 3.75% x 3] has to be deducted from rent payable for February, 2024.

Illustration 25 - Tax deduction at source: Discuss whether the person making payment is liable to deduct tax at source in the following circumstances. Also compute the amount of tax to be deducted.

(i) Interest of Rs. 1,650 paid by XYZ Ltd. to Kush and Rs. 5,500 to his HUF on 15-05-2023, by way of account payee cheque on account of debentures of the company held by them separately. Debentures of XYZ Ltd. are listed in Bombay Stock Exchange.

(ii) Interest of Rs. 6,500 paid by Pawari Ltd. to Kamini and Rs. 4,500 to Mahak HUF on 31-01-2024, by way of account payee cheque on account of debentures of the company held by them. Debentures of Pawan Ltd. are not listed on a recognised stock exchange in India.

(iii) Interest of Rs. 42,500 on recurring deposit credited to Mr. Punit.

(iv) PQR Ltd. paid Rs. 10,00,000 to non-resident entertainer on 28-07-2023 in respect performance in an event of promotion of a new product.

(v) Sports World Magazine paid Rs. 4,00,000 to Ricky Ponting, a non-resident cricketer, for writing an article for the September issue. The payment for the same was made on 25-06-2023.

(vi) Sitting fees of Rs. 25,700 paid to director of the company on 28-08-2023.

(vii) Rs. 1,80,000 paid to Mr. A on 25-03-2023. by Rajasthan State Government on compulsory acquisition of his urban land.

Solution:

	Tax deductible or not	**Amount to tax to be deducted at source (Rs.)**	**Reason**
(i)	Not deductible	Nil	As per the proviso to section 193 the company shall not be liable to deduct tax at source on the interest less than Rs. 5,000 paid to a resident individual in respect of listed debentures by way of account payee cheque. Therefore, no tax shall be deducted at source on the interest paid to Kush by XYZ Ltd. provided Kush is a resident in India during the year.
	Deductible	412.5 5,500 x 10%)	Tax shall be deducted at source on interest paid by XYZ Ltd. to the HUF of Kush on 15-05-2023 under section 193.
(ii)	Deductible	487.5 (Rs. 6,500 x 10%)	Pawan limited is liable to deduct tax at source on the interest paid to Kamini on account of debentures under section 193, since the payment exceeds Rs. 5,000.
	Not deductible	Nil	As per the proviso to section 193 a company shall not be liable to deduct tax at source on the interest paid to a resident individual or Hindu Undivided Family in respect of debentures, whether or not listed on a recognized stock exchange in India, if such payment made does not exceed Rs. 5,000 during the year and the same is paid by way of account payee cheque. Therefore, Pawan Ltd. is not liable to deduct tax at source on interest paid to Mahak HUF, provided Mahak HUF is resident in India.
(iii)	Deductible	3187.5 (Rs. 42,500 x 10%)	As per the provisions of section 194A, since, recurring deposits are included in time deposit, tax shall be deducted at source on interest paid on account of recurring deposit.
(iv)	Deductible	Rs. 2,08,000 (Rs. 10,00,000 x 20.8%)	As per the provisions of section 194E, any person making payment to a non-resident entertainer, which is taxable under section 115BBA, shall deduct tax at source @ 20.8%.

(v)	Deductible	Rs. 83,200 (Rs. 4,00,000 x 20.8%)	As per the provisions of section 194E, any person making payment to a non-resident sportsperson, which is taxable under section 115BBA, shall deduct tax at source @ 20.8%.
(vi)	Deductible	Rs. 1927.5 (Rs. 25,700 x 10%)	According to section 194J, the company shall be liable to deduct tax at source @ 10% under this section on any fees paid to a director on which the tax is not deductible under section 192.
(vii)	Not deductible	Nil	No tax shall be deducted at source under section 194LA in case the consideration or enhanced consideration during the year does not exceed Rs. 2,50,000.

Ilustration 26-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 2023-24 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, 2024, 20 lakh in February, 2024 and 20 lakh in March, 2024 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.

(iii) Smt. Sarita paid 5,000 on 17th April, 2023 to Smt. Deepa from the deposits in National Savings Scheme account. (5 Marks, Nov. 2020)

Ans: TDS implications:

(i) On payments made to contractor:
Tax is deductible @ 5% 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. 2022-23.
Amount of tax to be deducted =5% of 52 lakhs = 2,60,000

(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 × 20% = 30,000

(iii) Payments in respect of deposits under NSS:
Tax is deductible at source @ 10% under section 194EE, on such payment, since the same exceeds ₹2,500.
Amount of tax to be deducted = 5,000×10%= ₹500

Illustration 27-Tax deduction at source: Examine the applicability and the amount of TDS to be deducted in the following cases for Financial Year 2023-24:

(1) Sand Co. Ltd. paid ₹25,000 to one of its Directors as sitting fees on 02-02-2024.

(i) 2,20,000 paid to Mr. Mohan, a resident individual, on 28-02-2024 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 2022-23. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business

The aggregate purchase made during the previous year 2023-24 on various dates is ₹80 lakhs which are a under –

10-06-2023	25,00,000
20-08-2023	27,00,000
12-10-2023	28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2024 80 lakh. Mr. Agarwal's turnover for the F.Y. 2022-23 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 x 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 2,50,000.

(iii) Since Mr. Purushotham's turnover for F.Y. 2022-23 exceeds 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds 50 lakhs in the P.Y. 2023-24, 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 10-6-2023=Nil (No tax is to be deducted u/s 194Q on the purchases made on 10-6-2023 since the purchases made till that date has not exceeded the threshold of 50 lakhs)
On 20-8-2023=0.1% of 2 lakhs (amount exceeding 50 lakhs) = 200
On 12-10-2023=0.1% of ₹28 lakhs = ₹2,800.

Illustration 28 - 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 2023, 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, 2023 and 30,00,000 on 22nd November, 2023. 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 @ 5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds 50 lakhs during the P.Y. 2023-24.
Accordingly, 2,75,000, being 5% 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. 2022-23], she is not required to deduct tax at source under section 194C. In such case also, she is required to deducted tax at source of 2,75,000 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 29 - 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 1-5-2023, 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 31-01-2024.

(ii) Mr. Marwah, aged 80 years, holds 62% Gold Bonds, 1977 of 2,00,000 and 7% Gold Bonds 1980 of ₹3,00,000. He received yearly interest on these bonds on 28-02-2024.

(iii) M/s. AG Pvt. Ltd. took a loan of₹ 50,00,000 from Mr. Haridas. It credited interest of ₹79,000 payable to Mr. Haridas during the previous year 2023-24. M/s. AG Pvt. Ltd. is not liable for tax audit during previous years 2022-23 and 2023-24.

(iv) Mr. Prabhakar is due to receive 6 lakh on 31-3-2024 towards maturity proceeds of LIC policy taken on 1-4-2020, 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 × 9% × 3 × 9/12], which exceeds the threshold limit of ₹40,000.
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 × 10% = ₹6075 [Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as 81,000 [3,00,000 × 9% × 3] and the tax to be deducted thereon would be 81,000×10% = 8100]

(ii) Tax @ 10% under section 193 is to be deducted on interest on 6½ 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 ½ Gold Bonds, 1977 = 2,00,000 × 6.5% = 13,000
Interest on 7% Gold Bonds 1980 = 3,00,000 × 7% = 21,000
Tax to be deducted at source = ₹34,000 × 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 ₹5,000. 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. 2022-23 and 2023-24.

Tax to be deducted at source = 79,000×10% = 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 31-3-2024 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 =₹40,000×5%=2,000

Illustration 30 - 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. 2024-25.

(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 2023-24 as under:

Bill No.	Date	Amount Rs
1	30-04-2023	27,000
57	30-06-2023	25,000
105	30-09-2023	28,000
151	30-12-2023	32,000

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.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17-10-2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, 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 of the Act.

Since, the question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/-i.e. 3,400/-.

(ii) In this case, the individual contract payments (through the bills dated 30-4-2023, 30-6-2023 and 30-9-2023) made by ABC LLP to XYZ does not exceed ₹30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of 32,000, due on 30-12-2023, 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 30-12-2023.
Hence, TDS u/s 194C = 2,240.

Illustration 31 - TCS: Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for Rs. 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than Rs. 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)***

Ans: To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 0.75% from the purchaser on sale of motor vehicle of the value exceeding Rs. 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 @ 0.75% of the amount of the sale consideration of car.

Illustration 32 - 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.
(i) Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of 5 lakhs on 01-11-2023 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.

