

CA INTER / CS EXECUTIVE / CMA INTER

PRACTICE MANUAL

MAY/JUNE/SEP/DEC 25 & JAN 26

Revised Edition

INCOME TAX

FEATURES:

- **All Questions of ICAI, ICSI, ICWAI Module**
- **Last 5 Years RTPs and MTPs**
- **Past Year QUESTIONS**

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(FCA, B.COM, CCTP)



PREFACE

The book adopts a fresh and new approach to understand and gain in-depth knowledge of the provision of **taxation relating to Income tax Act** in an illustrative manner for the students of **CA Inter, CS Executive, CMA Inter** and other taxation students. The law stated in the book is as per the Finance Act 2024 and the problems are solved keeping in mind the amended provision of the act. The objective of the book is to present the law in simple and easy language so as to make topics student friendly by illustrating provision in graphical and tabular manner.

The book has been written keeping in view the new syllabus as notified by the ICSI and ICWAI.

KEY FEATURES OF THE BOOK

- a) **Suitable for detailed discussion and in depth understanding of the topic**: The book covers entire syllabus at a place along with suitable illustration for concepts for better understanding.
- b) **Includes most important solved problems**: The book contains practical question that will help students in the application of law.
- c) **All concepts in simple and easy language**: All the provisions have been explained in easy language and also in graphical and tabular manner to make study easy and simple.

I would like to thank GOD for his constant courage, blessing and everything that has been provided by Almighty to each one of us. I would also like to thank you MY Family and ALL My Teacher's for their constant support, faith, blessing, encouragement and guidance.

I would like to Special thank my Parents & My Wife for their constant love, support, encouragement, blessing and for being a big source of inspiration.

I would like to acknowledge the efforts put in by My Friends who have always motivated and inspired me to do my best and give my maximum in each and every situation.



Revised Edition

Amended by Finance ACT, 2024

Book Dedicated to -

MY Parents

&

ALL My Students

Source - ICAI, ICSI, ICWAI Module, PYQs , RTPs and MTPs.

"Your Taxation Paper is MY Responsibility "



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CHAPTER - 1

Basic Concepts

IMPORTANT NOTE: If Question is silent, compute tax as per Normal tax regime.

ILLUSTRATION 1 [Difficult]

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

SOLUTION

Computation of Business Income and Agriculture Income of Mr. B

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



Sale proceeds of sugarcane (30%)		10,00,000	
Less: Cost of cultivation		5,00,000	
			5,00,000
			13,00,000

ILLUSTRATION 2 [Easy]

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

SOLUTION

The total income of Mr. C comprises of agricultural income and business income.

Total profits from the sale of latex= ₹30 lakhs – ₹10 lakhs – ₹8 lakhs= ₹12 lakhs.

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

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

Example:

	Area	Shortest aerial Distance from the local limits of a municipality or cantonment board referred to in item a.	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year	Would Income derived from farm Building situated in this area be treated as agricultural income?
(i)	A	1 km	9,000	Yes
(ii)	B	1.5 kms	12,000	No
(iii)	C	2 kms	11,00,000	No
(iv)	D	3 kms	80,000	Yes
(v)	E	4 kms	3,00,000	No
(v)	F	5 kms	12,00,000	No
(vi)	G	6 kms	8,000	Yes
(vii)	H	7 kms	4,00,000	Yes



(viii)	I	8 kms	10,50,000	No
(ix)	J	9 kms	15,00,000	Yes

ILLUSTRATION 3 [Easy]

Mr. X has a total income of ₹16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 under the default tax regime under section 115BAC.

SOLUTION**Computation of tax liability of Mr. X for A.Y. 2025-26****Tax liability:**

First ₹3,00,000	- Nil	
Next ₹3,00,001 – ₹7,00,000	- @5% of ₹4,00,000	= ₹20,000
Next ₹7,00,001 – ₹10,00,000	- @10% of ₹3,00,000	= ₹30,000
Next ₹10,00,001 – ₹12,00,000	- @15% of ₹2,00,000	= ₹30,000
Next ₹12,00,001 – ₹15,00,000	- @20% of ₹3,00,000	= ₹60,000
Balance i.e., ₹16,00,000 minus ₹15,00,000	- @30% of ₹1,00,000	= <u>₹30,000</u>
		= ₹1,70,000
Add: Health and Education cess @ 4%		= <u>₹6,800</u>
		= <u>₹1,76,800</u>

ILLUSTRATION 4

Mr. X has a total income of ₹16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 assuming his age is –

- 45 years
- 63 years
- 82 years

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

SOLUTION

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

First ₹ 2,50,000	- Nil	
Next ₹ 2,50,001 – ₹5,00,000	- @5% of ₹2,50,000	= ₹12,500
Next ₹ 5,00,001 – ₹10,00,000	- @20% of ₹5,00,000	= ₹1,00,000
Balance i.e., ₹16,00,000 minus ₹10,00,000- @30% of ₹6,00,000		= <u>₹1,80,000</u>
		= ₹2,92,500
Add: Health and Education cess@4%		= <u>₹11,700</u>
		= <u>₹3,04,200</u>

b. Computation of tax liability of Mr. X (aged 63 years)**Tax liability:**

First ₹3,00,000	- Nil	
Next ₹3,00,001 – ₹5,00,000	- @5% of ₹2,00,000	= ₹10,000
Next ₹5,00,001 – ₹10,00,000- @20% of ₹5,00,000		= ₹1,00,000
Balance i.e., ₹16,00,000 minus ₹10,00,000- @30% of ₹6,00,000		= <u>₹1,80,000</u>
		= ₹2,90,000
Add: Health and Education cess@4%		= <u>₹11,600</u>
		= <u>₹3,01,600</u>

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

First ₹5,00,000	- Nil	
Next ₹5,00,001 – ₹10,00,000	- @ 20% of ₹5,00,000	= ₹1,00,000
Balance i.e., ₹16,00,000 minus ₹10,00,000- @ 30% of ₹6,00,000		= <u>₹1,80,000</u>
		= ₹2,80,000
Add: Health and Education cess@4%		= <u>₹11,200</u>
		= <u>₹ 2,91,200</u>



ILLUSTRATION 5 [Easy]

Compute the tax liability of Mr. A [aged 42], having total income of ₹51 lakhs for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

SOLUTION**Computation of tax liability of Mr. A for the A.Y.2025-26**

A. Income-tax [including surcharge] computed on total income of ₹51,00,000		
₹2,50,000 – ₹5,00,000 @5%	₹12,500	
₹5,00,001 – ₹10,00,000 @20%	₹1,00,000	
₹10,00,001 – ₹51,00,000 @30%	<u>₹12,30,000</u>	
Total	₹13,42,500	
Add: Surcharge @ 10%	<u>₹1,34,250</u>	₹14,76,750
B. Income-tax computed on total income of ₹50 lakhs (₹12,500 plus ₹1,00,000 plus ₹12,00,000)		
		₹13,12,500
C. Total Income Less ₹50 lakhs		₹1,00,000
D. Income-tax computed on total income of ₹50 lakhs plus the excess of total income over ₹50 lakhs (B +C)		
		₹14,12,500
E. Tax liability: lower of (A) and (D)		₹14,12,500
Add: Health and education cess @4%		<u>₹56,500</u>
Tax liability (including cess)		<u>₹14,69,000</u>
F. Marginal Relief (A – D)		₹64,250

Alternative method -

A. Income-tax [including surcharge] computed on total income of ₹51,00,000		
₹2,50,000 – ₹5,00,000@5%	₹12,500	
₹5,00,001 – ₹10,00,000@20%	₹1,00,000	
₹10,00,001 – ₹51,00,000@30%	<u>₹12,30,000</u>	
Total	₹13,42,500	



Add: Surcharge@10%	<u>₹1,34,250</u>	₹14,76,750
B. Income-tax computed on total income of ₹50 lakhs (₹12,500 plus ₹1,00,000 plus ₹12,00,000)		<u>₹13,12,500</u>
C. Excess tax payable [A]-(B)		₹1,64,250
D. Marginal Relief (₹1,64,250 – ₹1,00,000, being the amount of income in excess of ₹50,00,000)		₹64,250
E. Tax liability [A]-(D)		₹14,12,500
Add: Health and education cess @4%		<u>₹56,500</u>
Tax liability (including cess)		<u>₹14,69,000</u>

ILLUSTRATION 6 [Easy]

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

SOLUTION**Computation of tax liability of Mr. B for the A.Y. 2025-26**

A. Income-tax (including surcharge) computed on total income of ₹1,01,00,000	
₹3,00,000 – ₹7,00,000@5%	₹20,000
₹7,00,001 – ₹10,00,000@10%	₹30,000
₹10,00,001 – ₹12,00,000@15%	₹30,000
₹12,00,001 – ₹15,00,000@20%	₹60,000
₹15,00,001 – ₹1,01,00,000@30%	₹25,80,000
Total	₹27,20,000
Add: Surcharge@15%	₹4,08,000
Tax liability without marginal relief	₹31,28,000
(B) Income-tax computed on total income of ₹1 crore (₹1,40,000 plus ₹25,50,000)	₹26,90,000
Add: Surcharge@10%	₹2,69,000
	₹29,59,000



(C)	Total Income Less ₹1 crore	₹1,00,000
(D)	Income-tax computed on total income of ₹1 crore plus the excess of total income over ₹1 crore (B +C)	₹30,59,000

E. Tax liability: lower of (A) & (D) ₹30,59,000

Add: Health and education cess @4% ₹1,22,360

Tax liability (including cess) **₹31,81,360**

F. Marginal relief (A-D) **₹69,000**

Alternative method:

A.	Income-tax (including surcharge) computed on total income of ₹1,01,00,000	
	₹3,00,000 – ₹7,00,000@5%	₹20,000
	₹7,00,001 – ₹10,00,000@10%	₹30,000
	₹10,00,001 – ₹12,00,000@15%	₹30,000
	₹12,00,001 – ₹15,00,000@20%	₹60,000
	₹15,00,001 – ₹1,01,00,000@30%	₹25,80,000
	Total	₹27,20,000
	Add: Surcharge @ 15%	₹4,08,000
		₹31,28,000
(B)	Income-tax computed on total income of ₹1 crore [(₹1,40,000 plus ₹25,50,000) plus surcharge@10%]	₹29,59,000
(C)	Excess tax payable (A)-(B)	₹1,69,000
(D)	Marginal Relief (₹1,69,000 – ₹1,00,000, being the amount of income in excess of ₹1,00,00,000)	₹69,000
(E)	Tax liability (A) - (D)	₹30,59,000
	Add: Health and education cess @4%	₹1,22,360
	Tax liability (including cess)	₹31,81,360

ILLUSTRATION 7 [Easy]



Compute the tax liability of Mr. C [aged 58], having total income of ₹2,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

SOLUTION**Computation of tax liability of Mr. C for the A.Y. 2025-26**

A. Income-tax [including surcharge] computed on total income of ₹2,01,00,000		
₹2,50,000 – ₹5,00,000 @ 5%	₹12,500	
₹5,00,001 – ₹10,00,000 @ 20%	₹1,00,000	
₹10,00,001 – ₹2,01,00,000@30%	<u>₹57,30,000</u>	
Total	₹58,42,500	
Add: Surcharge @ 25%	<u>₹14,60,625</u>	₹73,03,125
B. Income-tax computed on total income of ₹2 crore		
(₹12,500 plus ₹1,00,000 plus ₹57,00,000)		₹58,12,500
Add: Surcharge@15%		<u>₹8,71,875</u>
		₹66,84,375
C. Total Income Less ₹2 crore		₹1,00,000
D. Income-tax computed on total income of ₹2 crore plus the excess of total income over ₹2 crore (B +C)		₹67,84,375
E. Tax liability [A] or [D], whichever is lower		₹67,84,375
Add: Health and education cess @4%		<u>₹2,71,375</u>
Tax liability [including cess]		<u>₹70,55,750</u>
F. Marginal relief (A-D)		₹5,18,750

Alternative method

A. Income-tax [including surcharge] computed on total income of ₹2,01,00,000		
₹2,50,000 – ₹5,00,000 @ 5%	₹12,500	
₹5,00,001 – ₹10,00,000 @ 20%	₹1,00,000	
₹10,00,001 – ₹2,01,00,000@30%	<u>₹57,30,000</u>	
Total	₹58,42,500	



Add: Surcharge@25%

₹14,60,625

₹73,03,125

B. Income-tax computed on total income of ₹2 crore

[(₹12,500 plus ₹1,00,000 plus ₹57,00,000]

plus surcharge@15%

₹66,84,375

C. Excess tax payable (A)-(B)

₹6,18,750

D. **Marginal Relief** (₹6,18,750 – ₹1,00,000, being the amount of income in excess of ₹2,00,00,000)₹5,18,750

E. Tax liability (A) - (D) ₹67,84,375

Add: Health and education cess@4%

₹2,71,375**Tax liability (including cess)****₹70,55,750****ILLUSTRATION 8 [Easy]**

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹5,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

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

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

₹3,00,000 – ₹7,00,000@5%

₹20,000

₹7,00,001 – ₹10,00,000@10%

₹30,000

₹10,00,001 – ₹12,00,000@15%

₹30,000

₹12,00,001 – ₹15,00,000@20%

₹60,000

₹15,00,001 – ₹5,01,00,000@30%

₹1,45,80,000

Total

₹1,47,20,000

Add: Surcharge@25%

₹36,80,000

₹1,84,00,000

Add: Health and education cess @4%

₹7,36,000

Tax liability

₹1,91,36,000**Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2025-26**

A. Income-tax [including surcharge] computed on total income of ₹5,01,00,000		
₹3,00,000 – ₹5,00,000 @ 5%	₹10,000	
₹5,00,001 – ₹10,00,000 @ 20%	₹1,00,000	
₹10,00,001 – ₹5,01,00,000@30%	<u>₹1,47,30,000</u>	
Total	₹1,48,40,000	
Add: Surcharge @ 37%	<u>₹54,90,800</u>	₹2,03,30,800
B. Income-tax computed on total income of ₹5 crore (₹10,000 plus ₹1,00,000 plus ₹1,47,00,000)		₹1,48,10,000
Add: Surcharge@25%		<u>₹37,02,500</u>
		₹1,85,12,500
C. Total Income Less ₹5 crore		₹1,00,000
D. Income-tax computed on total income of ₹5 crore plus the excess of total income over ₹5 crore (B +C)		₹1,86,12,500
E. Tax liability (A) or (D), whichever is lower		₹1,86,12,500
Add: Health and education cess@4%		<u>₹7,44,500</u>
Tax liability [including cess]		<u>₹1,93,57,000</u>
F. Marginal Relief (A – D)		₹17,18,300

Alternative method

A. Income-tax [including surcharge] computed on total income of ₹5,01,00,000		
₹3,00,000 – ₹5,00,000@5%	₹10,000	
₹5,00,001 – ₹10,00,000@20%	₹1,00,000	
₹10,00,001 – ₹5,01,00,000@30%	<u>₹1,47,30,000</u>	
Total	₹1,48,40,000	
Add: Surcharge @ 37%	<u>₹54,90,800</u>	₹2,03,30,800



B. Income-tax computed on total income of ₹5 crore [(₹10,000 plus ₹1,00,000 plus ₹1,47,00,000) plus surcharge@25%]	<u>₹1,85,12,500</u>
C. Excess tax payable [A]-(B)	₹18,18,300
D. Marginal Relief (₹18,18,300 – ₹1,00,000, being the amount of income in excess of ₹5,00,00,000)	₹17,18,300
E. Tax liability [A] - [D]	₹1,86,12,500
Add: Health and education cess @4%	<u>₹7,44,500</u>
Tax liability (including cess)	<u>₹1,93,57,000</u>

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹2,21,000 (₹1,93,57,000 - ₹1,91,36,000).

ILLUSTRATION 9 (Easy)

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

SOLUTION

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

Particulars	₹
Tax on total income of ₹6,50,000	
Tax@5%of ₹3,50,000	17,500
Less: Rebate u/s 87A (Lower of tax payable or ₹25,000)	17,500
Tax Liability	Nil

- i. If the total income of the resident individual is chargeable to tax under section 115BAC and the total income of such individual exceeds ₹7,00,000 and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹7,00,000, the rebate would be as follows.

Step 1 – Total income [-] ₹7 lakhs [A]



Step 2 - Compute income-tax liability on total income [B] Step 3 - If $B > A$, rebate under section 87A would be $B - A$.

The amount of rebate under section 87A shall not exceed the amount of income-tax [as computed before allowing such rebate] on the total income of the assessee.

ILLUSTRATION 10 [Easy]

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

SOLUTION

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

Particulars	₹	
Step 1: Total Income of ₹7,15,000 - ₹7,00,000	15,000	[A]
Step 2: Tax on total income of ₹7,15,000		
Tax@10% of ₹15,000 + ₹20,000	21,500	[B]
Step 3: Since $B > A$, rebate u/s 87A would be $B - A$		
[₹21,500 - ₹15,000]	6,500	
	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	

ILLUSTRATION 11

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 if he exercises the option to shift out of the default tax regime.

SOLUTION

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

Particulars	₹



Tax on total income of ₹4,15,000	
Tax@5% of ₹1,65,000	8,250
Less: Rebate u/s 87A [Lower of tax payable or ₹12,500]	8,250
Tax Liability	Nil

ILLUSTRATION 12 [Average]

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2024-25.

i.	Income from salary [computed]	- ₹10,80,000
ii.	Income from house property [computed]	- ₹2,50,000
iii.	Agricultural income from a land in Jaipur	- ₹4,80,000
iv.	Expenses incurred for earning agricultural income	- ₹1,70,000

Compute his tax liability for A.Y. 2025-26 assuming his age is -

- 45 years
- 70 years

SOLUTION

a) Computation of tax liability (age 45 years)

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

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

1. Net agricultural income exceeds ₹5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹3,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹4,80,000 – ₹1,70,000]	3,10,000	
Less: Exempt under section 10(1)	[3,10,000]	-



Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		13,30,000

Step 1 : ₹13,30,000 + ₹3,10,000 = ₹16,40,000

Tax on ₹16,40,000 = ₹1,82,000

[i.e., 5% of ₹4,00,000 plus 10% of ₹3,00,000 plus 15% of ₹2,00,000 plus 20% of ₹3,00,000 plus 30% of ₹1,40,000]

Step 2 : ₹3,10,000 + ₹3,00,000 = ₹6,10,000

Tax on ₹6,10,000 = ₹15,500

[i.e. 5% of ₹3,10,000]

Step 3 : ₹1,82,000 – ₹15,500 = ₹1,66,500

Step 4 & 5 : Total tax payable = ₹1,66,500

= ₹1,66,500 + 4% of ₹1,66,500 = ₹1,73,160.

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

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

1. Net agricultural income exceeds ₹5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹2,50,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹4,80,000 – ₹1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		13,30,000

Step 1 : ₹13,30,000 + ₹3,10,000 = ₹16,40,000



Tax on ₹16,40,000 = ₹3,04,500

[i.e., 5% of ₹2,50,000 plus 20% of ₹5,00,000 plus 30% of ₹6,40,000]

Step 2 : ₹3,10,000 + ₹2,50,000 = ₹5,60,000

Tax on ₹5,60,000 = ₹24,500

[i.e. 5% of ₹2,50,000 plus 20% of ₹60,000]

Step 3 : ₹3,04,500 – ₹24,500 = ₹2,80,000

Step 4 & 5 : Total tax payable = ₹2,80,000

= ₹2,80,000 + 4% of ₹2,80,000 = ₹2,91,200.

b) Computation of tax liability (age 70 years)

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

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹1,73,160.

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

His tax liability is computed in the following manner:

Step 1 : ₹13,30,000 + ₹3,10,000 = ₹16,40,000

Tax on ₹16,40,000 = ₹3,02,000

[i.e., 5% of ₹2,00,000 plus 20% of ₹5,00,000 plus 30% of ₹6,40,000]

Step 2 : ₹3,10,000 + ₹3,00,000 = ₹6,10,000

Tax on ₹6,10,000 = ₹32,000

[i.e. 5% of ₹2,00,000 plus 20% of ₹1,10,000]

Step 3 : ₹3,02,000 – ₹32,000 = ₹2,70,000

Step 4 & 5 : Total tax payable = ₹2,70,000

= ₹2,70,000 + 4% of ₹2,70,000 = ₹2,80,800.

13. Who is an "Assessee"? Explain

[Easy]

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

[Average]



15. Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine. **[Average]**
16. What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law. **[Average]**
17. What is the difference between an Association of Persons and Body of Individuals? **[Average]**
18. Mr. Sumit, a resident Indian, earns income of ₹15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2025-26. What would be his business income, assuming he has no other business? **[Difficult]**
19. Mr. Raja, a resident Indian, earns income of ₹10 lakhs from sale of coffee grown and cured in India during the A.Y.2025-26. His friend, Mr. Shyam, a resident Indian, earns income of ₹20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2025-26. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam? **[Average]**
20. The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights? **[Average]**
21. Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹51,75,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. **[Easy]**
22. Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹6,50,00,000, comprising long term capital gain taxable @20% under section 112 of ₹55,00,000, short term capital gain taxable @15% under section 111A of ₹65,00,000 and other income of ₹5,30,00,000. Compute his tax liability for A.Y.2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. **[Difficult]**
23. Mr. Sharma aged 62 years and a resident in India, has a total income of ₹2,30,00,000, comprising long term capital gain taxable @12.5% under section 112 of ₹52,00,000, short term capital gain taxable @20% under section 111A of ₹64,00,000 and other income of ₹1,14,00,000. Compute his tax liability for A.Y.2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. **[Difficult]**



ANSWERS

13. As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - his income; or
 - the income of any other person in respect of which he is assessable; or
 - the loss sustained by him or by such other person; or
 - the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

14. The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- i. Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- ii. Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
- iii. If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
- iv. During the current assessment year, if it appears to the Assessing Officer that a person



is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

- v. Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

15. As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

16. The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India.

Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

17. In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co- executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.



18. Since Mr. Sumit is a resident, his global income would be taxable in India. Income of ₹20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown **outside India**. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.

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

19. In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Raja = 25% of ₹10 lakhs = ₹2.5 lakhs
Business income of Mr. Shyam = 40% of ₹20 lakhs = ₹8 lakhs

20. Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.

Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.

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

A. Tax payable including surcharge on total income of ₹51,75,000

₹3,00,000 – ₹7,00,000 @5%	₹20,000	
₹7,00,001 – ₹10,00,000 @10%	₹30,000	
₹10,00,001 – ₹12,00,000 @15%	₹30,000	
₹12,00,001 – ₹15,00,000 @20%	₹60,000	
₹15,00,001 – ₹51,75,000 @30%	₹11,02,500	
Total		₹12,42,500
Add: Surcharge @ 10%	₹1,24,250	₹13,66,750



B. Tax Payable on total income of ₹50 lakhs (₹1,40,000 plus ₹10,50,000)	₹11,90,000
C. Total Income Less ₹50 lakhs	₹1,75,000
D. Tax payable on total income of ₹50 lakhs plus the excess of total income over ₹50 lakhs (B + C)	₹13,65,000
E. Tax payable: lower of (A) and (D)	₹13,65,000
Add: Health and education cess @4%	₹54,600
Tax liability	₹14,19,600
F. Marginal Relief (A – D)	₹1,750

Alternative method -

A. Tax payable including surcharge on total income of ₹51,75,000

₹3,00,000 – ₹7,00,000 @5%	₹20,000	
₹7,00,001 – ₹10,00,000 @10%	₹30,000	
₹10,00,001 – ₹12,00,000 @15%	₹30,000	
₹12,00,001 – ₹15,00,000 @20%	₹60,000	
₹15,00,001 – ₹51,75,000 @30%	<u>₹11,02,500</u>	
Total	₹12,42,500	
Add: Surcharge@10%	<u>₹1,24,250</u>	₹13,66,750

B. Tax Payable on total income of ₹50 lakhs (₹1,40,000 plus ₹10,50,000)	₹11,90,000
C. Excess tax payable (A)-(B)	₹1,76,750
D. Marginal Relief (₹1,76,750 – ₹1,75,000, being the amount of income in excess of ₹50,00,000)	₹1,750
E. Tax payable (A)-(D)	₹13,65,000
Add: Health and education cess @4%	<u>₹54,600</u>
Tax liability	<u>₹14,19,600</u>



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

Particulars		₹
Tax on total income of ₹6,50,00,000		
Tax@20% of ₹55,00,000		11,00,000
Tax@15% of ₹65,00,000		9,75,000
Tax on other income of ₹5,30,00,000		
₹3,00,000 – ₹7,00,000 @5%	20,000	
₹7,00,000 – ₹10,00,000 @10%	30,000	
₹10,00,000 – ₹12,00,000 @15%	30,000	
₹12,00,000 – ₹15,00,000 @20%	60,000	
₹15,00,000 – ₹5,30,00,000 @30%	1,54,50,000	1,55,90,000
		1,76,65,000
Add: Surcharge @15% on ₹20,75,000	3,11,250	
@25% on ₹1,55,90,000	38,97,500	42,08,750
		2,18,73,750
Add: Health and education cess @4%		8,74,950
Tax Liability		2,27,48,700

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

Particulars		₹
Tax on total income of ₹6,50,00,000		
Tax@20% of ₹55,00,000		11,00,000
Tax@15% of ₹65,00,000		9,75,000
Tax on other income of ₹5,30,00,000		
₹2,50,000 – ₹5,00,000 @5%	12,500	
₹5,00,000 – ₹10,00,000 @20%	1,00,000	
₹10,00,000 – ₹5,30,00,000 @30%	1,56,00,000	1,57,12,500
		1,77,87,500



Add: Surcharge @15% on ₹20,75,000	3,11,250	
@37% on ₹1,57,12,500	58,13,625	61,24,875
		2,39,12,375
Add: Health and education cess @4%		9,56,495
Tax Liability		2,48,68,870

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

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

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

Particulars		₹
Tax on total income of ₹2,30,00,000		
<u>Tax@12.5%</u> of ₹52,00,000		6,50,000
Tax@20% of ₹64,00,000		12,80,000



Tax on other income of ₹1,14,00,000		
₹3,00,000 – ₹5,00,000 @5%	10,000	
₹5,00,000 – ₹10,00,000 @20%	1,00,000	
₹10,00,000 – ₹1,14,00,000 @30%	31,20,000	32,30,000
		51,60,000
Add: Surcharge @15%		7,74,000
		59,34,000
Add: Health and education cess @4%		2,37,360
Tax Liability		61,71,360

ILLUSTRATION 24. [Easy]

Compute the tax liability in the following cases for Assessment Year 2025-26.

- Mr X has total income of ₹ 7,00,000
- Mr X has total income of ₹ 12,00,000

ILLUSTRATION 25 [Easy]

Mr VG has income as given below:

Particulars	Amount (₹)
Income under the head Salary	2,50,000
Income under the head House Property	4,50,000
Income under the head Business/Profession	5,49,684

Deductions allowed u/s 80C to 80U are ₹ 1,15,000. Compute the income tax liability for PY 2024-25.

ILLUSTRATION 26. [Easy]

Compute tax liability in the following cases for Assessment Year 2025-26:

- Mr A (resident) has total income of ₹ 20,00,000
- Mr A (non-resident) has total income of ₹ 20,00,000
- Mr A (resident), aged 60 years has total income of ₹ 20,00,000



- iv. Mr A (resident), aged 80 years has total income of ₹ 20,00,000

ILLUSTRATION 27 [Average]

Compute tax liability in the following cases for Assessment Year 2025-26.