(ii) Mr. Anu doing business of textile as a proprietor. His turnover in the business is 11 crores in the previous year 2022-23. He received payment against sale of textile goods from Mr. Ram of ₹75 lakhs against the sales made to him in the previous year and preceding previous years. (Assuming all the sales are domestic sales and Mr. Ram is neither liable to deduct tax on the purchase from Mr. Anu nor he deducted any tax at source). (4 Marks, Dec. 2021)

Solution:

(i) Tax 5% upto 7 lakhs and 20% above 7 lakhs 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%×5 lakh = 25,000

(ii) Mr. Anu is required to collect tax @ 0.1% u/s 206C from Mr. Ram, since his turnover in the P.Y. 2022-23 exceeds Rs.10 crores, and the sales receipts from Mr. Ram in the P.Y. 2023-24 exceeds 50 lakhs. Tax has to be collected by Mr. Anu on 25 lakhs, being the amount exceeding 50 lakhs, at the time of receipt. Since receipt is in the P.Y. 2023-24, TCS provisions are attracted even though part of the sales may relate to the preceding previous years. TCS=0.1% × 25 lakhs = ₹2500

Illustration 33 - Computation of Total income and advance tax: Mr. John commenced a proprietary business in the year 2002. His capital as on 1-4-2022 was Rs. 6,00,000. On 10-4-2022 his wife gifted Rs. 2,00,000 which he invested in the business of the same date. Mr. John earned profit from his proprietaiy business as given below.
Previous year 2022-23 = Profit Rs. 3,00,000
Previous year 2023-24 = Profit Rs. 4,40,000
Compute the income from business chargeable to tax in the hands of Mr. John for the assessment year 2024-25. During the financial year 2023-24, he sold a vacant site which resulted in chargeable long-term capital gain of Rs. 5,00,000 (computed). The vacant site was sold on 20-12-2023.
Compute the total income and tax liability of Mr. John and the instalments of advance tax payable for the financial year 2023-24. ***(8 Marks, PCC May 2010)***

Solution: Computation of business income of Mr. John for the assessment year 2023-24 ***(amount in Rs.):***

Capital as on 01-04-2022	6,00,000
Add: Gift from wife (10-04-2022)	2,00,000
	8,00,000
Add: Profit for the year ended 31-03-2023	3,00,000
Capital as on 01-04-2023	**11,00,000**
Profit for the year ended 31-03-2024	4,40,000
Income proportionately assessable in the hands of Mr. John (Rs. 4,40,000 x Rs. 9,00,000 ÷ Rs. 11,00,000)	3,60,000
Amount of income taxable in the hands of Mrs. John by virtue of clubbing (Rs. 4,40,000 x Rs. 2,00,000 ÷ Rs. 11,00,000)	**80,000**

Computation of total income and tax liability of Mr. John (amounts in Rs.):

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 last installment on 15-3-2023. Advance tax shall be payable in 4 installments in the following manner (all amounts in Rs.-)

Installment date	**Total tax due (Rs.)**	**Amount payable**	**Cumulative Instalments (Rs.)**	**Net Instalment Payable (Rs.)**
15-06-2023	5,720	15% of advance tax	858	858
15-09-2023	5,720	45% of advance tax Less advance tax paid in earlier installment	2,574	1,716
15-12-2023	5,720	75% of advance tax Less advance tax paid in earlier installments	4,290	1,716
15-03-2023	1,09,720	100% of advance tax Less advance tax paid in earlier installments	1,09,720	1,05,430

Illustration 34 - Computation of Total income, tax liability and advance tax: Balamurugan furnishes the following information for the year ended 31-03-2024 ***(all amounts in Rs.):***

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 9.011)***

Solution: Computation of Total income of Balamurugan for the year ended 31-3-2024 ***(amounts in Rs.):***

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 Rs.):

On LTCG of Rs. 20,000 @ 20%	4,000
On other Income of Rs. 2,60,000	500
On lottery winnings of Rs. 3,00,000 @ 30%	90,000
Total Tax	94,500
Add: HEC @ 4%	3,780
Total tax liability	98,280
Less: TDS Rs. 3,00,000 @ 30%	90,000
Tax payable (rounded off)	**8,280**

Applicability of Advance Tax: The assessee need not pay advance tax since his tax liability is less than Rs. 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 house property is set off against long term capital gains.

(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 35 - 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 2023-24.

Estimated tax liability for the financial year 2023-24 65,000-
Tax deducted at source for this year 5,000

(2Marks, Nov. 2016)

Solution: The assessee has to deposit advance tax of Rs. 60,000 i.e. Rs. 65,000 - Rs. 5,000.

Instalment date	Total tax due (Rs.)	Amount payable	Cumulative Instalments (Rs.)	Net Instalment Payable (Rs.)
15-06-2023	60,000	15% of advance tax	9,000	9,000
15-09-2023	60,000	45% of advance tax Less advance tax paid in earlier installment	27,000	18,000
15-12-2023	60,000	75% of advance tax Less advance tax paid in earlier installments	45,000	18,000

15-03-2023	60,000	100% of advance tax Less advance tax paid in earlier installments	60,000	15,000

Illustration 36 - 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 2023-24 his turnover was Rs. 1.80 crores (received in cash). 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 dale for payment of such advance tax Rs. ***(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 [8% of Rs. 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) (Rounded off) i.e. the minimum amount of Advance tax to be deposited by 15th March, 2022 [Being due date of payment of such advance tax]	2,54,280

Illustration 37 - Interest payable under section 234D: ABC Ltd. whose due date of filing the return for the assessment year 2024-25 was 30-11-2024 failed to file his return. The Assessing Officer completed his assessment on 25-12-2025 and determined a tax liability of Rs. 2,20,000 (without giving credit for advance tax or TDS). ABC Ltd. had paid an advance tax of Rs. 40,000 and a TDS of Rs. 18,000.
Determine the interest payable by 'ABC Ltd.' under section 234B.

Solution: Period for which interest is to be paid =01-04-2024 to 25-12-2025= 21 months.
Assessed Tax = (Rs. 2,20,000 - Rs. 18,000) = Rs. 2,02,000.
Amount on which interest payable = Assessed tax - Advance tax Paid = Rs. 2,02,000 - Rs. 40,000 = Rs. 1,62,000. Rate of interest = 1% p.m or part thereof.
Interest payable under section 234B = Rs. 1,62,000 x 1% x 21 = Rs. 34,020.

Illustration 38 - Computation of Interest u/s 234B and 234C: The following particulars are furnished by Ms. Priyanka for the financial year 2023-24 (assessment year 2024-25):

Tax on total income (paid on 30-11-2024)	1,50,000
Date of filing the return	30-11-2024
Due date for filing the return	30-11-2024

Compute the total interest payable under sections 234B and 234C.

Solution: The total interest payable by Ms. Priyanka is computed as under –

Interest for -	Calculation	Rs.
Default in payment of advance tax u/s 234B	Rs. 1,50,000 x 1% x 8 months (April to November)	12,000
	15% of Rs. 1,50,000 i.e. Rs. 22,500 x 1% x 3 months	675
	45% of Rs. 1,50,000 i.e. X 67,500 x 1% x 3 months	2,025
	75% of Rs. 1,50,000 i.e. Rs. 1,12,500 x 1% x 3 months	3,375
Deferment of advance tax u/s 234C	100% of Rs. 1,50,000 i.e. Rs. 1,50,000 x 1% x l month	1,500
Total Interest Payable		19,575

Illustration 39 -- Interest payable u/s 234B: Mr. Sachal, a resident individual aged 54, furnishes income details as under —

(i) Wholesale Cloth business, whose turnover is Rs. 150 lakhs, for which accounts are audited u/s 44AB. Income from such business Rs. 8,10,000.
(ii) Income from other sources Rs. 2,70,000.
(iii) Tax deducted at source 125,000.
(iv) Advance tax paid Rs. 1,04,000 on 14-3-2024.

Return of income will be filed on 11-12-2024. The assessee is willing to pay the requisite self-assessment tax. Calculate the interest payable under section 2.34B 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 Rs.):***

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

Provisions Filing of Return of Income and Self Assessment

Illustrations

Illustration 1 - 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. 2023-24.

- Interest on Non-Resident (External) Account maintained with State Bank of India as per Rs. 3,55,000 RBI stipulations
- Interest on savings bank account maintained with State Bank of India Rs. 8,000
- Interest on Fixed Deposits with Punjab National Bank Rs.40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the A.Y. 2024-25.
What will be your answer, if he has incurred Rs. 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada? (4 Marks, Jan. 2022)

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., Rs.2,50,000. Computation of total income of Mr. Hari:

Particulars	**Rs.**
Income from other sources	
Interest earned from Non-resident (External) Account Rs. 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. 2024-25, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of Rs. 2,50,000, he is not required to file return of income for A.Y. 2024-25.
However, if he has incurred expenditure exceeding Rs. 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 Rs. -1 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2023-24, he has to mandatorily file his return of income for A.Y. 2024-25 on or before the due dale u/s 139(1).

Illustration 2 -Provisions relating to filing of return of income: In the following cases relating to P.Y. 2023-24, 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 sate with reasons, whether the assessee is still required to file the return of income or loss for A.Y. 2024-25 in each of the following independent situations :

(i) Manish & Sons (HUF) sold a residential house on which there arose a long them capital gain of Rs. 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable. (IV2 Marks, July 2022)

Ans: A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of Rs. 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 Rs. 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2024-25 on or before the due date u/ s 139(1).

(ii) Mrs. 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. (IV2 Marks, July 2022)

Ans: 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. 2024-25 on account of owning a car for personal purposes in Germany.

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

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

(iii) Sudhakar has incurred an expenditure of Rs. 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. (1 Marks, July 2022)

Ans: If an individual has incurred expenditure exceeding Rs. 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 Rs. 1,20,000 in the P.Y. 2023-24 towards consumption of electricity, he has to file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).

Illustration 3 - Loss return: Mr. Prakash furnishes you the following details in respect of the Financial Year 2023-24.