- i. Mrs A (resident) has total income of ₹ 50,50,000
- ii. Mrs A (resident) has total income of ₹ 51,00,000
- iii. Mrs A (resident) has total income of ₹ 51,50,000
- iv. Mrs A (resident), aged 60 years has total income of ₹ 51,80,000
- v. Mrs A (resident), aged 80 years has total income of ₹ 52,50,000
- vi. Mrs A (resident) has total income of ₹ 1,01,00,000
- vii. Mrs A (resident) has total income of ₹ 1,02,00,000
- viii. Mrs A (resident) has total income of ₹ 1,03,00,000

ILLUSTRATION 28 [Easy]

Compute the tax liability of Mr VG having total income of ₹ 3,49,000.

ILLUSTRATION 29 [Easy]

Compute the tax liability of Mr VG for Assessment Year 2025-26.

- Gross total income ₹ 5,62,000
- Deductions allowed u/s 80C to 80U are ₹ 1,30,000

ILLUSTRATION 30 [Average]

Compute the tax liability of Mr VG under the following two cases if he has salary income of ₹ 6,00,000 and casual income of ₹ 2,00,000.

- **Case I:** Deductions u/s 80C to 80U ₹ 1,80,000.
- **Case II:** Deductions u/s 80C to 80U ₹ 8,00,000.

ILLUSTRATION 31 [Easy]

Compute the tax liability of /Mr VG having casual income of ₹ 51,00,000 and deductions allowed u/s 80C to 80U are ₹ 2,50,000.



ILLUSTRATION 32 (Average)

Compute tax liability of Mr VG for AY 2025-26 from the following information:

Particulars	Amount (₹)
Income under the head Salary	48,000
Income under the head House Property	32,000
Income under the head business/Profession	28,000
Long Term Capital Gains {Occurring Before July 23, 2024}	1,90,000
Short Term Capital Gains	42,000
Short Term Capital Gains u/s 111A {Occurring Before July 23, 2024}	5,00,000
Lottery Income	2,00,000
Other Income	11,000
Deductions allowed u/s 80C-80U	2,00,000

- Case 1 Mr VG is resident.
- Case 2: Mr VG is resident and aged about 68 years.
- Case 3: Mr VG is resident and aged about 81 years.
- Case 4: Mr VG is non-resident.

ILLUSTRATION 33. (Average)

Compute tax liability of Mr X for AY 2025-26 from the following information:

- Mr X (a resident) has casual income - ₹ 3,50,000.
- Mr X (a resident) has STCG u/s 111 A {occurring before July 23, 2024} - ₹ 3,30,000.
- Mr X (a resident) has LTCG {occurring before July 23, 2024} - ₹ 2,80,000.
- Mr X (a non-resident) has casual income - ₹ 3,50,000.
- Mr X (a non-resident) has STCG u/s 111A {occurring before July 23, 2024} - ₹ 4,40,000.
- Mr X (a non-resident) has LTCG {occurring before July 23, 2024} - ₹ 2,80,000.
- Mr X (a non-resident), aged 64 years, has casual income ₹ 3,50,000.
- Mr X (a non-resident), aged 64 years, has STCG u/s 111A {occurring before July 23, 2024} ₹ 4,40,000



- ix. Mr X (a non-resident), aged 64 years, has LTCG {occurring before July 23, 2024} ₹ 2,80,000.

ILLUSTRATION 34. (Average)

What will be the tax liability of Mr A for AY 2025-26 if he has normal income of ₹ 21 Lakhs and LTCG of ₹ 30 lakhs occurring before July 23, 2024?

ILLUSTRATION 35 (Average)

Compute the tax liability of Mr VG aged 58 years, for AY 2025-26 from the following details:

Particulars	Amount (₹)
Income from salaries	25,28,000
Profits and gains from business/profession	73,00,000
Income from other sources (Interest on bank FD)	3,82,000
Amount deposited in Public Provident Fund (PPF)	1,30,000

ILLUSTRATION 36 (Difficult)

Compute the tax liability of a HUF for AY 2025-26 from the following information:

Particulars	Amount (₹)
Income under the head House Property	2,00,000
Income under the head Business/Profession	4,00,000
Long term capital gains {occurring before July 23, 2024}	5,00,000
Short term capital gains u/s 111A {occurring before July 23, 2024}	2,00,000
Casual Income	3,00,000
Deductions allowed under sections 80C to 80U	95,000

ILLUSTRATION 37 (Average)

ABC is a partnership firm. Compute the tax liability for AY 2025-26 from the following information:

- The firm has income under the head Business/Profession ₹ 10,000.
- The firm has income under the head Business/Profession ₹ 5,00,000.



- iii. The firm has income under the head Business/Profession ₹ 1,00,00,000.
- iv. The firm has long term capital gains of ₹ 5,00,000. {Occurring Before July 23, 2024}
- v. The firm has long term capital gains of ₹ 9,00,00,000. {Occurring Before July 23, 2024}

ILLUSTRATION 38

Compute the income tax liability of VG Partnership Firm for AY 2025-26 from the following information:

Particulars	Amount (₹)
Income under the head House Property	12,00,000
Income under the head business/Profession	11,50,000
Long Term Capital Gains {Occurring before July 23, 2024}	2,30,000
Short Term Capital Gains	1,20,000
Short Term Capital Gains u/s 111A {Occurring before July 23, 2024}	2,00,000
Lottery Income	2,00,000
Other Income	61,000
Deductions allowed u/s 80C-80U	2,00,000

ILLUSTRATION 39 (Easy)

ABC Ltd is a domestic company. Compute the tax liability of company for AY 2025-26:

- **Case I:** The company has income under the head Business/Profession ₹ 1,02,00,000
- **Case II :** The company has income under the head Business/Profession ₹ 10,02,00,000

ILLUSTRATION 40 (Average)

VG Ltd is a domestic company. Compute the tax liability for AY 2025-26 in the following situations:

- (i) The company has winnings from lottery ₹ 3,00,00,000.
- (ii) The company has long term capital gains of ₹ 2,50,000. {Occurring before July 23, 2024}
- (iii) The company has long term capital gains of ₹ 10,00,000. {Occurring before July 23, 2024}
- (iv) The company has long term capital gains of ₹ 5,00,00,000. {Occurring before July 23, 2024}
- (v) The company has PGBP income ₹ 20,000 [Turnover of FY 2022-23 is ₹ 348 crores].



- (vi) The company has PGBP income ₹ 2,00,00,000 [Turnover of FY 2022-23 is ₹ 498 crores].
- (vii) The company has PGBP income ₹ 12,00,00,000 [Turnover of FY 2022-23 is ₹ 47.50 crores].

ILLUSTRATION 41 [Difficult]

Compute the tax liability of ABC Limited for AY 2025-26 from the following information:

Particulars	Amount (₹)
Income under the head House Property	10,00,000
Income under the head Business/Profession	60,00,000
Long term capital gains {Occurring before July 23, 2024}	45,00,000
Short term capital gains u/s 111A {Occurring before July 23, 2024}	15,00,000
Deductions allowed u/s 80C to 80U	2,00,000

ILLUSTRATION 42. [Average]

GST Ltd is a foreign company. Compute the tax liability of the company for AY 2025-26 in the following situations:

- (i) The company has winnings from lottery ₹ 3,00,00,000.
- (ii) The company has long term capital gains of ₹ 2,50,000. {Occurring before July 23, 2024}
- (iii) The company has long term capital gains of ₹ 10,00,000. {Occurring before July 23, 2024}
- (iv) The company has long term capital gains of ₹ 5,00,00,000. {Occurring before July 23, 2024}
- (v) The company has PGBP income ₹ 20,000.
- (vi) The company has PGBP income ₹ 2,00,00,000.
- (vii) The company has PGBP income ₹ 12,00,00,000.

ILLUSTRATION 43. [Difficult]

Compute the tax liability of ABC Limited, a foreign company, for AY 2025-26 from the following information:

Particulars	Amount (₹)
Income under the head House Property	40,00,000
Income under the head Business/Profession	50,00,000



Long term capital gains [Occurring before July 23, 2024]	25,00,000
Short term capital gains u/s 111A [Occurring before July 23, 2024]	15,00,000
Deductions allowed u/s 80C to 80U	5,00,000

SOLUTIONS TO SUBJECTIVE QUESTIONS:

Taxability Of Individuals

Answer 24

Part (i)

Particulars	Amount (₹)
Total Income	7,00,000
On first ₹ 2,50,000	Nil
On next ₹ 2,50,000 @ 5%	12,500
On balance ₹ 2,00,000 @ 20%	40,000
Tax before Health & Education Cess	52,500
Add: Health & Education Cess @ 4%	2,100
Tax Liability	54,600
Tax Liability	1,17,000

Part (ii)

Particulars	Amount (₹)
Total Income	12,00,000
On first ₹ 2,50,000	Nil
On next ₹ 2,50,000 @ 5%	12,500
On next ₹ 5,00,000 @ 21%	1,00,000
On balance ₹ 2,00,000 @ 30%	60,000
Tax before Health & Education Cess	1,72,500



Add: Health & Education Cess @ 4%	6,900
Tax Liability	1,79,400

Answer 25**Computation Of Total Income Of Mr VG For AY 2025-26:**

Particulars	Amount (₹)
Income under the head Salary	2,50,000
Income under the head House Property	4,50,000
Income under the Business/Profession	5,49,684
GROSS TOTAL INCOME	12,49,684
Less: Deduction u/s 80C to 80U	(1,15,000)
Total Income	11,34,684
Rounded off u/s 288A	11,34,680

Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	11,34,680
First ₹ 2,50,000	Nil
On next ₹ 2,50,000 x 5%	12,500
On next ₹ 5,00,000 x 20%	1,00,000
On balance ₹ 1,34,680 x 30%	40,404
Tax before Health A Education Cess	1,52,904
Add: Health A Education Cess @ 4%	6,116.16
Tax Liability	1,59,020.16
Rounded off u/s 288B	1,59,020

Answer 26

Part (i) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	20,00,000
First ₹ 2,50,000	NIL
On next ₹ 2,50,000 x 5%	12,500
On next ₹ 5,00,000 x 20%	1,00,000
On balance ₹ 10,00,000 x 30%	3,00,000
Tax before Health A Education Cess	4,12,500
Add: Health A Education Cess @ 4%	16,500
Tax Liability	4,29,000

Part (iii) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	20,00,000
First ₹ 2,50,000	NIL
On next ₹ 2,50,000 x 5%	12,500
On next ₹ 5,00,000 x 20%	1,00,000
On balance ₹ 10,00,000 x 30%	3,00,000
Tax before Health A Education Cess	4,12,500
Add: Health A Education Cess @ 4%	16,500
Tax Liability	4,29,000

Part (iii) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	20,00,000
First ₹ 3,00,000	NIL
On next ₹ 2,00,000 x 5%	10,000
On next ₹ 5,00,000 x 20%	1,00,000



On balance ₹ 10,00,000 x 30%	3,00,000
Tax before Health A Education Cess	4,10,000
Add: Health A Education Cess @ 4%	16,400
Tax Liability	4,26,400

Part (iv) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	20,00,000
First ₹ 5,00,000	NIL
On next ₹ 5,00,000 x 20%	1,00,000
On balance ₹ 10,00,000 x 30%	3,00,000
Tax before Health & Education Cess	4,00,000
Add: Health A Education Cess @ 4%	16,000
Tax Liability	4,16,000

Answer 27**Part (i) Computation Of Tax Liability:**

Particulars	Amount (₹)
Total Income	50,50,000
Tax on ₹ 50,50,000 at slab rates	13,27,500
Add: Surcharge @ 10%	1,32,750
Tax before Marginal Relief	14,60,250
Less: Marginal Relief (WN 1)	[97,750]
Tax after Marginal Relief	13,62,500
Add: Health A Education Cess @ 4%	54,500
Tax Liability	14,17,000



WN 1	
Tax + Surcharge of 10% on Income of ₹ 50,50,000	14,60,250
Less: Tax on Income of ₹ 50,00,000	13,12,500
Increase in Tax	1,47,750
Increase in Income	50,000
Marginal Relief [1,47,750 – 50,000]	97,750

Part (ii) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	51,00,000
Tax on ₹ 51,00,000 at slab rates	13,42,500
Add: Surcharge @ 10%	1,34,250
Tax before Marginal Relief	14,76,750
Less: Marginal Relief (WN I)	[64,250]
Tax after Marginal Relief	14,12,500
Add: Health & Education Cess @ 4%	56,500
Tax Liability	14,69,000

WN 1	
Tax + Surcharge of 10% on Income of ₹ 51,00,000	14,76,750
Less: Tax on Income of ₹ 50,00,000	13,12,500
Increase in Tax'	1,64,250
Increase in Income	1,00,000
Marginal Relief [1,64,250 – 1,00,000]	64,250

Part (iii) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	51,50,000



Tax on ₹ 51,50,000 at slab rates	13,57,500
Add: Surcharge @ 10%	1,35,750
Tax before Marginal Relief	14,93,250
Less: Marginal Relief (WN 1)	[30,750]
Tax after Marginal Relief	14,62,500
Add: Health & Education Cess @ 4%	58,500
Tax Liability	15,21,000

WN 1	
Tax + Surcharge of 10% on Income of ₹ 51,50,000	14,93,250
Less: Tax on Income of ₹ 50,00,000	13,12,500
Increase in Tax	1,80,750
Increase in Income	1,50,000
Marginal Relief [1,80,750 – 1,50,000]	30,750

Part (iv) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	51,80,000
Tax on ₹ 51,80,000 at slab rates	13,64,000
Add: Surcharge @ 10%	1,36,400
Tax before Marginal Relief	15,00,400
Less: Marginal Relief (WN 1)	[10,400]
Tax after Marginal Relief	14,90,000
Add: Health & Education Cess @ 4%	59,600
Tax Liability	15,49,600

WN 1	
Tax + Surcharge of 10% on Income of ₹ 51,80,000	15,00,400



Less: Tax on Income of ₹ 50,00,000	13,10,000
Increase in Tax	1,90,400
Increase in Income	1,80,000
Marginal Relief	10,400

Part (v) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	52,50,000
Tax on ₹ 52,50,000 at slab rates	13,75,000
Add: Surcharge @ 10%	1,37,500
Tax before Marginal Relief	15,12,500
Less: Marginal Relief (WN 1)	[Nil]
Tax after Marginal Relief	15,12,500
Add: Health & Education Cess @ 4%	60,500
Tax Liability	15,73,000

WN 1	
Tax + Surcharge of 10% on Income of ₹ 52,50,000	15,12,500
Less: Tax on Income of ₹ 50,00,000	13,00,000
Increase in Tax	2,12,500
Increase in Income	2,50,000
Marginal Relief	Nil

Part (vi) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	1,01,00,000
Tax on ₹ 1,01,00,000 at slab rates	28,42,500
Add: Surcharge @ 15%	4,26,375



Tax before Marginal Relief	32,68,875
Less: Marginal Relief (WN 1)	[75,125]
Tax after Marginal Relief	31,93,750
Add: Health & Education Cess @ 4%	1,27,750
Tax Liability	33,21,500

WN 1	
Tax + Surcharge of 15% on Income of ₹ 1,01,00,000	32,68,875
Less: Tax + Surcharge of 10% on Income of ₹ 1,00,00,000	30,93,750
Increase in Tax	1,75,125
Increase in Income	1,00,000
Marginal Relief (1,75,125 – 1,00,000)	75,125

Part (vii) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	1,02,00,000
Tax on ₹ 1,02,00,000 at slab rates	28,72,500
Add: Surcharge @ 15%	4,30,875
Tax before Marginal Relief	33,03,375
Less: Marginal Relief (WN 1)	[9,625]
Tax after Marginal Relief	32,93,750
Add: Health & Education Cess @ 4%	1,31,750
Tax Liability	34,25,500

WN 1	
Tax + Surcharge of 15% on Income of ₹ 1,02,00,000	33,03,375
Less: Tax + Surcharge of 10% on Income of ₹ 1,00,00,000	30,93,750
Increase in Tax	2,09,625



Increase in Income	2,00,000
Marginal Relief [2,09,625 – 2,00,000]	9,625

Part (viii) Computation Of Tax Liability:

Particulars	Amount (₹)
Total Income	1,03,00,000
Tax on ₹ 1,03,00,000 at slab rates	29,02,500
Add: Surcharge @ 15%	4,35,375
Tax before Marginal Relief	33,37,875
Less: Marginal Relief (WN 1)	[Nil]
Tax after Marginal Relief	33,37,875
Add: Health & Education Cess @ 4%	1,33,515
Tax Liability	34,71,390

WN 1	
Tax + Surcharge of 15% on Income of ₹ 1,03,00,000	33,37,875
Less: Tax + Surcharge of 10% on Income of ₹ 1,00,00,000	30,93,750
Increase in Tax	2,44,125
Increase in Income	3,00,000
Marginal Relief [2,44,125 – 3,00,000]	Nil

Answer 28**Computation Of Tax Liability:**

Particulars	Amount (₹)
Total Income	3,49,000
First ₹ 2,50,000	NIL
On next ₹ 99,000 x 5%	4,950
Tax before Rebate & Education Cess	4,950



Less: Rebate u/s 87A	[4,950]
Tax Liability	Nil

Answer 29**Computation Of Tax Liability;**

Particulars	Amount (₹)
Gross Total Income	5,62,000
Less: Deduction u/s 80C to 80U	[1,30,000]
Total Income	4,32,000
Tax on ₹ 4,32,000 at slab rates	9,100
Less: Rebate u/s 87A	[9,100]
Tax Liability	Nil

Answer 30**Case I: Computation Of Total Income Of Mr VG:**

Particulars	Amount (₹)
Income under the head Salary	6,00,000
Income under the Other Sources (Casual income)	2,00,000
GROSS TOTAL INCOME	8,00,000
Less: Deduction u/s 80C to 80U	[1,80,000]
Total Income	6,20,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on casual income of ₹ 2,00,000 @ 30% u/s 115BB	60,000
Tax on normal income of ₹ 4,20,000 at slab rates	8,500
Tax before Health & Education Cess	68,500



Add: Health & Education Cess @ 4%	2,740
Tax Liability	71,240

Case II: Computation Of Total Income Of Mr VG:

Particulars	Amount (₹)
Income under the head Salary	6,00,000
Income under the Other Sources (Casual income)	2,00,000
GROSS TOTAL INCOME	8,00,000
Less: Deduction u/s 80C to 80U	[6,00,000]
Total Income	2,00,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on casual income of ₹ 2,00,000 @ 30% u/s 115BB	60,000
Less: Rebate u/s 87A	[12,500]
Tax before Health & Education Cess	47,500
Add: Health & Education Cess @ 4%	1,900
Tax Liability	49,400

Answer 31**Computation of Total Income of Mr VG:**

Particulars	Amount (₹)
Income under the Other Sources (Casual income)	51,00,000
GROSS TOTAL INCOME	51,00,000
Less: Deduction u/s 80C to 80U	NIL
Total Income	51,00,000



Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on casual income of ₹ 51,00,000 @ 30% u/s 115BB	15,30,000
Add: Surcharge @ 10%	1,53,000
Tax before Marginal Relief	16,83,000
Less: Marginal Relief (WN 1)	[83,000]
Tax after Marginal Relief	16,00,000
Add: Health & Education Cess @ 4%	64,000
Tax Liability	16,64,000

WN 1	
Tax + Surcharge of 10% on Casual Income of ₹ 51,00,000	16,83,000
Less: Tax on Casual Income of ₹ 50,00,000	15,00,000
Increase in Tax	1,83,000
Increase in Income	1,00,000
Marginal Relief [1,83,000 – 1,00,000]	83,000

Answer 32**Computation Of Total Income:**

Particulars	Amount (₹)
Income under the head Salary	48,000
Income under the head House Property	32,000
Income under the head Business/ Profession	28,000
Long Term Capital Gains {Occurring before July 23, 2024}	1,90,000
Short Term Capital Gains	42,000
Short Terms Capital Gains u/s 111A {Occurring before July 23, 2024}	5,00,000
Lottery Income [Casual Income]	2,00,000



Other Income	11,000
GROSS TOTAL INCOME	10,51,000
Less: Deduction u/s 80C-80U	[1,61,000]
TOTAL INCOME	8,90,000

• **CASE 1 – Mr VG Is Resident: Computation Of Tax Liability**

Particulars	Amount (₹)
Tax on Casual Income of ₹ 2,00,000 @ 30% u/s 115BB	60,000
Tax on LTCG @ 20% u/s 112 [(₹ 1,90,000 - ₹ 1,90,000) x 20%]	NIL
Tax on STCG @ 15% u/s 111A [(₹ 5,00,000 - ₹ 60,000) x 15%]	66,000
Tax on Normal Income	NIL
Tax before Health & Education Cess	1,26,000
Add: Health & Education Cess @ 4%	5,040
Tax Liability	1,31,040

• **CASE 2 – Mr VG Is Resident And Aged About 68 Years: Computation Of Tax Liability**

Particulars	Amount (₹)
Tax on Casual Income of ₹ 2,00,000 @ 30% u/s 115BB	60,000
Tax on LTCG @ 20% u/s 112 [(₹ 1,90,000 - ₹ 1,90,000) x 20%]	NIL
Tax on STCG @ 15% u/s 111A [(₹ 5,00,000 - ₹ 1,10,000) x 15%]	58,500
Tax on Normal Income	NIL
Tax before Health & Education Cess	1,18,500
Add: Health & Education Cess @ 4%	4,740
Tax Liability	1,23,240

• **CASE 3 – Mr VG Is Resident And Aged About 81 Years: Computation Of Tax Liability**

Particulars	Amount (₹)
Tax on Casual Income of ₹ 2,00,000 @ 30% u/s 115BB	60,000



Tax on LTCG @ 20% u/s 112 [(₹ 1,90,000 - ₹ 1,90,000) x 20%]	NIL
Tax on STCG @ 15% u/s 111A [(₹, 5,00,000 - ₹ 3,10,000) x 15%]	28,500
Tax on Normal Income'	NIL
Tax before Health A Education Cess	88,500
Add: Health A Education Cess @ 4%	3,540
Tax Liability	92,040

• **CASE 4 – Mr VG Is Non-Resident: Computation Of Tax Liability**

Particulars	Amount (₹)
Tax on Casual Income of ₹ 2,00,000 @ 30% u/s 115BB	60,000
Tax on LTCG of ₹ 1,90,000 @ 20% u/s 112	38,000
Tax on STCG of ₹ 5,00,000 @ 15% u/s 111A	75,000
Tax on Normal Income	NIL
Tax before Health A Education Cess	1,73,000
Add: Health A Education Cess @ 4%	6,920
Tax Liability	1,79,920

Answer 33

Case (i)

Particulars	Amount (₹)
Income under the head other sources (Casual Income)	3,50,000
Total Income	3,50,000
Computation Of Tax Liability	
Tax on Casual Income of ₹ 3,50,000 @ 30% u/s 115BB	1,05,000
Less: Rebate u/s 87A	[12,500]
Tax before Health A Education Cess	92,500
Add: Health A Education Cess @ 4%	3,700
Tax Liability	96,200



Case (ii)

Particulars	Amount (₹)
Income under the head capital gains (STCG u/s 111 A)	3,30,000
Total Income	3,30,000
Computation Of Tax Liability	
Tax on STCG of ₹ 80,000 (₹ 3,30,000 - ₹ 2,50,000) @ 15% u/s 111A	12,000
Less: Rebate u/s 87A	[12,000]
Tax Liability	Nil

Case (iii)

Particulars	Amount (₹)
Income under the head capital gains (LTCG)	2,80,000
Total Income	2,80,000
Computation Of Tax Liability	
Tax on LTCG of ₹ 30,000 (2,80,000 - ₹ 2,50,000) @ 20% u/s 112	6,000
Less: Rebate u/s 87 A	[6,000]
Tax Liability	Nil

Case (iv)

Particulars	Amount (₹)
Income under the head other sources (Casual Income)	3,50,000
Total Income	3,50,000
Computation Of Tax Liability	
Tax on Casual Income of ₹ 3,50,000 @ 30% u/s 115BB	1,05,000
Add: Health & Education Cess @ 4%	4,200
Tax Liability	1,09,200



Case (v)

Particulars	Amount (₹)
Income under the head capital gains (STCG u/s 111A)	4,40,000
Total Income	4,40,000
Computation Of Tax Liability	
Tax on STCG of ₹ 4,40,000 @ 15% u/s 111A	66,000
Add: Health & Education Cess @ 4%	2,640
Tax Liability	68,640

Case (vi)

Particulars	Amount (₹)
Income under the head capital gains (LTCG)	2,80,000
Total Income	2,80,000
Computation Of Tax Liability	
Tax on LTCS of ₹ 2,80,000 @ 20% u/s 112	56,000
Add: Health & Education Cess @ 4%	2,240
Tax Liability	58,240

Case (vii)

Particulars	Amount (₹)
Income under the head other sources (Casual Income)	3,50,000
Total Income	3,50,000
Computation Of Tax Liability	
Tax on Casual Income of ₹ 3,50,000 @ 30% u/s 115BB	1,05,000
Add: Health & Education Cess @ 4%	4,200
Tax Liability	1,09,200

Case (viii)

9643036663 (only WhatsApp)

Particulars	Amount (₹)
Income under the head capital gains (STCS u/s 111 A)	4,40,000
Total Income	4,40,000
Computation Of Tax Liability	
Tax on STCG of ₹ 4,40,000 @ 15% u/s 111A	66,000
Add: Health & Education Cess @ 4%	2,640
Tax Liability	68,640

Case (ix)

Particulars	Amount (₹)
Income under the head capital gains (LTCG)	2,80,000
Total Income	2,80,000
Computation Of Tax Liability	
Tax on LTCG of ₹ 2,80,000 @ 20% u/s 112	56,000
Add: Health & Education Cess @ 4%	2,240
Tax Liability	58,240

Answer 34

Particulars	Amount (₹)
Total Income	51,00,000
Tax on LTCG of ₹ 30,00,000 @ 20% u/s 112	6,00,000
Tax on normal income of ₹ 21,00,000 at slab rates	4,42,500
Tax before surcharge	10,42,500
Add: Surcharge @ 10%	1,04,250
Tax before Marginal Relief	11,46,750
Less: Marginal Relief (WN 1)	[34,250]
Tax before Health & Education Cess	11,12,500
Add; Health & Education Cess @ 4%	44,500



Tax Liability	11,57,000

WN 1	
Tax + Surcharge of 10% on Income of ₹ 51,00,000	11,46,750
Less: Tax on Income of ₹ 50,00,000	10,12,500
There can be two situations • [Normal Income ₹ 20,00,000 + LTCG ₹ 30,00,000]: Tax ₹ 10,12,500 • [Normal Income 21,00,000 + LTCG ₹ 29,00,000]: Tax ₹ 10,22,500 The law is silent on the point as to which combination should be opted for. Therefore, the option which minimizes the tax liability of the assessee has been taken.	
Increase in Tax	1,34,250
Increase in Income	1,00,000
Marginal Relief [1,34,250 – 1,00,000]	34,250

Answer 35**Computation Of Total Income Of Mr VG For AY 2025-26:**

Particulars	Amount (₹)
Income from Salaries	25,28,000
PGBP Income	73,00,000
Income from Other Sources (Interest on bank fixed deposit)	3,82,000
GROSS TOTAL INCOME	1,02,10,000
Less: Deduction u/s 80C to 80U (Amount deposited in PPF)	[1,30,000]
Total Income	1,00,80,000

Computation Of Tax Liability

Particulars	Amount (₹)
Tax on Normal Income of ₹ 1,00,80,000 at slab rates	28,36,500
Add: Surcharge @ 15%	4,25,475