(i) Loss from the business carried on by him as a proprietor : Rs. 11,20,000(*)
(ii) Deduction u/s 80-IB : Rs. 5,50,000 (*)
(iii) Unabsorbed Depreciation: Rs. 4,80,000 (*)
(iv) Loss from House property : Rs. 2,50,000 (*) (*) Computed as per the Income-tax Act, 1961

The due date for filing the return for Mr. Prakash was 31sf July, 2024 under section 139(1). However, he filed the return on 29-9-2024. 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)

Ans: 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) Specified business loss under Section 73A(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 7'1B can be carried forward and set off even if return of loss is not filed under section 139(3).

(1) ''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 29-09-2023 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 Rs. 11,20,000 cannot be carried forward.
(b) Deduction u/s 80-IB amounting Rs. 5,50,000 shall not be admissible as per provisions of Section 80AC.
(c) Unabsorbed Depreciation amounting Rs. 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 Rs. 2,50,000 shall be carried forward even if return is not furnished as per due dates under section 139(1).

Illustration 4 - Belated return : Mr. Y wants to furnish return of income for assessment year 2024-25 on 1st January, 2025. Can he do so Rs. (2 Marks, Nov. 2016)

Solution: The belated return under section 139(4) can be furnished before 3 months prior to the end of the relevant assessment year. In this case, belated return for assessment year 2024-25 can be furnished upto 31st December, 2024. Hence, Mr. Y cannot furnish the return of income on 1st January, 2025.

Illustration 5 - Belated return and revised return: Mr. Sachin filed return on 30th September, 2024 related to Assessment Year 2024-25. In the month of October 2024, 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 31st July, 2024 and the assessment was not completed till the month of October 2024. (5 Marks, Nov. 2017)

Ans:
(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. 2024-25, belated return can be furnished upto 31-12-2024.

(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 31-12-2024.

Illustration 6 - Revised Return and its consequences: Mr. Mukesh born on 1-4-1962 furnished his original return for Assessment Year 2024-25 on 30-07-2024. He has shown salary income of Rs. 7.30 lakhs (computed) and interest from his savings bank of Rs. 12,700 and from his fixed deposits of Rs. 43,000. He also claimed deduction under section 80C of Rs. 1.50 lakhs. He had claimed deduction u/s 80D of Rs. 25,000. He also claimed deduction u/s 80TTA of Rs. 10,000. His employer had deducted TDS of Rs. 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of Rs. 38,000 by account payee cheque for self and wife. He paid Rs. 1500 in cash for his health check-up and Rs. 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of Rs. 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 Rs. 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy.

Fie 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 2024-25. (9 Marks, Nov. 2020)

Solution: Computation of total income of Mr. Mukesh for A.Y. 2024-25 [As per the original return filed by him] (Rs.)

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. 2024-25 (As per original return) (amount in Rs.)		
Tax on total income [20% of Rs. 1,00,700 (i.e., Rs. 6,00,700 - Rs. 5,00,000) + Rs. 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 1-4-2024, he would be treated as having completed 60 years of age in the P.Y. 2023-24, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of up-to Rs. 50,000 u/s 80TTB (instead of Rs. 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of Rs. 3,00,000 in the P.Y. 2023-24 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 31-12-2024 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. 2024-25 [As per the Revised Return]

(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 (allowable even if paid in cash)		1,500		
Fully allowed as it is within the overall limit of Rs. 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 Rs. 4,000, restricted to Rs. 3,500,	3,500			
being Rs,5,000 – Rs.71,500 claimed for self and spouse)				
	61,500			
Restricted to maximum of Rs. 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 Rs. 50,000			50,000	2,89,500
Total Income				**4,96,200**

Computation of tax liability of Mr. Mukesh for A.Y. 2024-25 [As per the Revised Return] (amount in Rs.)

Tax on total income [5% of Rs. 1,96,200 (i.e., Rs. 4,96,200 - Rs. 3,00,000 basic exemption limit)]	9,810
Less: Rebate u/s 87A (Since his total income does not exceed Rs. 5 lakh) - Rs. 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 31-12-2024 to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income-tax of Rs. 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. 2024-25 before due date prescribed u/s 139(1). Advise Mr. Kailash as a tax consultant.

Illustration 7 - Revised Return : Mr. Vineet submits his return of income on 12-09-2024 for AY 2024-25 consisting of income under the head house property and other sources. On 21-12-2024, 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 21-01-2025? (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 31-12-2024.
However, he cannot revise return had he discovered this omission only on 21-01-2025, since it is beyond 31-12-2024, being the last date for furnishing the revised return.

Illustration 8 - PAN: Mr. X's sales for year ended 31-3-2024 were Rs. 15 lakhs. He earned income of Rs. 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 Rs. 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 Rs. 2,50,000.

Illustration 9 — 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. 2024-25 :

(i) Mr. A makes cash payment to a hotel Radisson Blu, Ahmedabad of Rs. 50,000 against the bill raised by the hotel.
(ii) Mr. Abhishek, in a single transactions, makes contract of Rs. 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 Rs. 70,000 for purchase of its units. Your answers must be supported with reasons. (3 Marks, May 2018-NS)

Ans:

(i) No, since payment in cash of an amount exceeding Rs. 50,000 requires quoting of PAN.
(ii) Yes, since quoting of PAN is necessary for an amount exceeding Rs. 1 lakh per transaction.
(iii) Yes, since quoting of PAN is necessary for an amount exceeding Rs. 50,000 per transaction.

Illustration 10 - Filing of return through tax return preparer : Comment on the allowability of the following claims made by the assessee :(4. Marks, PCE Nov. 2007)
Mrs. H, an individual, engaged in the business of Beauty Parlour, has got her books of Account for the financial year ended on 31-3-2024, audited under section 44AB.
Her total income for the assessment year 2024-25 is Rs. 3,35,000.
She wants to furnish her return of income for assessment year 2024-25 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. Here, since Mrs. H has got her books of accounts audited under section 44AB, hence she cannot file her return through tax return preparer.

Illustration 11 - Verification and time limit: 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 u/s 139(1) in the case of Mr. A having total turnover of Rs. 160 lakhs for the year ended 31.-03-2024, whether or not opting to offer presumptive income u/s 44AD, is 30th September 2024.

Solution:

(a) **Disagree.** The return of income of LLP should be verified by a designated partner. Any other partner can verify the Return of Income of LLP only in the following cases:-
(i) where for any unavoidable reason such designated partner is not able to verify the return, or,
(ii) where there is no designated partner.

(b) **Disagree.** In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date u/s 139(1) for filing of return of income for the year ended 31-03-2024, shall be 31st July, 2024. In case Mr. A does not opt for presumptive taxation provisions u/s 44AD and, has to get his accounts

audited u/s 44AB, since his turnover exceeds Rs. 1 crore, the due date for filing return would be 31st October, 2024.

Illustration 12 – Updated Return and Additional Income tax: Mr. X would like to furnish his updated return for the A.Y. 2022-23. 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 31-3-2024
(ii) as on 28-2-2025
(iii) as on 31-5-2025

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. 2022-23 on 23-7-2024.

Solution: Mr. X may furnish an updated return of his income for A.Y. 2022-23 at any time within 24 months from the end of the relevant assessment year i.e., 31-3-2025.

Accordingly, Mr. X can furnish updated return for A.Y. 2022-23 as on 31-3-2024 and on 28-2-2025. However, he can not furnish such return as on 31-5-2025, since such date falls after 31-3-2025.
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., 31-12-2023 and before the expiry of 12 months from end of relevant assessment year i.e., 31-3-2024

@ 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., 31-3-2024 and before the expiry of 24 months from end of relevant assessment year ie., 31-3-2025.

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

31-3-2024-71,250 [25% of 2,85,000, being tax of 2,50,000 plus interest of 35,000]

(ii) 28-2-2025 of ₹ 1,42,500 [50% 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. 2022-23 are pending.

Illustration 13 — Computation of Interest u/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)	Rs. 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.(CS June 2003, CS Dec.2001)

Solution: Computation of interest payable by Abdul (amounts in Rs.):

Interest under section 234A [WN]		NIL
Interest under section 234B for 6 months i.e. 1-4-2024 to 31-10-2024 (Rs. 1,50,000 x 1% x 7)		10,500
Interest under section 234C as follows -		
15% of Rs. 1,50,000 i.e. Rs. 22,500 x 1% x 3 months	675	
45% of Rs. 1,50,000 i.e. Rs. 67,500 x 1% x 3 months	2,025	
75% of Rs. 1,50,000 i.e. Rs.1,12,500 x 1% x 3 months	3,375	
100% of Rs. 1,50,000 i.e. Rs. 1,50,000 x 1 % x 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.

Income Tax Liability – Computation and Optimisation

Illustration

Illustration 1 - Optimization of tax liability: Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of 50,000 p.m. He has received transport allowance of 15,000 p.m. and house rent allowance of 20,000 p.m. from the company for the P.Y. 2023-24. He has paid rent of 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2024 and his parents live in that house.

Other Information

- Contribution to PPF -1,50,000
- Contribution to pension scheme referred to in section 80CCD-50,000
- Payment of medical insurance premium for father, who is of the age of 65 - * 55,000
- Payment of medical insurance premium for self and spouse - 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2024-25 in the most beneficial manner.

Solution: Computation of total income and tax liability of Mr. A for A.Y. 2024-25 under default tax regime under section 115BAC

Particulars	Rs.
Salaries	
Basic Salary [50,000 × 12]	6,00,000
Transport allowance [15,000 × 12]	1,80,000
HRA received [20,000 × 12]	2,40,000
Gross salary	**10,20,000**
Less: Standard deduction u/s 16(ia)	50,000
	9,70,000
Income from house property	
Interest on housing loan	**-**
Gross Total Income	9,70,000
Less: Deductions under Chapter VI- A	**-**

Section 80C: Contribution in PPF		**-**
Section 80CCD: Contribution to pension scheme		
Section 80D: Mediclaim insurance premium for self and parents		**-**
Total Income		**9,70,000**
Tax liability		
Tax @ 5% on 3,00,000 [6,00,000 - 3,00,000]	15,000	
Tax @10% on 3,00,000 [9,00,000 - 6,00,000]	30,000	
Tax@15% on 70,000 [9,70,000 - ₹9,00,000]	10,500	55,500
Add: Health & Education cess @ 4%		2,220
Total Tax Liability		**57,720**

*

Computation of total income and tax liability of Mr. A for A.Y. 2024-25 under normal provisions of the Act:

Particulars			**Rs.**
Salaries			6,00,000
Basic Salary 50,000 × 12]			1,80,000
Transport allowance 15,000 × 12]			
HRA received [20,000 × 12]		2,40,000	
Less: Least of the following exempt u/s 10(13A)		2,40,000	-
HRA Received	2,40,000		
Actual rent paid - 10% of salary [3,00,000 - 60,000]	2,40,000		
50% of salary	3,00,000		50,000
Gross salary			7,80,000
Less: Standard deduction u/s 16(ia)			
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		5,30,000
Less: Deductions under Chapter VI-A		
Section 80C: Contribution in PPF		1,50,000
Section 80CCD(1B): Own contribution to pension scheme		50,000
Section 80D: Mediclaim insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	75,000
Total Income		**2,55,000**
Tax liability		
Tax@5% on 5,000 [2,55,000 - 2,50,000]		**250**
Less: Rebate u/s 87A		**250**
Total Tax Liability		-

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Note: In this case, Mr. A is entitled to exemption under section 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by 7,15,000. His total income under the regular provisions of the Act is less than 5,00,000, owing to which he becomes entitled to rebate under section 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2024-25.

Illustration 2 - Computation of total income and tax liability -AMT applicability: Mr. A a resident individual having a unit located in special economic zone (5th year of operation) furnishes you with the following information for the year ended 31-3-2024:

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 A.Y. 2024-25 after taking into account alternate minimum tax provisions assuming that he has exercised the option of shifting out of the

default tax regime provided u/s 115BAC(1A). (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. 2024-25 (amount in):

Profits and Gains of Business or Profession :		
Profit from unit located in SEZ	30,00,000	
Less: Deduction u/s 10AA (30,00,000 × 72,00,000+ 1,00,00,000) (Since it is in 4th year of operation)	21,60,000	8,40,000
Income from other sources		6,50,000
Gross Total Income		**14,90,000**
Less: Deduction u/s 80C (PPF investment)		1,00,000
Total Income		13,90,000
Computation of tax liability as per normal provisions of Act	2,29,500	
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 (amount in *):

Total Income	13,90,000
Add: Deduction u/s 10AA	21,60,000
Adjusted Total Income	**35,50,000**

(ii) If profits derived from unit located in SEZ is ₹ 3,00,000 instead of 30,00,000 (amount in *):

Profits and Gains of Business or Profession		
Profit from unit located in SEZ	3,00,000	

Less: Deduction u/s 10AA (3,00,000 x 72,00,000+ 1,00,00,000)	2,16,000	84,000
Income from other sources		6,50,000
Gross Total Income		**7,34,000**
Less: Deduction u/s 80C (PPF investment)		1,00,000
Total Income		**6,34,000**
Computation of tax liability as per normal provisions of Act		39,300
Add: HEC@ 4%		1,572
Total Tax (rounded off)		**40,870**

Since the adjusted total income of such person does not exceed 20 lakhs, hence he is not liable to pay alternate minimum tax.

Illustration 3 - 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 1-4-2023) for operating the inland container depot. He has made investment of 1,50,000 on 31-03-2024 in public provident fund. Compute his tax liability for A.Y. 2024-25. Also determine the amount of AMT credit under Section 115JD 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. X for A.Y. 2024-25 (amount in *):

Computation of Total Income		
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 under Section 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 under Section 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 (amount in):

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 (amount in ₹):

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 4 - 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 2023-24, 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, 2023 and the expenditure of ₹ 63 lakhs was capitalized in the books on that date. Further details relevant for the financial year 2023-24 are as follows:

Particulars	
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 under 115JC) payable by Mr. Xavier for A.Y. 2024-25 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (6 Marks, Jan. 2021)

Solution: Computation of total income and tax liability of Mr. Xavier for A.Y. 2024-25 (under the regular provisions of the Act)

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 x 100%, since it is 5 year of manufacturing]	30,00,000	
Business income of SEZ unit chargeable to tax		20,00,000
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 14-2023. Deduction is not available on expenditure incurred on acquisition of land] R 63 lakhs - 13 lakhs]	50,00,000	
Business income of warehousing facility chargeable to tax		60,00,000
Total Income		**80,00,000**
Computation of tax liability:		
Tax on 80,00,000		22,12,500
Add: Surcharge @10% [Since the total income exceeds 50 lakhs but does not exceed 1 crore)		2,21,250
		24,33,750
Add: Health and Education cess @ 4%		97,350
Total tax liability		**25,31,100**

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

Particulars		
Total Income (as computed above)		80,00,000
Add: Deduction under section 10AA		30,00,000
		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
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

	Rs
Tax liability under section 115JC	34,29,530
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	25,31,100
AMT Credit to be carried forward	**8,98,430**

Illustration 5 - 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. 2022-23, 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, 2023 and the expenditure of 65 lakhs was capitalized in the books of accounts on that date

Relevant details for F.Y. 2023-24 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 form 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. 2024-25 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. 2024-25 (under the regular provisions of the Income-tax Act, 1961)

Particulars		
Profits and gains of business or profession		
Profit from unit in SEZ		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 - 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y. 2022-23 and capitalized in the books of account on 1-4-2023, being the date when the 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 x (Export turnover of SEZ unit ÷ Total turnover of SEZ unit) x 50% =36,00,000 (75,00,000 ÷ 1,00,00,000) × 50% =27,00,000 x 50% = 13,50,000 Deduction would be 50% of eligible profits, since P.Y. 2023-24 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 R 1,12,500 plus 30% of 52,50,000]		16,87,500
Add: Surcharge @ 10%, since total income exceeds 50 lakhs but does not exceed 1 crore		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)		**26,77,250**
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 Rs.26,77,250**.**		
AMT Credit to be carried forward under section 115JEE		
Tax liability under section 115JC	26,77,250	
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500	
	7,46,750	

Illustration 6 - 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, 2024, you are requested to compute his total income and tax payable for the Assessment Year 2024-25 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

(i) He sold his vacant land on 09-12-2023 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 1 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 2023-24 and 2001-02 are 348 and 100, respectively.

(ii) 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 industrial undertaking is 30 lakhs.

(iii) He has income of 10,000 from crossword puzzles and 15,000 gross interest from bank fixed deposit. (iv) Tuition fees of 36,000 for his three children to a school. The fees being 12,000 p.a. per child. **(6 Marks, May 2022)**

Solution: Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2024-23 (amount in Rs) :

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 × 348/100]	17,40,000	
Cost of acquisition, being higher of		1,60,000
-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		**31,85,000**
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) × 100%, being 4th year of operation		12,00,000
Total Income		**19,61,000**
Computation of Tax payable on total income under the regular provisions of the Income- tax Act, 1961		
Tax on LTCG @ 20% of 1,60,000		32,000
Tax on income from crossword puzzles @ 30% of 10,000		3,000
Tax on remaining amount of * 17,91,000 2,37,300 (30% of *7,91,000) + 1,12,500]		3,49,800
		3,84,800

Add: Health and education cess @ 4%		15,392
Tax Payable under the regular provisions of the Act (rounded off)		**4,00,190**

Computation of Adjusted Total Income and Alternate Minimum Tax (AMT) payable (amount in Rs) :

Total Income computed under the regular provisions of the Act	19,61,000
Add: Deduction u/s 10AA	12,00,000
Adjusted Total Income	**31,61,000**
Since Adjusted Total Income exceeds 20 lakhs, the provisions of Alternate Minimum Tax (AMT) are attracted in this case	
Alternate Minimum Tax @ 18.5%	5,84,785
Add: Health and Education cess @ 4%	23,391
AMT (rounded off)	**6,08,180**

Since the regular income-tax payable is less than the AMT payable, the adjusted total income of * 31,61,000 shall be deemed as the total income and tax is leviable @ 18.5% thereof plus cess @ 4%. Therefore, his tax liability would be Rs. 6,08,180.

However, he would be entitled to AMT credit of 207,990 (6,08,180 - ₹ 4,00,190)

Illustration 7 - Computation of total income and tax liability: Mrs. Mitual, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitual for the year ending March 31st 2024 is as under:

Expenditure	(Rs.)	Income	(Rs.)
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	Rs. 13,000 p.m.
Transport Allowance	Rs. 2,000 p.m.
Total	Rs. 15,000 p.m.