Tax before Marginal Relief	32,61,975
Less: Marginal Relief (WN 1)	(88,225)
Tax after Marginal Relief	31,73,750
Add: Health & Education Cess @ 4%	1,26,950
Tax Liability	33,00,700
WN 1	
Tax + Surcharge of 15% on Income of ₹ 1,00,80,000	32,61,975
Less: Tax + Surcharge of 10% on Income of ₹ 1,00,00,000	30,93,750
Increase in Tax	1,68,225
Increase in Income	80,000
Marginal Relief (1,68,225 – 80,000)	88,225

Answer 36**Computation Of Total Income Of HUF (AY 2025-26):**

Particulars	Amount (₹)	Amount (₹)
Income under the head House Property		2,00,000
Income under the Business/Profession		4,00,000
Income under the head Capital Sains		
• LTCG	5,00,000	
• STCG u/s 111A	2,00,000	7,00,000
Income under the head other sources (Casual Income)		3,00,000
Gross Total Income		16,00,000
Less: Deduction u/s 80C to 80U		(95,000)
Total Income		15,05,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on LTCG of ₹ 5,00,000 @ 20% u/s 112	1,00,000
Tax on STCG of ₹ 2,00,000 @ 15% u/s 111 A	30,000
Tax on Casual Income of ₹ 3,00,000 @ 30% u/s 115BB	90,000
Tax on Normal Income of ₹ 5,05,000 at slab rates	13,500
Tax before Health & Education Cess	2,33,500
Add: Health & Education Cess @ 4%	9,340
Tax Liability	2,42,840

Answer 37**Case (i) – Computation Of Tax Liability:**

Particulars	Amount (₹)
Income under the head Business/Profession	10,000
Tax on ₹ 10,000 @ 30%	3,000
Add: Health A Education Cess @ 4%	120
Tax Liability	3,120

Case (ii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	5,00,000
Tax on ₹ 5,00,000 @ 30%	1,50,000
Add: Health A Education Cess @ 4%	6,000
Tax Liability	1,56,000

Case (iii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	1,00,00,000
Tax on ₹ 1,00,00,000 @ 30%	30,00,000



Add: Health A Education Cess @ 4%	1,20,000
Tax Liability	31,20,000

Case (iv) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains	5,00,000
Tax on LTCS of ₹ 5,00,000 @ 20% u/s 112	1,00,000
Add: Health A Education Cess @ 4%	4,000
Tax Liability	1,04,000

Case (v) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains	9,00,00,000
Total Income	9,00,00,000
Tax on LTCS of ₹ 9,00,00,000 @ 20% u/s 112	1,80,00,000
Add: Surcharge @ 12%	21,60,000
Tax before Health & Education Cess	2,01,60,000
Add: Health & Education Cess @ 4%	8,06,400
Tax Liability	2,09,66,400

Answer 38**Computation Of Total Income Of VG Partnership Firm (Assessment Year 2025-26):**

Particulars	Amount (₹)
Income under the head House Property	12,00,000
Income under the head Business/Profession	11,50,000
Long Term Capital Sains	2,30,000
Short Term Capital Sains	1,20,000
Short Terms Capital Sains u/s 111 A	2,00,000



Lottery Income [Casual Income]	2,00,000
Other Income	61,000
Gross Total Income	31,61,000
Less: Deductions u/s 80C-80U	[2,00,000]
Total Income	29,61,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on Casual Income of ₹ 2,00,000 @ 30% u/s 115BB	60,000
Tax on LTCS of ₹ 2,30,000 @ 20% u/s 112	46,000
Tax on STCS of ₹ 2,00,000 @ 15% u/s 111A	30,000
Tax on Normal Income of ₹ 23,31,000 @ 30%	6,99,300
Tax before Health & Education Cess	8,35,300
Add: Health & Education Cess @ 4%	33,412
Tax Liability	8,68,712
Rounded off u/s 288B	8,68,710

Answer 39**• Case I:****Computation Of Tax Liability Of ABC Ltd:**

Particulars	Amount (₹)
Total Income	1,02,00,000
Tax on ₹ 1,02,00,000 @ 30%	30,60,000
Add: Surcharge @ 7%	2,14,200
Tax before Marginal Relief	32,74,200
Less: Marginal Relief [WN 1]	[74,200]
Tax after Marginal Relief	32,00,000
Add: Health & Education Cess @ 4%	1,28,000



Tax Liability	33,28,000

WN 1	
Tax + Surcharge on Income of = ₹ 1,02,00,000	32,74,200
Less: Tax on income of ₹ 1,00,00,000	30,00,000
Increase in Tax	2,74,200
Increase in Income	2,00,000
Marginal Relief [2,74,200 – 2,00,000]	74,200

Case II:**Computation Of Tax Liability Of ABC Ltd:**

Particulars	Amount (₹)
Total Income	10,02,00,000
Tax on ₹ 10,02,00,000 @ 30%	3,00,60,000
Add: Surcharge @ 12%	36,07,200
Tax before Marginal Relief	3,36,67,200
Less: Marginal Relief (WN 1)	[13,67,200]
Tax after Marginal Relief	3,23,00,000
Add: Health A Education Cess @ 4%	12,92,000
Tax Liability	3,35,92,000

WN 1: Tax + Surcharge of 12% on Income of ₹ 10,02,00,000	3,36,67,200
Less: Tax + Surcharge of 7% on income of ₹ 10,00,00,000	3,21,00,000
Increase in Tax	15,67,200
Increase in Income	2,00,000
Marginal Relief [15,67,200 – 2,00,000]	13,67,200



Answer 40**Case (i) – Computation Of Tax Liability:**

Particulars	Amount (₹)
Income under the head Other Sources [Casual Income]	3,00,00,000
Tax on Casual Income of ₹ 3,00,00,000 @ 30% u/s 115BB	90,00,000
Add: Surcharge @ 7%	6,30,000
Tax before Health A Education Cess	96,30,000
Add: Health A Education Cess @ 4%	3,85,200
Tax Liability	1,00,15,200

Case (ii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains	2,50,000
Tax on LTCS of ₹ 2,50,000 @ 20% u/s 112	50,000
Add: Health & Education Cess @ 4%	2,000
Tax Liability	52,000

Case (iii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains	10,00,000
Tax on LTCS of ₹ 10,00,000 @ 20% u/s 112	2,00,000
Add: Health A Education Cess @ 4%	8,000
Tax Liability	2,08,000

Case (iv) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains	5,00,00,000
Tax on LTCG of ₹ 5,00,00,000 @ 20% u/s 112	1,00,00,000



Add: Surcharge @ 7%	7,00,000
Tax before Health A Education Cess	1,07,00,000
Add: Health A Education Cess @ 4%	4,28,000
Tax Liability	1,11,28,000

Case (v) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	20,000
Tax on ₹ 20,000 @ 25%	5,000
Add: Health A Education Cess @ 4%	200
Tax Liability	5,200

Case (vi) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	2,00,00,000
Tax on ₹ 2,00,00,000 @ 30%	60,00,000
Add: Surcharge @ 7%	4,20,000
Tax before Health A Education Cess	64,20,000
Add: Health A Education Cess @ 4%	2,56,800
Tax Liability	66,76,800

Case (vii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	12,00,00,000
Tax on ₹ 12,00,00,000 @ 25%	3,00,00,000
Add: Surcharge @ 12%	36,00,000
Tax before Health A Education Cess	3,36,00,000
Add: Health A Education Cess @ 4%	13,44,000



Tax Liability	3,49,44,000

Answer 41**Computation Of Total Income Of VG Limited (Assessment Year 2025-26):**

Particulars	Amount (₹)	Amount (₹)
Income under the head House Property		10,00,000
Income under the Business/Profession		60,00,000
Income under the head Capital Gains		
• LTCG	45,00,000	
• STCG u/s 111 A	15,00,000	60,00,000
GROSS TOTAL INCOME		1,30,00,000
Less: Deduction u/s 80C to 80U		[2,00,000]
Total Income		1,28,00,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on LTCG of ₹ 45,00,000 @ 20% u/s 112	9,00,000
Tax on STCG of ₹ 15,00,000 @ 15% u/s 111A	2,25,000
Tax on Normal Income of ₹ 68,00,000 @ 30%	20,40,000
Add: Surcharge @ 7%	2,21,550
Tax before Health A Education Cess	33,86,550
Add: Health A Education Cess @ 4%	1,35,462
Tax Liability	35,22,012
Rounded off u/s 288B	35,22,010

Taxability Of Foreign Companies**Answer 42**

Case (i) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Other Sources [Casual Income]	3,00,00,000
Tax on ₹ 3,00,00,000 @ 30% u/s 115BB	90,00,000
Add: Surcharge @ 2%	1,80,000
Tax before Health A Education Cess	91,80,000
Add: Health A Education Cess @ 4%	3,67,200
Tax Liability	95,47,200

Case (ii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains [LTCS]	2,50,000
Tax on LTCS of ₹ 2,50,000 @ 20% u/s 112	50,000
Add: Health A Education Cess @ 4%	2,000
Tax Liability	52,000

Case (iii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains [LTCS]	10,00,000
Tax on LTCS of ₹ 10,00,000 @ 20% u/s 112	2,00,000
Add: Health A Education Cess @ 4%	8,000
Tax Liability	2,08,000

Case (iv) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Capital Sains [LTCS]	5,00,00,000



Tax on LTCS of ₹ 5,00,00,000 @ 20% u/s 112	1,00,00,000
Add: Surcharge @ 2%	2,00,000
Tax before Health A Education Cess	1,02,00,000
Add: Health A Education Cess @ 4%	4,08,000
Tax Liability	1,06,08,000

Case (v) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	20,000
Tax on R 20,000 @ 35%	7,000
Add: Health A Education Cess @ 4%	280
Tax Liability	7,280

Case (vi) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	2,00,00,000
Tax on ₹ 2,00,00,000 @ 35%	70,00,000
Add: Surcharge @ 2%	1,40,000
Tax before Health A Education Cess	71,40,000
Add: Health A Education Cess @ 4%	2,85,600
Tax Liability	74,25,600

Case (vii) – Computation Of Tax Liability:

Particulars	Amount (₹)
Income under the head Business/Profession	12,00,00,000
Tax on ₹ 12,00,00,000 @ 35%	4,20,00,000
Add: Surcharge @ 5%	21,00,000



Tax before Health A Education Cess	4,41,00,000
Add: Health A Education Cess @ 4%	17,64,000
Tax Liability	4,58,64,000

Answer 43**Computation Of Total Income Of VG Limited (Assessment Year 2025-26)**

Particulars	Amount (₹)	Amount (₹)
Income under the head House Property		40,00,000
Income under the Business/Profession		50,00,000
Income under the head Capital Gains		
• LTCG	25,00,000	
• STCG u/s 111 A	15,00,000	40,00,000
GROSS TOTAL INCOME		1,30,00,000
Less: Deductions u/s 80C to 80U		(5,00,000)
Total Income		1,25,00,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on LTCG of ₹ 25,00,000 @ 20% u/s 112	5,00,000
Tax on STCG of ₹ 15,00,000 @ 15% u/s 111A	2,25,000
Tax on Normal Income of ₹ 85,00,000 @ 35%	29,75,000
Add: Surcharge @ 2%	74,000
Tax before Health A Education Cess	37,74,000
Add: Health A Education Cess @ 4%	1,50,960
Tax Liability	39,24,960





CHAPTER - 2

RESIDENCE AND SCOPE OF TOTAL INCOME

ILLUSTRATION 1 (Average)

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2024. From the following details for the P.Y. 2024-25, determine the residential status of Mr. Anand for A.Y. 2025-26, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2024-25) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 th June, 2024
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9 th December, 2024

SOLUTION

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2024-25 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India [i.e., the Chennai port] and having its destination at a port outside India [i.e., the Singapore port]. Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period commencing from 6th June, 2024 and ending on 9th December, 2024, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2024-25 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2024-25 is less than 182 days, he is a non-resident for A.Y. 2025-26.

ILLUSTRATION 2 (Average)



9643036663 [only WhatsApp]

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

- Find out his residential status for the assessment year 2025-26.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2024-25?

SOLUTION

a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2025-26:-

Period of stay during previous year 2024-25 = 100 days

Calculation of period of stay during 4 preceding PYs (100 x 4 = 400 days)

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
Total	400 days

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2024-25 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the A.Y. 2025-26.

Computation of period of stay during 7 preceding previous years = 100 x 7 = 700 days

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days



Total	700 days

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the A.Y. 2025-26 [See Note below].

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2024-25 relevant to the assessment year 2025-26.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

- i. If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- ii. If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days *or less*.

In this case, since Mr. Brett Lee satisfies condition [ii], he is a not-ordinarily resident for the A.Y. 2025-26.

- b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income [excluding income from foreign sources], since his stay in India in the current financial year is, in any case, less than 120 days.
- c) In this case, if Srinath's total income [excluding income from foreign sources] exceeds ₹15 lakh, he would be treated as resident but not ordinarily resident in India for P.Y.2024-25, since his stay in India is 120 days in the P.Y.2024-25 and 480 days [i.e., 120 days x 4 years] in the immediately four preceding previous years.

If his total income [excluding income from foreign sources] does not exceed 15 lakh, he would be treated as non-resident in India for the P.Y.2024-25, since his stay in India is less than 182 days in the P.Y.2024-25.

ILLUSTRATION 3 (Easy)

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2020-21. During the financial years 2020-21 2021-22, 2022-23, 2023-24 and 2024-25, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2025-26.

SOLUTION

During the P.Y. 2024-25, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2024-25, he



9643036663 [only WhatsApp]

was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the P.Y. 2024-25.

ILLUSTRATION 4 (Easy)

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2024-25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. E and the HUF for A.Y. 2025-26.

SOLUTION

- a) During the P.Y. 2024-25, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident.

Therefore, the residential status of Mr. E for the P.Y. 2024-25 is resident but not ordinarily resident.

- b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the P.Y. 2024-25.

Note – If the control and management is in India, even partially, then, the HUF would be resident in India. In such a case, the residential status of HUF would be resident but not ordinarily resident, since the Karta's stay in India is for less than 730 days in the 7 previous years immediately preceding the relevant previous year.

Note: All assessees, whether resident or not, are chargeable to tax in respect of their income accrued, arisen, received or deemed to accrue, arise or to be received in India whereas a resident alone (resident and ordinarily resident in the case of individuals and HUF) is chargeable to tax in respect of income which accrues or arises outside India.

Clarification regarding liability to income-tax in India of a non-resident seafarer receiving remuneration in NRE (Non-Resident External) account maintained with an Indian Bank [Circular No.13/2017, dated 11.04.2017 and Circular No.17/2017, dated 26.04.2017]

Income by way of salary, received by non-resident seafarers, for services rendered outside India on a foreign



going ship [with Indian flag or foreign flag] and received into the NRE bank account maintained with an Indian bank shall not be included in the total income.

ILLUSTRATION 5 (Average)

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the A.Y. 2025-26, if he is:

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

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

SOLUTION

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

Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-



Total Income	83,500	21,000	21,000

Notes:

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

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

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

ILLUSTRATION 6 (Average)

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2024-25. He has received the following income for the F.Y. 2024-25:

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

Compute his Gross Total Income for A.Y. 2025-26.

SOLUTION

As per section 6(1), Mr. David is a non-resident for the A.Y. 2025-26, since he was not present in India at any time during the P.Y. 2024-25.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:



- a) Income received or deemed to be received in India; and
- b) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of ₹4,00,000 is exempt under section 10(7) in the hands of Mr. David.

Gross Total Income of Mr. David for A.Y. 2025-26

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

ILLUSTRATION 7 (Easy)

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

SOLUTION

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, *inter alia*, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The Explanation below section 9(2) clarifies that income by way of, *inter alia*, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.



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

ILLUSTRATION 8. (Average)

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non- resident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	40,000
Income earned from business in Germany which is controlled in Delhi (₹40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company, received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai, managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000



Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled in Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

SOLUTION**Computation of total income for the A.Y. 2025-26**

Particulars	Resident and ordinarily resident	Resident but not ordinarily resident	Non-resident
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled in Delhi, out of which ₹40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company, received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000



Profits from a business in Mumbai, managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year.	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled in Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000



TEST YOUR KNOWLEDGE

- Mr. Ram, an Indian citizen, left India on 22.09.2024 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2025-26. **(Easy)**
- Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2023 for permanent settlement. What will be his residential status for A.Y. 2025-26? **(Easy)**



9643036663 [only WhatsApp]

11. Mr. Ramesh & Mr. Suresh are brothers, and they earned the following incomes during the F.Y. 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2025-26 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). **(Easy)**

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

12. Examine the correctness or otherwise of the statement - "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus". **(Average)**
13. Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients: **(Average)**
- Salary payable by Central Government to Mr. John, a citizen of India of ₹7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.



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

ANSWERS

9. 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.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in [ii] above.

During the previous year 2024-25, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2025-26.

10. Mr. Dey is a resident in A.Y. 2025-26 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2024-25.

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

- a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.



For the previous year 2024-25 [A.Y. 2025-26], his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2024-25. He was resident only in the P.Y. 2023-24. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 546 days [366 days in P.Y. 2023-24 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2024-25, which is less than 730 days.

11.

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2025-26

S. No.	Particulars	Mr. Ramesh (non-resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond [See Note 2]	17,500	40,000
2.	Dividend from British Company received in London [See Note 3]	-	20,000
3.	Profits from a business in Nagpur but managed directly from London [See Note 2]	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India [See Note 2]	60,000	90,000
5.	Income from a business in Chennai [See Note 2]	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada [See Note 2]	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi [See Note 2]	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh [See Note 4]	-	-
9.	Income from house property at Bhopal [See Note 5]	70,000	42,000
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA [See Note 6]	7,000	10,000
	Total Income	4,27,500	3,74,000



Notes:

- a) Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
- b) In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
- Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

- c) Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable since it is accrued and received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
- d) Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- e) Income from house property -

	Mr. Ramesh	Mr. Suresh
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @30%	30,000	18,000
Net income from house property	70,000	42,000

The net income from house property in India would be taxable in the hands of both Mr. Ramesh

and Mr. Suresh, since the accrual and receipt of the same are in India.

- f) In case of an individual, interest upto ₹10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA.



12. This statement is correct.

As per *Explanation* to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not -

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

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

13. Taxability of receipts

	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,25,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹75,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹3,500 in case of an individual a/c. Further, interest upto 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance ₹5,500 i.e., ₹19,000 - ₹3,500 - ₹10,000 would be taxable in the hands of Mr. Ram, a resident.



(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

ILLUSTRATION 14

Mr. X earns the following income during the previous year ended 31st March, 2024. Determine the income liable to tax for the assessment year 2024-25 if Mr. X is (a) resident and ordinarily resident in India, (b) resident and not ordinarily resident in India, and (c) non-resident in India during the previous year ended 31st March, 2024.

- Profits on sale of a building in India but received in Holland – Rs. 20,000
- Pension from former employer in India received in Holland – Rs. 14,000
- Interest on U.K. Development Bonds (1/4 being received in India) – Rs. 20,000
- Income from property in Australia and received in U.S.A. – Rs. 15,000
- Income earned from a business in Abyssinia which is controlled from Zambia (Rs. 30,000 received in India) – Rs. 70,000
- Dividend on shares of an Indian company but received in Holland – Rs. 10,000
- Profits not taxed previously brought into India – Rs. 40,000
- Profits from a business in Nagpur which is controlled from Holland – Rs. 27,000

SOLUTION

Computation of income liable to tax :



Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Profits on sale of a building in India but received in Holland [accrued in India received outside India]	20,000	20,000	20,000
Pension from former employer in India received in Holland [accrued in India, received out of India]	14,000	14,000	14,000
Interest on U.K. Development Bonds [Accrued out of India, 1/4th received in India]	5,000	5,000	5,000
Interest on U.K. Development Bonds [Accrued out of India, 3/4th received out of India]	15,000	Nil	Nil
Income from property in Australia and received in U.S.A. [Accrued and received out of India]	15,000	Nil	Nil
Income earned from a business in Abyssinia which is controlled from Zambia [Business controlled outside India]	70,000	30,000	30,000
Dividend on shares of an Indian company but received in Holland [Accrued in India]	10,000	10,000	10,000
Profits not taxed previously brought into India [Not an income so not taxable]	Nil	Nil	Nil
Profits from a business in Nagpur which is controlled from Holland [Accrued in India]	27,000	27,000	27,000
Total	1,76,000	1,06,000	1,06,000

ILLUSTRATION 15

A had the following income during the previous year ended 31st March, 2024:

- Salary Received in India for three Months - Rs. 9,000
- Income from house property in India - Rs. 13,470
- Interest on Saving Bank Deposit in State Bank of India - Rs. 1,000
- Amount brought into India out of the past untaxed profits earned in Germany - Rs. 20,000



- Income from agriculture in Indonesia being invested there - Rs. 12,350
- Income from business in Bangladesh, being controlled from India - Rs. 10,150
- Dividends received in Belgium from French companies, out of which Rs. 2,500 were remitted to India- Rs. 23,000

You are required to compute his total income for the assessment year 2024-25 if he is : (i) a resident; (ii) a not ordinarily resident, and (iii) a Non-resident.

SOLUTION

Computation of total income of A is given below:

Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Salary Received in India for three Months (Indian received in India)	9,000	9,000	9,000
Income from house property in India (Income accrue or arise in India)	13,470	13,470	13,470
Interest on Saving Bank Deposit in State Bank of India (Income accrue or arise in India)	1,000	1,000	1,000
Amount brought into India out of the past untaxed profits earned in Germany [not an income, hence not taxable]	Nil	Nil	Nil
Income from agriculture in Indonesia being invested there (Income accrue or arise outside India)	12,350	Nil	Nil
Income from business in Bangladesh, being controlled from India (it is supposed that the money is not received in India) (Income accrued outside India from a business controlled from India)	10,150	10,150	Nil
Dividends received in Belgium from French companies (Income accrue outside India. Remittance to India is irrelevant)	23,000	Nil	Nil



Total	68,970	33,620	23,470

ILLUSTRATION 16

Mr. Y earns the following income during the previous year ended on 31st March, 2024. Determine the income liable to tax for the assessment year 2024-25 if Mr. Y is (a) resident and ordinary resident (b) resident and not ordinary resident, and (c) non-resident in India during the previous year ended on 31st March, 2024.

(b) Honorarium received from Government of India [Travelling and other incidental expenses of Rs. 7,000 were incurred in this connection]- Rs. 20,000

- (ii) Profits earned from a business in Tamilnadu controlled from Pakistan - Rs. 50,000
- (iii) Profits earned from a business in U.K. controlled from Delhi - Rs. 30,000
- (iv) Profits earned from a business in U.S.A. controlled from Pakistan and amount deposited in a bank there - Rs. 40,000
- (v) Income from a house property in France, received in India - Rs. 10,000
- (vi) Past untaxed foreign income brought into India during the year - Rs. 25,000
- (vii) Dividends from a German company credited to his account in Pakistan - Rs. 35,000
- (viii) Agricultural income from Burma not remitted to India - Rs. 40,000
- (ix) Pension for services rendered in India, but received in Pakistan - Rs. 30,000

SOLUTION

Computation of Income liable to tax of Mr. Y is given below:

Particular	Resident & Ordinarily Resident (Rs.)	Resident but not Ordinarily Resident (Rs.)	Non-Resident (Rs.)
Honorarium received from Govt. of India	20,000	20,000	20,000
Profits earned from a business in Tamilnadu controlled from Pakistan [Income accrue or arise in India]	50,000	50,000	50,000



Profit earned from a business in U.K. controlled from Delhi [Income accrue or arise outside India from a business controlled from India]	30,000	30,000	-
Profits earned from a business in USA controlled from Pakistan and amount deposited in a Bank there [Income accrue outside India]	40,000	-	-
Income from a house property in France, received in India [Income received in India]	10,000	10,000	10,000
Past untaxed foreign income brought into India during the year [Not taxable as profit of past years, also remittance is irrelevant]	-	-	-
Dividends from a foreign company credited to his account in Pakistan [Income accrue outside India]	35,000	-	-
Agricultural income from Burma not remitted to India [Income accrue outside India]	40,000	-	-
Pension for Services rendered in India, but received in Pakistan [Income deemed to accrue or arise in India]	30,000	30,000	30,000
Total	2,55,000	1,40,000	1,10,000

ILLUSTRATION 17 (Easy)

Steve Waugh, an Australian cricketer, comes to India for 100 days every year. Find out his residential status for AY 2025-26.

ILLUSTRATION 18 (Easy)

Brett Lee, an Australian cricket player, visits India for 102 days in every financial year. This has been his practice for the past 10 financial years. Find out his residential status for AY 2025-26.

ILLUSTRATION 19 (Easy)

9643036663 (only WhatsApp)

Mr C, a Japanese citizen, left India after a stay of 10 years on 1.06.2022. During FY 2023-24, he comes to India for 46 days. Later, he returns to India for 1 year on 10.10.2024. Determine his residential status for AY 2025-26.

ILLUSTRATION 20 (Easy)

Mr Dey, a non-resident, residing in US since 1960, came back to India on 1.4.2023 for permanent settlement. What will be his residential status for AYs 2024-25 and 2025-26?

ILLUSTRATION 21 (Easy)

Ms Bindu, a non-resident, residing in New York since 1990, came back to India on 19.02.2023 for permanent settlement. Explain the residential status of Ms Bindu for AY 2024-25 and AY 2025-26 in accordance with the various provisions of the Income Tax Act, 1961.

ILLUSTRATION 22. (Average)

VG was born in 1977 in India. His parents were also born in India in 1948. His grandparents were, however, born in England. Naitik was residing in India till 15.03.2022. Thereafter, he migrated to England and took the citizenship of that country on 15.03.2024 and left Indian citizenship afterwards. He visits India during PY 2024-25 for 90 days. Determine the residential status of Naitik for AY 2025-26.

ILLUSTRATION 23. (Average)

Mrs Kareena Kapoor is a Hollywood actress. Her passport reveals the following information about her stay in India.

FY 2024-25	From April 3rd	to	July 11th
FY 2023-24	From June 22nd	to	July 11th
FY 2022-23	From Feb 10th	to	March 26th
FY 2021-22	From Sept 7th	to	March 26th
FY 2020-21	From May 17th	to	September 30th
FY 2019-20	From April 3rd	to	July 11th
FY 2018-19	From April 3rd	to	July 11th



FY 2017-18	From April 3rd	to	July 11th
FY 2016-17	From April 3rd	to	July 11th

Find out her residential status for the Assessment Year 2025-26.

ILLUSTRATION 24. [Average]

James is a foreign citizen (not being a person of Indian origin). During FY 2024-25, she comes to India for 85 days. Determine residential status for AY 2025-26 if her stay in India during FY 2010-11 to FY 2023-24 is as follows:

Period	Stay	Period	Stay
2010-11	85 days	2017-18	16 days
2011-12	310 days	2018-19	360 days
2012-13	6 days	2019-20	181 days
2013-14	5 days	2020-21	305 days
2014-15	65 days	2021-22	65 days
2015-16	180 days	2022-23	10 days
2016-17	360 days	2023-24	126 days

ILLUSTRATION 25

Jonas is a foreign citizen. He, his parents and grandparents were not born in undivided India. However, his relatives (like brothers of his father, sisters of his mother and brothers and sisters of his grandmother and grandfather) were born in undivided India. Find out his residential status for AY 2025-26 using the following information:

Previous Year	Presence In India
2024-25	147 days
2023-24	140 days
2022-23	300 days



2021-22	25 days
2020-21	32 days
Before 2020-21	Nil

ILLUSTRATION 26. (Difficult)

- a) Mr Z, a citizen of India, is carrying on profession in Singapore which is set up in India. He visited India during PY 2024-25 for 145 days and for 400 days during the past 4 years immediately preceding PY 2024-25. Determine his residential status if he has earned the following incomes during PY 2024-25:
- Taxable Indian income - ₹ 8,00,000
 - Income from profession in Singapore - ₹ 10,00,000
 - Other income earned in Singapore - ₹ 9,00,000 Mr Z is liable to pay income-tax in Singapore.
- b) What will be your answer if Mr Z visited India for 115 days?