Further, during P.Y. 2023-24, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of Rs. 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 01-10-2023. The reconstruction of the house was started on 01-04-2023 and was completed on 30-09-2023 The monthly rent is 110,000. The tenant also pays Rs. 3,000 p.m. as power back-up charges. She took a housing loan of Rs. 12 lakhs on 01.-04-2023. Interest on housing loan for the period 01-04-2023 to 30-09-2023 was Rs. 60,000 and for the period 01-10-2023 to 31-03-2024 was Rs. 40,000. During the year, she also paid municipal taxes for the F.Y. 2022-23 Rs. 5,000 and for F.Y. 2024-23 Rs. 5,000.

(iii) Other information:

(a) Conveyance expenses include a sum of Rs. 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice-versa in relation to her employment.

(b) Power & fuel expenses include a sum of Rs. 6,000 incurred for generator fuel for providing power back-up to the tenant.

(c) Administrative expenses include a sum of Rs. 10,000 paid as Municipal Taxes for her house.

(d) Clinic equipments' details are :
Opening W.D.V. Of clinic equipments as on 01-04-2023 was Rs. 1,00,000 and fresh purchase made on 28-08-2023 is Rs. 25,000 which was paid in cash.

(e) She also paid tuition fee of Rs. 40,000 for her grand-daughter, which has been debited to her Capital A/c.

(f) She availed a loan of Rs. 8,00,000 from bank for higher education of her son. She repaid principal of Rs. 50,000 and interest of Rs. 26,000 during P.Y. 2023-24.
You are required to compute her total income and tax liability for Assessment Year 2024-25 (14 Marks, Nov. 2021-NS)

Solution: Computation of total income and tax liability of Mrs. Mitul (amount in Rs.):

Income from salaries:

Basic pay (Rs. 13,000 x 12)		1,56,000	
Transport allowance (Rs. 2,000 x 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 [Rs. 1,00,000 ÷ 2] = Rs. 50,000 [Deduction			
shall be allowed subject to maximum of Rs.30,000]	30,000	-30,000	
Let out property [First Floor]			
Actual rent being Gross Annual Value [Rs. 10,000 x 6]	60,000		
Less: Municipal taxes paid [Taxes paid during FY 2023-24 shall be allowed as			
deduction on actual payment basis relating to let out portion] [Rs.10,000 ÷ 2]	5,000		
Net Annual Value	55,000		
Less: Deductions under section 24 -			
(a) Statutory Deduction @ 30% of NAV	16,500		
(b) Interest on loans relating to let out portion to be allowed on due basis			
[Rs. 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	
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 Rs. 1 lakh] [WN-1]		15,000	7,30,000
Income from other sources :			
Dividend from shares of foreign companies		10,000	
Power Back up charges recovered from tenant [Rs. 3,000 x 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: Tuition 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]			**72,900**
Add: HEC @4%			**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 Rs. 10,000, such expenditure shall not form part of actual cost of such asset. Hence, Cash purchase of Rs. 25,000 on 28-08-2023 shall not from part of the actual cost, since cash payment exceeds Rs. 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 ia 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.

Illustration 8 - 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 Rs. 6,00,000). The annual value of the house in Thailand is Rs. 50,00,000 i.e. converted value in INR.

He purchased a flat in Pune during F.Y. 2019-20, which has been given on monthly rent of Rs. 27,500 since 01-07-2022. 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 2022. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to Rs. 15,00,000. The interest on such loan for the F.Y. 2023-24 was Rs. 84,000. However, interest for March 2024 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2019. In respect of this house he received arrears of rent of Rs. 96,000 in February 2024. (not taxed earlier).

He also derived some other incomes during F.Y. 2023-24 which are as follows :

Profit from business in Thailand Rs. 2,75,000

Interest on bonds of a Japanese Co. Rs. 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 Rs. 5,00,000, for F.Y. 2023-24 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. 2023-24 chargeable to income tax in India. (7 Marks, Nov. 2021-NS)

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

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

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.
Since Mr. Jagdish do not satisfy any of the above condition, he is non resident in Financial year 2023-24. In case of non resident, income which is received in India or deemed to be received in India and income which accrues in India or deemed to accrue or arise in India is chargeable to tax.

Computation of total income of Mr. Jagdish (amount in Rs.) ;

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 [Rs. 27,500 x 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
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 9 - Computation of Total income: Mrs. Babu, working as Journalist with ABC Limited provides the following information from the year ended 31-3-2024.

Basic salary	Rs. 25,000 p.m.
DA (50% of it is meant for retirement benefits)	50% Basic Pay
Own contribution to Recognized Provident Fund (R.P.F.)	Rs. 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. Account @ 15% p.a.	Rs. 15,000
Arrears of rent received from ABC Limited	Rs. 69,000

Received interest Rs. 10,000 from Axis Bank Savings account during the year, and interest of Rs. 12,040 from the debentures of M/s. Coal India Ltd.

She made payment through cheque Rs. 12,500 for Mediclaim Insurance Policy for her major daughter.

She had contributed Rs. 1,196 pm towards Atal Pension Yojana and Rs. 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 2022 at market value for Rs. 75 lakhs. Purchase cost was only Rs. 10 lakhs in April, 2004.

During August, 2023 Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2004 for Rs. 1,13,000 and market value of these two items were Rs. 2,50,000 and she has received insurance compensation of Rs. 3,15,000 during February, 2024.

Compute Total Income for the Assessment Year 2023-24. [CII for 2004-05 = 113, 2017-18 = 264, and 2023-24 = 348] (10 Marks, May 2018)

Solution: Computation of total income of Mrs. Babu (amounts in Rs.):

Income from salaries:		
Basic salary (Rs. 25,000 x 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 Rs. 3,00,000 - 12% (Rs. 3,00,000 + Rs. 75,000) [WN-1]	15,000	
Interest credited to RPF in excess of 9.5% p.a. [Rs. 15,000 - Rs. 15,000 x 9.5% ÷ 15%] [WN-2]	5,500	
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: Indexed cost of acquisition (Rs. 1,13,000 x 348 ÷ 113)	3,48,000	32,000
Income from other sources :		
Debenture Interest (assumed to be gross)	12,040	
Saving bank interest	10,000	22,040
Gross Total Income		5,22,840
Less: Deduction u/s 80C (Own contribution to RPF Rs.30,000 + Sukanya Samridhi A/c f 60,000)	90,000	
Less: Deduction u/s 80CCD - Atal Pension Yojna (Rs. 1,196 x 12)	14,352	1,04,352
Less: Deduction u/s SOD 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 Rs. 10,000.		10,000
Total Income (rounded off)		**3,95,990**

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 Rs. 3,00,000 - 12% of (Rs. 3,00,000 + Rs. 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 2022, no capital gain will arise in the financial year 2023-24.

Illustration 10 - Computation of tax liability: Mr. Rajat Saini, aged 32 years, furnishes the following details of his total income for the A.Y. 2024-25:

	(Rs.)
Income from Salaries (computed)	27,88,000
Income from House Property (Computed)	15,80,000
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. (5 Marks, Nov. 2018-NS)

Solution: Computation of tax liability of Mr. Rajat Saini (amount in Rs.)

Total Income	50,90,000
Tax on Total Income	13,39,500
Add: Surcharge @ 10% [Since Total Income exceeds Rs. 50,00,000]	1,33,950
Tax including surcharge	14,73,450
Less: Marginal Relief	70,950
Tax payable after marginal relief	14,02,500
Add: HEC @ 4%	56,100
Total tax payable	**14,58,600**

Note: Marginal relief is available in case total income exceeds Rs. 50 lakhs. The additional amount of income-tax payable (together with surcharge) on the excess of income over Rs. 50 lakhs should not be more than the amount of income exceeding Rs. 50 lakhs.

Illustration 11 - 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 2023-24.

Receipts and Payments Account

Receipts	**Rs.**	**Payments**	**Rs.**
Opening Balances (01-04-2023) Cash & Bank	20,000	Staff salary, bonus and stipend to articled clerks	20,50,000
Fee from professional services	39,60,000		
Motor car loan from SBI @ 10% interest per annum	2,00,000	Other general and administrative expenses	12,00,000
		Office rent	48,000
		Life Insurance Premium	23,000
		Motor car (Acquired in January 2024 by way of online payment)	4,00,000
		Books bought (annual publication by credit card).	22,000
		Computer acquired on 01-11-2023 for professional use	25,000
		Domestic drawings	2,50,000
		Motor car maintenance	12,000
		Public Provident Fund subscription	1,40,000
		Closing balances (31-03-2024) Cash & Bank	10,000
	41,80,000		**41,80,000**

Other Information:

(i) Motor car was put to use for both official and personal purposes. 1/4th of the motor car is for personal purpose. No interest on car loan was paid during the year.

(ii) Mr. Hari purchased a flat in Jaipur for Rs. 15,00,000 in July 2014 cost of which was partly financed by a loan from State Bank of India of Rs. 10,00,000 @ 10% interest, his own savings Rs. 1,00,000 and a deposit from Bank of Baroda for Rs. 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @ Rs. 40,000 per month. The following particulars are relevant:

(a)	Municipal taxes paid by Mr. Hari	Rs. 4,200 per annum
(b)	House insurance	Rs. 1,000

(iii) He earned Rs. 1,00,000 in share speculation business and lost Rs. 1,50,000 in commodity speculation business.

(iv) Mr. Hari received a gift of Rs. 40,000 each from four of his family friends.

(v) He contributed Rs. 1,11,000 to Prime Minister's Drought Relief Fund by way of bank draft.

(vi) He donated to a registered political party Rs. 3,00,000 by way of cheque.

Compute the total income of Mr. Hari and the tax payable for the Assessment Year 2024-25. Assessee has not opted for provisions of section 115BAC (10 Marks, May 2018-NS)

Solution: Computation of total income of Mr. Hari : 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 Rs.) –

Income from House Property :			
Let out portion :			
Actual Rent received/receivable [Rs. 40,000 x 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 Rs. 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 [Rs. 12,000 x 3/4th towards professional use]	-9,000		
Car loan interest [Not allowable, as not paid during the year]	-	-33,07,000	
Less: Deprecation -			
Motor Car [Rs. 4,00,000 x 15% x 50% as used for less than 180 days during the previous year x 3/4th relating to professional use]	-22,500		
Books bought of annual publications [40% of Rs. 22,000]	-8,800		
Computers [50% of 40% of f25,000 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		-50,000	
from general business profits. **Income from Other Sources**			
Gift received from friends [Rs. 40,000 x 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 Rs. 1,50,000]	1,40,000	-1,50,000	
Deduction u/s 80GGC:			
Donation to registered Political party [100% of Rs. 3,00,000]			
Deduction u/s 80G:		-3,00,000	
Donation to Prime Minister's Drought Relief Fund [50% of Rs. 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 12-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 31st March, 2024 is as follows:

Profit & Loss Account for the year ending March 31,2024

Expenditure	**Rs.**	**Income**	**Rs.**
Staff Salary	18,25,000	Fees earned	
Rent of the office premises	6,00,000	Audit	23,00,000
		Taxation	14,50,000
Administrative expenses	5,75,000	Consultancy services relating to syndication of loan from financial institution	10,00,000
Stipend to Articled clerks	1,85,000		47,50,000
Meeting, seminars and conferences	36,500		
Depreciation	55,000	Gifts	1,00,000
Printing and Stationery	8,75,000	Dividends from Indian companies	12,00,000
Net Profit	19,13,500	Interest on deposit	15,000
	60,65,000		**60,65,000**

Other information:

(1) Depreciation allowable under Income-tax Act Rs. 1,25,000.

(2) Administrative expenses include Rs. 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 Rs. 50,000 was paid without deduction of tax at source.
(5) Mr. Pandey had taken a loan of Rs. 32,00,000 for the purchase of a house property stamp duty value Rs. 46,00,000 from a recognized financial institution on 1st May, 2023. He repaid Rs. 1,50,000 on 31st March, 2024 out of which Rs. 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 2024.
(6) Mr. Pandey paid medical insurance premium of his parents (senior citizens and not dependent on him) by cheque amounting to Rs. 27,000. He also paid Rs. 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 2024-25, assuming that Mr. Pandey does not want to opt for presumtive taxation scheme under section 44ADA. (10 Marks, Nov. 2017)

Solution: Computation of Total income and Tax payable (amounts in Rs.):

Income under the head Profits & Gains of Business and Profession		
Net profit as per Profit and Loss Account	19,13,500	
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 Rs. 10,000 in a day	55,000	
Payment of rent of office premises without deducting tax at source [30% of Rs. 50,000] [WN-2]	15,000	
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	6,98,500
Income from other sources :		
Dividend from shares of Indian company [Fully taxable in hands of shareholder]	12,00,000	
Interest on deposit Certificates issued under Gold Monetization Scheme, 2015 is exempt u/s 10(15)	-	12,00,000
Gross Total Income		18,98,500
Less: Deduction u/s 80 C (Repayment of loan taken for purchase of house) [WN-4]	nil	
Deduction u/s 80D [WN-5]	32,000	32,000
Total Income (rounded off to nearest Rs.10)		18,66,500
Tax on total income		3,72,450
Add: HEC @ 4%		14,898
Tax liability (rounded off to nearest Rs. 10)		**3,87,350**

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 the monetary limits specified under Section 44AB. Presuming that turnover Mr. Pandey in preceding financial year exceeded the monetary limits of Section 44AB, 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, 2024. Hence, deduction under Section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2024-25.

(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 2024-25, there is no such income chargeable under this head, hence, deduction under section 80C cannot be claimed for assessment year 2024-25.

(5) (a) Premium paid to insure the health of his parents being senior citizen is eligible for deduction u/s 80D upto Rs. 30,000, even though they are not dependent.
(b) Expenditure on preventive health check up for himself and spouse is eligible for deduction upto Rs. 5,000 even if payment is made in cash.

Illustration 13 - Computation of Total Income: Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31-3-2024: (Rs.)

(i)	Pension received (Net of TDS)	6,27,000
(ii)	Short-term capital gains (from sale of listed shares)	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 10-1-2024 (sum assured Rs. 5,00,000)	60,000
(viii)	Medi-claim Insurance Premium for self (paid otherwise than by cash)	47,000
	Preventive health checkup expenses (in cash)	6,000
(ix)	Donation given in cash to a charitable trust registered under section 12AA (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 :	18,000
	➢ TDS from pension	25,000
	➢ 1/4th of conveyance expenses is estimated for personal use.	

Compute the total income of the assessee for the assessment year 2024-25 under proper heads of income. Listed share were sold in recognized stock exchange. Ignore the provisions of Section 44ADA. (Modified, 10 Marks, May 2016)

Solution: Computation of total income of Mr. Vinod Kumar for A.Y. 2024-25(amounts in Rs.):

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)	[WN-2]	24,000	89,000
Income from Other Sources :			
Interest on fixed deposit from bank		1,60,000	
Interest received from Post Office Saving A/c. [Rs. 18,000 - Rs. 3,500]	[WN-3]	14,500	1,74,500
Gross Total Income			14,45,500
Less: Deduction u/s 80C -			

Contribution to PPF	1,10,000	
Premium on life insurance policy taken on 10-1-2022 (sum assured Rs.5,00,000) [WN-4]	50,000	
Amount of deduction under Section 80C cannot exceed Rs. 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	
	52,000	50,000
Deduction u/s 80TTB (Interest on fixed deposit from bank) [WN-6]		50,000
Deduction u/s 80G (Donation in cash exceeding Rs.2,000 is not eligible for deduction)		Nil
Total Income (rounded off)		**11,95,500**

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 Rs. 3,00,000 = Rs. 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 Rs. 1 lakh as per section 112A.

(3) Interest from post office saving bank account is exempt from tax under section 10(15) upto Rs. 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 Rs. 5,00,000 = Rs. 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 Rs. 50,000. Further, deduction up to Rs. 5,000 in aggregate (within the monetary limits of X 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 Rs. 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 Rs. 50,000 under section 80TTB.

Illustration 14 - Computation of total income and tax liability: Mrs. Ann provides the following information for the Financial year ending 31-03-2024. Compute her total income and tax payable thereon for assessment year 2024-25 as per Income-tax Act, 1961. (10 Marks, Nov. 2015)

- **Income/Receipts:**

1) Salary from M/s. Prominent Technologies, - Rs. 60,000 per month (Joined from 1st March, 2023).
2) She is in receipt of HRA. Rs. 15,000 per month and also educational allowance of Rs. 1,500 per month for all the three of her children.

3) She bought a light goods vehicle on 01-08-2023 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 Rs. 11,000 per month from this business.
4) She received Rs. 8,500 as interest on Post Office Savings Bank Account.
5) .She received Rs. 25,000 as interest from Company Deposits.
6) Amounts withdrawn from National Savings Scheme (Principal Rs. 10,000 & Interest Rs. 25,000)

➢ **Expenses / Payments:**

(1) Interest payable to bank Rs. 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 Rs. 5,000.
(3) Rent paid for residence is Rs. 1.8,000 per month.
(4) Tuition fees paid for the year 2023-24 for her three children is Rs. 50,000, Rs. 30,000 and Rs. 20,000 respectively, to educational institution situated in India.
(5) Medical insurance premium for her and for her husband is Rs. 30,000 (paid by cheque) and Rs. 25,000 (paid by cash) respectively.
(6) She has deposited during the year, in 5 year Post office Recurring Deposit Scheme Rs. 20,000.

Solution: Computation of total income and tax liability of Mrs. Ann (amount in Rs.):

Basic Salary (Rs. 60,000 x 12)			7,20,000
HRA (Rs. 15,000 x 12)		1,80,000	
Less: Exempt u/ s 10(13A)	[WN-1]	1,44,000	36,000
Education Allowance (Rs. 1,500 x 12)		18,000	
Less: Exempt u/s 10(14) (Rs. 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 under Section 10(15)(i)		3,500	
Balance Interest		5,000	
Interest from National Savings scheme		25,000	
Interest on Company deposit		25,000	
		55,000	
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 under Section 80TTA [Interest on Post office saving bank account subject to maximum of Rs. 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 (Round off)		64,920

Working Notes:

(1) HRA is exempt to the extent of the least of the following under section 10(13A) -

(a) 50% of salary (assumed to be in Mumbai) i.e. 50% of Rs. 7,20,000 = Rs. 3,60,000;

(b) Excess of rent paid over 10% of salary = Rs. 2,16,000 - Rs. 72,000 = Rs. 1,44,000;

(c) Actual HRA received = Rs. 15,000 x 12 = Rs. 1,80,000.

Least of the above i.e. Rs. 1,44,000 is exempt under section 10(13A).

(2) 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 Rs. 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 = Rs. 11,000 x 8 = Rs. 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].