ILLUSTRATION 27. (Difficult)

Mr X, a citizen of India, has been carrying on a profession in Dubai (UAE), where he is not liable to pay any income tax. His taxable Indian income for PY 2024-25 is ₹ 12L and he has also earned ₹ 5L from exercising the profession in Dubai. The profession was initially set up in India. Besides the professional income, he has earned ₹ 10L in Dubai. Determine his residential status, if during PY 2024-25 he has:

- a) visited India for 110 days
- b) not visited India
- c) visited India for 190 days
- d) visited India for 122 days and in the four preceding FYs prior to PY 2024-25, he was in India for 300 days
- e) visited India for 122 days and in the four preceding FYs prior to PY 2024-25, he was in India for 400 days

ILLUSTRATION 28. (Difficult)

Mrs Shruti, an Indian citizen, is currently in employment with an overseas company located in UAE. During PY 2024-25, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in FYs 2020-21, 2021-22, 2022-23 and 2023-24 respectively. Her annual income for PY 2024-25 is as follows:

Particulars	Amount (₹)



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

Determine the residential status of Mrs Shruti for AY 2025-26 (Support your answer with computation).

ILLUSTRATION 29. (Difficult)

Mr Sarthak, an individual and Indian citizen living abroad (Dubai), a tax haven, since year 2005 and never came to India for a single day since then, earned the following incomes during PY 2024-25:

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

- I. Determine the residential status of Mr Sarthak and taxable income for PY 2024-25 (assuming no other income arise during the previous year).
- II. What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- III. What would be your answer, if Mr Sarthak born in Dubai and his parents were born in undivided India?

ILLUSTRATION 30. (Difficult)

Mr Jai Chand (an Indian citizen) left India for employment in country X on 5th June 2016. He regularly visited India and stayed for 60 days in every previous year since then. However, in FY 2024-25, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set up a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for FY 2024-25:



Income from commercial building in Delhi [computed as per the provisions of the Act].	₹ 12,00,000
Income from the retail store [computed as per the provisions of the Act]	₹ 4,50,000

Country X does not tax any individual on their income as there is no personal income-tax regime there. Determine the residential status of Mr Jai Chand for A Y 2025-26.

Will your answer change if he is a citizen of Country X?

ILLUSTRATION 31 (Easy)

Determine residential status of Sundaram (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr Sundaram, who is from Chennai visits India on 01.06.2024 and leaves for Malaysia on 10.02.2025. He has not visited India for the past 11 years.

ILLUSTRATION 32 (Easy)

MN Partnership firm has two partners, Mr M and Mr N. Both the partners were in India during PY 2024-25 and all meetings of partners were held in India. Determine the residential status of firm for AY 2025-26.

ILLUSTRATION 33. (Easy)

Bharat Earth Movers Ltd, an Indian Company, has most of its business outside India. Determine the residential status of the company for AY 2025-26.

ILLUSTRATION 34. (Easy)

N Ltd and A Ltd are registered in Nepal and India respectively. The place of effective management of N Ltd is in India, whereas all board meetings of A Ltd were held in Nepal during PY 2024-25. Determine the residential status of both the companies for AY 2025-26.

ILLUSTRATION 35. (Average)

State [Yes/No] whether the following transactions can be treated as income deemed to accrue or arise in India:

1. Hire charges paid outside India for the use of machinery situated in India.
2. Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.



3. Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
4. Allowances paid by the Government to a citizen of India for the services rendered outside India.
5. Past period foreign untaxed income brought to India during the previous year.
6. Gift received by a non-resident on the occasion of his wedding in India.

ILLUSTRATION 36. (Average)

Mr David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during PY 2024-25. He has received the following incomes during PY 2024-25. Compute his gross total income for AY 2025-26.

S.No	Particulars	Amount (₹)
(i)	Salary (Ignore the benefit of standard deduction)	5,00,000
(ii)	Foreign Allowance	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Pakistan	2,00,000
(v)	Income from house property in Pakistan	2,50,000

ILLUSTRATION 37. (Difficult)

From the following particulars of income furnished by Mr Anirudh pertaining to the year ended 31.3.2025, compute the total income for Ay 2025-26, if he is:

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

S. No	Particulars	Amount (₹)
(a)	Short Term Capital Gain on sale of shares in Indian company received in Germany	15,000
(b)	Dividend from a Japanese company received in Japan	10,000



(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd, an Indian company	6,000
(e)	Agricultural income from lands in Gujarat	25,000

ILLUSTRATION 38. (Difficult)

The following are the particulars of income of Mr Umesh for PY 2024-25:

S. No	Particulars	Amount (₹)
A	Rent from a property in Mumbai received in New York	1,90,000
B	Income from a business in New York controlled from Chennai	1,50,000
C	Income from a business in USA controlled from Canada	2,60,000
D	Rent from a property in Canada received there but subsequently remitted to India	85,000
E	Interest from deposits with an Indian company received in Canada	25,000
F	Past untaxed profits of a business in Canada for PY 19-20 remitted to India during PY 24-25	50,000

Compute his income for the PY 2024-25, if he is:

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

ILLUSTRATION 39. (Difficult)

Mr Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the FY 2024-25, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During PY 2024-25, he has the following incomes:

(A)	Income from business in Australia controlled from Australia	₹ 20,00,000



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

Find out the residential status of Mr Prashant and compute his total income for AY 2025-26.

ILLUSTRATION 40. (Difficult)

Mr Surya, an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Mumbai airport on 15th May 2024 as stamped in the passport. He has been in India for less than 365 days during the 4 years immediately preceding the previous year and has not been in India for at least 60 days in the previous year. Determine:

(i) Residential status of Mr Surya; and

(ii) Total income for the Assessment Year 2024-25 from the following information:

- Dividend amounting to ₹ 20,000 received from Sassy Ltd, a Switzerland based company, which was transferred to his Swiss bank account. He had borrowed money from Mr Sundarlal, a non-resident Indian, for the above mentioned investment on 2nd April 2024. Interest on the borrowed money for PY 2024-25 amounted to ₹ 2,500.
- Short term capital gain on the sale of shares of Trena India Ltd, a listed Indian Company amounting to ₹ 35,000. The sale proceeds were credited to his Swiss bank account.
- Interest on fixed deposit with State Bank of India (Mumbai) amounting to ₹ 8,000 was credited to his saving account.

ILLUSTRATION 41. (Difficult)

Mrs Geetha & Mrs Leena are sisters and they earned the following income during FY 2024-25. Mrs Geetha is settled in Malaysia since 2000 and visits India for a month every year. Mrs Leena is settled in Indore since her marriage in 2008. Compute the total income of Mrs Geetha and Mrs Leena for AY 2025-26:

S.No	Particulars	Mrs Geetha	Mrs Leena
1	Income from Profession in Malaysia, [set up in India] received there	15,000	-
2	Profit from business in Delhi, but managed directly from Malaysia	40,000	-



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

ILLUSTRATION 42. [Difficult]

X is a citizen of South Africa. He comes to India for the first time for a visit of 250 days on October 11, 2024. During the PV ending March 31, 2025, he gets the following fees for technical services:

S.No	Particulars	Amount (₹)
1	Technical fees from the Government of South Africa [received in UK]	8,00,000
2	Technical fees from the Government of South Africa [received in Chennai]	9,00,000
3	Technical fees from the Government of India [received in UK]	10,00,000
4	Technical fees from the Government of India [received in Chennai]	11,00,000
5	Technical fees from Z [a resident in India] [this fee is paid to Mr X outside India for providing technical service outside India, however, the benefit of technical service is utilized by Z for carrying on a business in Bhutan]	3,00,000
6	Technical fees from A [a non-resident in India] [this fee is paid to Mr X outside India for providing technical service outside India, however, the benefit of technical service is utilized by A for carrying on a business in India]	2,10,000



7	Technical fees from B [a non-resident in India] [this fee is paid to Mr X outside India for providing technical service outside India, however, the benefit of technical service is utilized by B for carrying on a business in Bhutan]	3,10,000

Determine the net income chargeable to tax in the hands of X for AY 2025-26.

ILLUSTRATION 43. (Difficult)

Mr Sanjay has following incomes during PV 2024-25:

1. Interest of ₹ 60,000 on England Development Bonds [1/3rd received in India].
2. Interest of ₹ 5,000 received from a non-resident against a loan given to him to run a business in India.
3. Royalty of ₹ 20,000 received from Akhil, a resident, for technical services given to run a business outside India.
4. Income from business in Sri Lanka ₹ 25,000 out of which ₹ 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr Sanjay for the AY 2025-26 if he is a:

(I) Not Ordinarily Resident

(II) Non-Resident

ILLUSTRATION 44. (Difficult)

Discuss the taxability of the following items in the hands of different persons briefly explaining the applicable provisions of the Income-tax Act:

- (i) Mr Jayesh, a non-resident is having a plot of land in Jodhpur. He sells this plot to another non-resident outside India. The consideration is received outside India in foreign currency.
- (ii) Mr Arpit is having a house property in India. The property is let out by him to a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India.
- (iii) Government of Rajasthan has borrowed money from ABC Express Bank, a foreign bank. The interest payable to ABC Express Bank is remitted outside India.
- (iv) Mr Bhavesh, a citizen of India, is appointed by Reliable Industries Ltd in their Dubai Branch. Mr Bhavesh is a non-resident and receives salary outside India.



ILLUSTRATION 45. (Difficult)

Mr Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31.03.2025. Examine the tax implications in the hands of Mr Thomas for AY 2025-26 as per Income Tax Act, 1961. [Give brief reasoning]

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

ILLUSTRATION 46. (Difficult)

Examine the tax implications of the following transactions for AY 2025-26: [Give brief reason]

- (i) Government of India has appointed Mr Rahul as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of ₹ 2,40,000 during PY 2024-25 for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for PY 2024-25.
- (ii) Ms Juhi, a non-resident in India, is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned ₹ 2,50,000 during PY 2024-25.
- (iii) Mr Naveen, a non-resident in India, has earned ₹ 3,00,000 as royalty for a patent right made available to Mr Rakesh who is also a non-resident. Mr Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.
- (iv) Mr James, a NRI, borrowed ₹ 10,00,000 on 01.04.2024 from Mr Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr Akash has received interest @ 12% per annum.

ILLUSTRATION 47. (Difficult)

Mr Tilak aged 35 years, furnishes the following information regarding his income for AY 2025-26. Compute the total income if he is:



(I) Resident And Ordinarily Resident

(II) Resident But Not Ordinarily Resident

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



SOLUTIONS TO SUBJECTIVE QUESTIONS:**Residential Status Of Individuals****Answer 17**

The Py relevant to AY 2025-26 is PY 2024-25.

- **Step 1:** The total stay of Steve Waugh in the last 4 years preceding the relevant PY is 400 days (ie, 100 days per year x 4 years) and his stay during PY 2024-25 is 100 days. Since he has satisfied the second condition of Section 6(1), he is a resident.
- **Step 2:** Since his total stay in India in the last 7 years preceding the PY is 700 days (ie, 100 x 7), he does not satisfy the minimum requirement of 730 days in 7 years. Any one of the conditions not being satisfied, the individual is NOR.

Therefore, the residential status of Steve Waugh for AY 2025-26 is 'resident but not ordinarily resident'.

Answer 18

- Period of stay during PY 2024-25 = 102 days.
- Period of stay during 4 preceding PYs is 408 days (102 x 4 = 408 days).
- Mr Brett Lee has been in India for a period more than 60 days during PY 2024-25 and for a period of more than 365 days during 4 immediately preceding PYs. Since he satisfies one of the basic conditions u/s 6(1), he is a resident for AY 2025-26.
- Period of stay during 7 preceding PYs is 714 days (102 x 7 = 714 days). Since his period of stay in India during the past 7 PYs is less than 730 days, he is a not-ordinarily resident during AY 2025-26. (See Note below)

Note: A not-ordinarily resident person is one who satisfies any one of the conditions specified u/s 6(6)(a);

- (i) If such individual has been non-resident in India in any 9 out of the 10 PYs preceding the relevant PY; or
- (ii) If such individual has during the 7 PYs preceding the relevant PY been in India for a period of 729 days or less.

In this case, since Mr Brett Lee satisfies condition (ii), he is a not-ordinarily resident for AY 2025-26.

Answer 19

- During PY 2024-25, Mr C was in India for 173 days (ie 22 + 30 + 31 + 31 + 28 + 31 days). His total stay in last



4 years comes out to 838 days [calculated in the manner given below]:

- > PY 2023-24: 46 days
- > PY 2022-23: 62 days (ie 30 + 31 + 1)
- > PY 2021-22: 365 days (since he left India on 1.6.2022 after 10 years)
- > PY 2020-21: 365 days (since he left India on 1.6.2022 after 10 years)

- Mr C is a resident since his stay during PY 2024-25 is 173 days and in the last 4 years is more than 365 days.
- For the purpose of being ordinarily resident, it is evident from the above calculations, that
 - his stay in the last 7 years is more than 730 days: and
 - since he was in India for 10 years prior to 1.6.2022, he was a resident in at least 2 out of the last 10 years preceding the relevant PY.
- **Therefore, Mr C is a resident and ordinarily resident for AY 2025-26.**

Answer 20

- Mr Dey is a resident in AY 2024-25 and AY 2025-26 since he has stayed in India for a period of 182 days or more during PY 2023-24 and PY 2024-25, respectively.
- As per Section 6(6), a person will be "Not Ordinarily Resident" in India in any PY, if such person:
 - has been a non-resident in 9 out of 10 PYs preceding the relevant PY; or
 - has during the 7 PYs immediately preceding the relevant PY been in India for 729 days or less.