Medical Insurance Premium for self paid in cheque qualifies for deduction subject to maximum of Rs. 25,000. [Health insurance premium paid for her husband in cash do not qualify for deduction u/s 80D]

Illustration 15 - 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 31-03-2024:

Particulars	**Rs.**	**Particulars**	**Rs.**
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	7,200
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(l)(ii)	1,00,000		
Municipal taxes paid for House property	36,000		
Printing & Stationary	12,000		
Repairs & Maintenance	24,000		
Net Profit	1,35,800		

	5,57,600		**5,57,600**

Other information:

(i) 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.

(ii) Rent received from 50% let out portion during the year was Rs. 1,65,000.

(iii) On 01-12-2023 he acquired a vacant site from his friend for Rs. 1,05,000. The State Stamp Valuation Authority fixed the value of the site at Rs. 2,80,000 for stamp duty purpose.

(iv) He received interest on Post Office Savings bank Account amounting to Rs. 500.

(v) Cash gift on the occasion of marriage includes gift of Rs. 20,000 from non-relatives.

(vi) LIC premium paid (Policy value Rs. 3,00,000 taken on 01.-06-2015) Rs. 60,000 for his handicapped son. (Section 80U disability)

(vii) He purchased 10,000 shares of X Company Ltd. on 01-01-2014 for Rs. 1,00,000 and received a 1 :1 bonus on 1-1-2016. He sold 5,000 bonus shares in September 2023 for Rs.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 2024-25. ***(10 Marks, Nov. 2014)***

Solution: Computation of total income and tax payable ***(amounts in Rs.):***

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	1,02.9000
Income under the head Profits & Gains of Business and Profession		
Net profit as per Profit and Loss Account	1,35,800	
Add: Expenses debited but not allowable -		
Municipal Taxes of house property not relatable to Business [75% of Rs. 36,000] [WN-1]	27,000	
Fire Insurance of house property not relatable to Business [75% of Rs. 10,000] [WN-1]	7,500	
House hold expenses [WN-3]	42,500	
Income tax and wealth tax [WN-2]	27,000	
Less: Income credited but not taxable under this head –	2,39,800	
Cash Gift (on the occasion of Marriage)	1,20,000	
Interest on Debentures (Listed in recognised stock Exchange) Net of Taxes	7,200	
Capital Gains (Long Term)	1,27,200	1,12,600
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 Rs.3,500 is exempt u/s 10(15)]	-	
Interest on debentures [Gross amount will be taxable i.e. Rs. 7,200 x 100 ÷ 90]	8,000	
Purchase of immovable property for inadequate consideration [WN-4]	1,75,000	1,83,000
Gross Total Income		6,18,500
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 Rs. 10)		5,73,500
Tax on total income :		
Tax on long term capital gains: 20% of Rs. 2,20,000	44,000	
Tax on balance income	5,175	
	49,175	
Less: Tax rebate u/s 87A [Not available since total income exceeds Rs. 5,00,000]	Nil	
Balance Tax	49,175	
Add: Health and Education cess @ 4%	1,967	
Tax liability (rounded off to nearest Rs.10)		51,140
Less: TDS on interest on debentures		800
Tax payable		**50,340**

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 Rs. 36,000 = Rs. 27,000

(b) 75% of Fire Insurance of House Property i.e. 75% of Rs. 10,000 = Rs. 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 Rs. 2,80,000 and the actual consideration of Rs. 1,05,000 paid is taxable u/s 56(2)(x) as Income from other sources, since the difference exceeds Rs. 50,000 being, the higher of 150,000 and 10% of consideration i.e. Rs. 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 16 - 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, 2024 are given below :

Expenditure	**Amount (Rs.)**	**Income**	**Amount (Rs.)**
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 Rs. 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 t 60,000 as per Income-tax rules.
(ii) Medicines & needles of Rs. 22,000 have been used for her family.
(iii) Fees Receipts include Rs. 24,000 being honorarium for valuing acupuncture examination answer books.
(iv) She has also received Rs.57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.
(v) She has paid an LIC premium of Rs. 12,000 for self (Sum Assured Rs. 50,000).
(vi) She has paid Rs. 2,500 for purchase of lottery tickets.
Compute the total Income and tax payable thereon of Mrs. Rani for the A.Y. 2024-25. **(10 Marks, IPCC May 2013)**

Solution: Computation of Total Income and Tax Liability of Mrs. Rani ***(amount in Rs.):***

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	
Add: Expenditure debited but not allowable -		3,43,000	
Donation to Prime Minister's National Relief Fund		20,000	
Deprecation		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 Rs. 12,000 for self (Sum Assured Rs. 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 [Rs. 20,000 x 30%]			6,000
Tax on Balance Income (Rs. 3,50,500 - Rs. 20,000 - Rs. 2,50,000)			11,275
Total tax			**17,275**
Less: Tax rebate under Section 87A [100% of tax or Rs. 12,500 which ever is less]			9,500
Total Income-tax			**4,775**
Less: TDS on dividends (Rs. 10,500 x 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 Rs. (14,000 + 6,000) = Rs. 20,000. Further cost of lottery tickets is not allowed as deduction.

(2) Rs. 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 17 - Computation of Total Income: The following is the Profit and Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31-03-2024:

Particulars	**Rs.**	**Particulars**	**Rs.**
Rent	60,000	Gross Profit	1,85,000
Repair of car	3,000	Gift of cash from a friend (received on 15-9-2023)	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		
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 Rs. 20,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for Rs. 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 2023 to October 2023 @ Rs. 5,000 p.m., paid in cash on 01-11-2023.
(5) Mr. Aditya had also let out a house property at a monthly rent of Rs. 25,000. The annual letting value is considered to be Rs. 2,50,000. The municipal taxes are Rs. 6,000, out of which Rs. 3,000 are paid by the tenant and Rs. 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is Rs. 20,000.
(6) Mr. Aditya's minor daughter received Rs. 75,000 from stage acting. Interest on company deposits of Mr. Aditya's daughter (deposit was made out of income from stage acting) was Rs. 10,000.
(7) Aditya incurred an expense of Rs. 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 2023-24 for the education of his son, who is pursuing B. Com. in Delhi University. Interest paid on the same during the year was Rs. 10,000.

Compute the total income of Mr. Aditya. ***(10 Marks, Nov. 2013)***

Solution: Computation of Total Income of Mr. Aditya ***(amounts in Rs.):***

Income from house property:		
Gross Annual Value [Actual Rent Receivable (Rs. 25,000 x 12) or Annual letting value		
Rs. 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	
Less: Items credited to profit and loss account not treated as business income		
Gift of cash from a friend (received on 15-09-2023)	-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 [Rs. 3,000 x 25%)	750	
Depreciation on car [Rs. 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 [Rs. 18,000 x 25%]	4,500	
Arrears of rent paid in cash [Since, it exceeds Rs. 10,000, the same shall be disallowed		
under section 40A(3)] (Rs. 5,000 x 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 Rs. 50,000]	Nil	
Interest on company deposits of Mr. Aditya's daughter will be clubbed with Aditya's		
Income and exemption of Rs. 1,500 u/s 10(32) shall be allowed. (Rs. 10,000 - Rs. 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 Rs. 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 (Rs.3,000) are also not eligible for deduction.

(2) Income of Rs. 75,000 received by Mr. Aditya's minor daughter from stage acting will not be clubbed in hands of Aditya.

Illustration 18 - 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 31-3-2024. Tax payable need not be calculated.

(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 Rs. 10,75,000 in April, 2015 by taking loan from State Bank of India amounting to Rs. 5,00,000 @ 15% per annum interest, Rs. 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of Rs. 5,500. The outstanding amount of loan is Rs. 1,60,000.

(2) Municipal Taxes paid by Kamal Rs. 4,500 p.a.

(3) Insurance in respect of the said flat Rs. 1,275

(4) Kamal earned a profit of Rs. 15,000 in shares speculation business and incurred a loss of 20,200 in speculation business of cotton.

(5) In the year 2017-18, he had gifted Rs. 50,000 to his wife and Rs. 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 Rs. 25,000 each from his four friends on the occasion of his birthday.

(7) He contributed Rs. 1.0,500 to Public Provident Fund and Rs. 6,000 to Unit Linked Insurance plan.

(8) He deposited Rs. 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 1-4-2023 and paid a premium of Rs. 2.5,000. The sum assured for policy is Rs. 2,00,000. ***(10 Marks, May 2014)***

Solution: Computation of total income and tax liability of Mr. Kamal ***(amounts in Rs.):***

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) [Rs. 5,500 x 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 [Rs. 1,60,000 x 15% x l]	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 from Other Sources :		
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 Rs. 1,500 shall be available (Rs. 4,500 - Rs. 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) (Rs. 50,000 x 15%)	7,500	
Gift from four friends @ Rs. 25,000 each - Since the aggregate amount exceeds Rs. 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 19 - 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, 2024:

(i) The net profit was Rs. 6,50,000.

(ii) The following incomes were credited in the Profit & Loss Account:

- Interest on government securities Rs. 25,000

- Dividend from a foreign company Rs. 18,000
- Gold coins worth Rs. 55,000 received as gift from his father.

(iii) Depreciation debited in the books of account was Rs. 85,000. Depreciation allowed as per Income-tax Act, 1.961 was Rs. 96,000.

(iv) Interest on loan amounting to Rs. 68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31st March, 2024.

(v) General expenses included :

- An expenditure of Rs. 20,500 which was paid by a bearer cheque.
- Compensation of 4,500 paid to an employee while terminating his services in business unit.

(vi) He contributed the following amounts by cheque :

- Rs. 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
- Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
- Rs. 28,000 towards premium for health insurance and Rs. 2,500 on account of preventive health check up for self and his wife.
- Rs. 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 2024-25. ***(10 Marks, Nov. 2016)***

Ans: Computation of total income of Mr. Raghuveer ***(amount in Rs.) :***

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 for the purchase of the new asset which has not been put to use till 31-3-2024	[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	1,25,000
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 Rs. 10,000, made otherwise than by way of account payee cheque/demand draft is disallowed in full.

(3) Compensation of Rs. 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 Rs. 25,000.
Deduction under section 80D in respect of medical expenditure of his father who is a senior citizen shall be allowed of Rs. 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 20 - Computation of total income : Ms. Rekha, a resident individual aged 50, provides the following information for the financial year 2023-24:

(i) She is a partner in AK & Co. and received the following amount from the firm:

Share of profit from the firm	Rs. 35,000
Interest on capital @ 15% p.a.	Rs. 3,00,000
Salary as working partner	Rs. 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 Rs. 4,50,000. The following items are debited to Profit and Loss account:

- Advance Income-tax paid Rs. 1,00,000
- Personal drawings Rs. 50,000

The Following items are credited to Profit and Loss Account:

- Interest on savings bank account with SBI Rs. 12,000
- Interest on savings account with post office Rs. 5,000
- Dividend from listed Indian Company Rs. 80,000

(iii) She owned a house property in Mumbai which was sold in January, 2021. She received Rs. 90,000 by way of arrear rent in respect of the said property in October, 2023.

(iv) She made the following investments:
Life insurance premium on a policy in the name of her married daughter Rs. 60,000. (The policy was taken on 01-10-2017 and the sum assured being Rs. 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 Rs. 55,000.

Compute the Total Income and the tax liability of Ms. Rekha for the Assessment Year 2024-25. ***(10 Marks, May 2017)***

Solution: Computation of total income and tax payable by Ms. Rekha (amounts in Rs.) ;

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 SBI	-12,000	
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) Personal drawings	1,00,000	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%) [Rs. 3,00,000 x 12% ÷ 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 - Rs. 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 Rs. 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	50,000	

though the mother is not dependent on the assessee. However, deduction cannot exceed Rs. 50,000.		
80TTA: Interest on savings bank account with SBI and post office (Rs. 12,000 + Rs.1,500). However, deduction cannot exceed Rs.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		-1,08,000
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 Rs.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 Rs. 10,000. Therefore, a deduction of Rs. 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 Rs.13,500.

Illustration 21 - Computation of Total Income and tax liability: From the following particulars of Shri Jagdish (Aged 59 years) for the Assessment Year 2024-25, you are required to find out his taxable income and net tax liability:

(i) Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 1.0,000 per month (Part of salary for retirement benefits). House rent allowance Rs. 4,000 per month and rent paid for house in Mumbai is Rs. 7,000 per month.

(ii) He owns a commercial building at New Delhi, which is let out on 01-07-2023 at a monthly rent of Rs.46,000, He paid for municipal taxes of Rs. 27,000 and Rs. 25,000 for the financial year 2022-23 and 2023-24 on 31-03-2024 and 20-04-2024 respectively.

(iii) He deals in shares. During financial year 2023-24 he earned Rs. 1,70,000 from his share business and paid Rs. 30,000 as security transaction tax.

(iv) He. purchased 4,000 unlisted shares of Shyam Limited on 16-01-2008 for Rs. 80,000. Company declared bonus iii the ratio of 1:1 on 1st February, 2008. Shri Jagdish sold 3000 Bonus Shares on 28-12-2023 for Rs. 2,00000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08 :129,2023-24 : 348)

(v) He received net dividend of Rs. 11,70,000 as dividend income from listed domestic company. Interest from saving bank account deposits with IDBI Bank Rs. 15,000 and lottery winnings (Net of TDS @ 30%) is Rs. 21,000.

He paid the following amount out of his taxable income :

(c) Deposits in Public Provident Fund Rs. 2,00,000.

(d) Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque. ***(Modified 14 Marks, May 2021-NS)***

Solution: Computation of total income and tax liability of Mr. Jagdish (amount in Rs.);

Income from salaries:			
Basic salary (Rs. 51,000 x 12)		6,12,000	
Dearness allowance (Rs. 10,000 x 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 [Rs. 46,000 x 9]		4,14,000	
Less: Municipal taxes paid [taxes paid during FY 2022-23 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 Rs.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 Rs.25,000]		25,000	
Less: Deduction u/s 80TTA - Interest on savings bank account. However, deduction cannot exceed Rs. 10,000.		10,000	1,85,000
Total Income (rounded off)			24,90,100
Long term capital gains taxable u/s 112 @ 20%(Rs. 2,00,000 x 20%)		40,000	
Winnings from lottery taxable u/s 115BB @ 30%		9,000	
(Rs. 30,000 x 30%) Balance Income taxable at normal rates Rs. (24,90,100 - 30,000 - 2,00,000) i.e. Rs. 22,60,100		4,90,530	
Total Tax		**5,39,530**	
Add: HEC @ 4%		21,581	
Total tax liability (rounded off)		5,61,110	
Less: TDS on dividends (Rs. 13,00,000 x 10%)		1,30,000	
Less: TDS on lottery winnings		9,000	
Tax payable			**4,22,110**

Working Notes:

1. HRA is exempt to the extent least of the following (amount in Rs.) -

(1)	Actual HRA received 4,000 x 12]	48,000
(2)	Rent paid -10% of salary [Rs. 7,000 x 12 - 10% of (Rs. 6,12,000 + Rs. 1,20,000)]	10,800
(3)	50% of the salary [50% of 6,12,000 + Rs. 1,20,000]	3,66,000
	Exempted HRA	10,800
	Taxable HRA	**37,200**

(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 Rs. (21,000 x 100 ÷70) = Rs. 30,000.

(4) Dividend from shares of Indian company in 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 Rs. (11,70,000 x 100 - 90) = Rs. 13,00,000.

Illustration 22 - Computation of Total Income: Mr. Madhvan is a finance manager is Star Private Limited. He gets a salary of Rs. 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 2023-24.

	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 Private Limited	Let-out to Ms. Puja

Rs. 17,000 were paid as Interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2023-24, Mr. Madhavan purchased a rural agricultural land for Rs. 2,50,000. Stamp valuation of such property is Rs. 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2024-25. All workings should form part of your answer. ***(8 Marks, May 2021-NS)***

Solution: Computation of taxable income of Mr. Madhvan ***(amount in Rs.):***

Income from Salary:			
Basic salary (Rs. 30,000 x 12)		3,60,000	
Rent free accommodation (15% of salary i.e. Rs. 54,000 or Lease rent paid i.e. Rs. 65,000 whichever is less shall be taxable value of rent free accommodation)		54,000	
Gross Salary		4,14,000	
Less: Standard deduction u/s 16(ia)		50,000	3,64,000
Income from House Property :			
House I .	[WN-1]	39,900	
House II	[WN-1]	1,33,500	1,73,400
Income from Other Sources :			
Purchase of Rural Agricultural land for inadequate consideration	[WN-2]		-
Gross Total Income			**5,37,400**

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		
Standard deduction (30% of NAV)	17,100	64,500
Less: Interest on borrowed capital		17,000
	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 23 - Computation of Total Income and Tax liability: Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to the year ended 31-3-2024:

		Rs.
(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, 2023.	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 2024-25. Computation should be made under proper heads of income.
(10 Marks, Nov. 2018-NS)

Solution: Computation of Total income and Tax payable ***(amounts in Rs.):***

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 Rs. 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%) [Rs. 3,00,000 x 12% 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 Rs. 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 Rs. 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

B **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 12 AA [No deduction shall be allowed u/s 80G in respect of donation of any sum exceeding Rs. 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% (Rs. 1,00,000 x 30%)		30,000
Balance Income taxable at normal rates Rs. (14,20,000 -1,00,000) i.e. Rs. 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 Rs. 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 2023-24 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 Rs. 10,000. Hence, taxable amount is Rs. (70,000 x 100 - 70) = Rs. 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.

About The Author

Vishal Somai Sir is a well-known mentor and an eminent faculty of Direct and Indirect Taxation. His Core skills also lies in the area of Financial Management. He teaches Tax Laws to the aspirants of CA/CS/CMA. Vishal Somai Sir always focus on conceptual strength and clarity of fundamental. His dynamic nature and attitude of teaching is quite famous among the students. He is the most activist faculty of taxation. Big leaders of this fraternity give shingles after knowing the fact that Vishal Somai Sir, being professional not only manages his professional assignment but also sincerely involve in employment related to core Income Tax. His personal connection with the students marks great impact on achieving desired result.

He is basically a teacher who is for the students, of the students and by the students. He is young, dynamic, intellectual, very creative, restless and always ready to take stand for his students. Instead of becomes one of the sprigs of big tree, he decided to plant its own education Institute named Vidyasthal, Headquarter at New Delhi. The main aim of Vidyasthal is to deliver best education to the aspirants of CA/CS/CMA at all levels throughout the India in most innovative and creative way. Teaching is an art and cannot be bargain just by reading and translating the lines of books.

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