If he does not satisfy both of these conditions, he would be a resident and ordinarily resident.

- In the instant case, applying the above, the status of Mr Dey for PY 2023-24 (AY 2024-25) will be "NOR" because his stay in India prior to PY 2022-23 is '0' days.
- For PY 2024-25 (AY 2025-26), his status would continue to be "NOR" since he was NR in 9 out of 10 PYs immediately preceding PY 2024-25 and he had also stayed for 729 days or less in 7 PYs immediately preceding the PY.
- Therefore, his status for
 - AY 2024-25: "Resident but not ordinarily resident"
 - AY 2025-26: "Resident but not ordinarily resident"



Answer 21

- Mr Bindu is a resident in AY 2025-26 since she has stayed in India for a period of 182 days or more during PY 2024-25.
- As per Section 6(6), a person will be "NOR" in India in any PY, if such person:
 - > has been a non-resident in 9 out of 10 PYs preceding the relevant PY; or
 - > has during the 7 PYs immediately preceding the relevant PY been in India for 729 days or less.

If he does not satisfy both of these conditions, he would be a resident and ordinarily resident.

- In the instant case, applying the above, the status of Ms Bindu prior to PY 2023-24 (AY 2024-25) will be Non-Resident.
- For PY 2023-24 (AY 2024-25), her status would be "NOR" since she was non-resident in 9 out of 10 PYs immediately preceding PY 2023-24 and she had also stayed for less than 729 days in 7 PYs immediately preceding PY 2023-24.
[Before PY 2022-23 - Nil; PY 2022-23 - 41 days].
- For PY 2024-25 (AY 2025-26), her status would continue to be "NOR" since she was non-resident in 9 out of 10 PYs immediately preceding PY 2024-25 and she had also stayed for less than 729 days in 7 PYs immediately preceding PY 2024-25 {ie 41 days during PY 2022-23 + 366 days during PY 2023-24}.

Answer 22

- As per Section 6, an individual is treated as resident if he satisfies any one of the following two basic conditions, ie individual is in India for
 - (i) 182 days or more during the PY; or
 - (ii) 60 days or more during the PY and for 365 days or more during 4 years immediately preceding the relevant PY.
- The (ii) condition is not applicable in case the person visiting India is either an Indian citizen or person of Indian origin.
- Mr Naitik is not a citizen of India as he has taken the citizenship of England and has left Indian citizenship. Further, he is not a person of Indian origin, because he, his parents and grandparents were not born in undivided India.



- Therefore, in his case (ii) basic condition will be applicable and the relief available to Indian citizen and person of Indian origin is not available to him. Therefore, if he satisfies any of the basic conditions, he shall be treated as resident.
- Mr Naitik is in India for 90 days during PY 24-25 and his stay in India exceeds 365 days in 4 years preceding PY 24-25 (ie 2020-21: 365 days; 2021-22: 349 days; 2022-23: Nil and 2023-24: Nil). Therefore, he is resident in India.
- Ordinary or not ordinary resident: Moreover, he satisfies the two additional conditions laid down u/s 6(6)(a):
 - (i) He is resident in India in at least 2 years out of 10 years immediately preceding PY 24-25 (Before 15.03.2022, he was always in India, therefore in every such year he satisfied the condition of 182 days); and
 - (ii) During 7 years preceding PY 2024-25, he was present in India for more than 730 days. **Therefore, he is resident and ordinarily resident for AY 25-26.**

Answer 23

An individual is said to be resident if he/she satisfies any one of the following basic conditions:

- (i) Has been in India during the previous year for a total period of 182 days or more; or
- (ii) 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 during the previous year.

Mrs Karuna Kapoor's Stay:

Previous Year	2024-25	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Number Of Days Of Stay In India	100	20	45	201	137	100	100	100	100

Mrs Karuna Kapoor's stay in India during PY 2024-25 is less than 182 days. However, her stay in India during PY 2024-25 is 100 days (ie, more than 60 days) and her stay in India during the four previous years prior to PY 2024-25 is 403 days (ie, more than 365 days). Assuming that Mrs Karuna Kapoor is neither a citizen of India nor a person of Indian origin, she is a resident for PY 2024-25.



Further, her stay in India in the last seven PYs prior to PY 2024-25 is 703 days [20+45+201+137+100+100+100], which is less than 730 days. Therefore, she is resident but not ordinarily resident for PY 2024-25.

Answer 24

- As per Section 6, an individual is treated as resident if he satisfies any one of the following two basic conditions:
 - (i) Individual is in India for 182 days or more during the PY; or
 - (ii) Individual is in India for 60 days or more during the PY and for 365 days or more during 4 years immediately preceding the PY.
- As Ms Juliet is a foreign citizen, the relief available to Indian citizen and person of Indian origin is not available in her case. During PY 2024-25, she is in India for 85 days, and for 506 days during 4 years immediately preceding PY 2024-25 (305 + 65 + 10 + 126). Thus, she satisfies (ii) basic condition u/s 6. Therefore, she is resident in India for AY 2025-26.
- Ordinary or not ordinary resident:** In addition, she also satisfies the two additional conditions laid down u/s 6(6)(a):
 - (i) She is resident in India in at least 2 years out of 10 years immediately preceding PY 2024-25 (she is in India for 182 days or more during PY 2016-17, PY 2018-19, PY 2020-21); and
 - (ii) During 7 years preceding PY 2024-25, she **was present in India** for more than 730 days.
- Since, Ms Juliet is satisfying both the additional **conditions**, **she is resident and ordinarily resident** for AY 2025-26.

Answer 25

- X is a foreign citizen. He is also not a person of Indian origin. Thus, if he satisfies any of the basic conditions, he shall be treated as resident as the relief is available to Indian citizens or person of Indian origin.
- During PY 2024-25, he was in India for 147 days and during preceding 4 years he was in India for 497 days. By satisfying the second basic condition, he becomes resident in India.
- X's stay in India during past 7 years is 497 days. Since his stay in India during past 7 years is less than 730 days, he will be resident but not ordinarily resident in India for AY 2025-26.



Answer 26

- a) Mr Z is a citizen of India and his total income other than income from foreign sources is ₹ 18L (₹ 8L + ₹ 10L from a profession which is set up in India). Mr Z has visited India during PY 2024-25 for 120 days or more and for 365 days or more during the past 4 years. Therefore, Mr Z shall be treated as a resident in India as per Section 6(1). Further, as per amended Section 6(6), he shall be considered as a NOR in India. Consequently, Mr Z would be liable to pay tax in India on income of ₹ 18L. Foreign income of ₹ 9L shall not be included in his total income.
- b) Mr Z is a citizen of India and his total income other than income from foreign sources is ₹ 18L (₹ 8L + ₹ 10L from a profession which is set up in India). If Mr Z visits India during PY 2024-25 for 115 days, he would be treated as a non resident in India as per Section 6(1). Further, Section 6(1A) is not attracted in his case because he is liable to pay tax in Singapore. Consequently, Mr Z would be liable to pay tax in India only on the Indian income of ₹ 8L.

Answer 27

- a) Mr X is a citizen of India and his total income other than income from foreign sources exceeds ₹ 15L (₹ 12L + ₹ 5L being income from profession which is set up in India). Section 6(1) is not attracted in the present case because Mr X's stay in India during the current year is less than 120 days.
- Mr X is not liable to pay tax in Dubai. Further, Section 6(1) is not attracted in his case. Combined with the fact that Mr X is a citizen of India and his total income other than income from foreign source exceeds ₹ 15L, he shall be deemed to be a resident in India as per Section 6(1A). Further, as per amended Section 6(6), he shall be considered as a NOR in India.
- b) The answer will remain same because if the individual is deemed to be a resident in India as per Section 6(1A), the number of days he has stayed in India becomes irrelevant.
- c) If Mr X has visited India for 190 days during PY 2024-25, he would qualify as a resident as per Section 6(1). Since the individual qualifies as a resident as per Section 6(1), Section 6(1A) shall not be applicable in his case. However, in the absence of availability of information for preceding financial years, it cannot be determined whether the individual would qualify as ROR or NOR.
- d) If Mr X visits India for 122 days during PY 2024-25 and for 300 days during the past four years, Section 6(1) won't be attracted in the present case because Mr X's stay during the past four years is less than 365 days. Given the fact that Mr X is a citizen of India and he is not liable to pay tax in Dubai and his total income other than income from foreign sources exceeds ₹ 15L, he shall be deemed to be a resident in India as per Section 6(1A). Further, as per amended Section 6(6), he shall be considered as a NOR in India.



- e) If Mr X visits India for 122 days during PY 2024-25 and for 400 days during the past four years, Mr X would qualify as a resident as per Section 6(1). Further, as per amended Section 6(6), he shall be considered as a NOR in India.

Answer 28

Mrs Shruti is an Indian citizen in employment in UAE. She comes on a visit to India during PY 2024-25 for 157 days.

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

py	No Of Days
py 2020-21	200
py 2021-22	100
py 2022-23	76
py 2023-24	45
Total	421

Computation Of Total Income Of Mrs Shruti (Excluding Income From Foreign Sources):

Particulars	Amount (₹)
Income from salary earned and received in UAE {Income from a foreign source, hence to be excluded}	-
Income earned and received from a house property situated in UAE {Income from a foreign source, hence, to be excluded}	-
Income deemed to accrue or arise in India	5,00,000
Income from retail business {To be included since the business is controlled from India, even though such income accrues and is received outside India}	10,00,000
Income accrued and arising in India	3,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	18,00,000
	(1,50,000)
Total Income [Excluding Income From Foreign Sources]	16,50,000

Mrs Shruti, an Indian citizen, visiting India in PY 2024-25, would be a resident in India for AY 2025-26, if she



satisfies either of the following conditions:

- a) She is in India for 182 days or more during PY 2024-25; or
- b) She is in India for a period of 120 days or more during PY 2024-25 and her stay in India in the four immediately preceding previous years is 365 days or more.

This first condition is not satisfied since she is in India only for 157 days during PY 2024-25-. The second condition is satisfied since she has stayed in India for 157 days during PY 2024-25 and 421 days in the four immediately preceding previous years. Since she has become resident in India for AY 2025-26 by satisfying this condition, by default, she would be treated as resident but not ordinarily resident.

Conclusion: Mrs Shruti's residential status for AY 2025-26 is resident but not ordinarily resident.

Note: The provisions of Section 6(1 A) deeming an Indian citizen to be a resident but not ordinarily resident, irrespective of the period of her stay in India in the relevant previous year, if she is not liable to tax in any other country would not apply to Shruti, since she is a resident as per the provisions of Section 6(1).

Answer 29

- I. Mr Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for PY 2024-25 on the basis of number of days of his stay in India as per Section 6(1). However, since he is an Indian citizen having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year and not liable to tax in Dubai, he would be deemed resident in India for PY 2024-25 by virtue of Section 6(1A). Further, a deemed resident is always a resident but not ordinarily resident in India (RNOR).

Computation Of Total Income For AY 2025-26:

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



- II. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income [excluding income from foreign sources] would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be a deemed resident as per Section 6(1A).

Accordingly, he would be non-resident in India for the PY 2024-25 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above, ie ₹ 5 lakhs + ₹ 8 lakhs).

- III. If Mr Sarthak is born in Dubai and his parents were born in undivided India, he would not be an Indian citizen, but he would qualify as person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him. Accordingly, he would be non-resident in India during the PY 2024-25 and his total income would be ₹13 lakhs.

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

Answer 30

Mr Jai Chand is an Indian citizen who never came to India for a single day during PY 2024-25. As per Section 6(1), he would be treated as a non-resident in India for PY 2024-25 on the basis of number of days of his stay in India. However, since he is an Indian citizen having total income [excluding income from foreign sources] of ₹ 16.5 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year and not liable to tax in Country X, he would be deemed as a resident in India for PY 2024-25 by virtue of Section 6(1A). Further, a deemed resident is always a resident but not ordinarily resident in India (RNOR) as per Section 6(6)(d). Thus, he would be treated as a NOR in India for PY 2024-25.

If Mr Jai Chand was a citizen of Country X and not an Indian citizen, provisions of deemed resident as given u/s 6(1A) would not apply in his case and thus, he would be treated as a non-resident in India for PY 2024-25.

Answer 31

A HUF is said to be resident if control and management of its affairs is situated wholly or partly in India. Since the affairs of the HUF are partly controlled from India, it is said to be resident in India.

A HUF is said to be RNOR, if its Karta is RNOR. In the present case, Mr Sundaram, being a karta of the HUF has not visited India for the past 11 years and hence he satisfies the condition for being a RNOR, ie he is non-resident in India in 9 out of 10 previous years immediately preceding the relevant previous year or has been in India for 729 days or less in 7 previous years immediately preceding the relevant previous year. Thus, Sundaram HUF is said to be RNOR for PY 24-25.



Residential Status Of Partnership Firm**Answer 32**

Since control and management of partnership firm is in the hands of partners and partners are in India throughout the year and also all the meetings are held in India, the firm shall be considered to be resident.

Residential Status Of Companies**Answer 33**

Bharat Earth Movers Ltd is registered in India, so it is an Indian company & an Indian company shall always be considered to be resident in India.

Answer 34

- N Ltd is a foreign company and its place of effective management is in India. Hence, it is a resident of India.
- A Ltd is registered in India, so it is an Indian company. Therefore, A Ltd would always be treated as a resident of India irrespective of the fact where its control & management lies [in India or outside India].

Scope Of Total Income/Incidence Of Total Income**Answer 35**

1. **Hire Charges Paid Outside India For The Use Of Machinery Situated In India:** Yes; income from any property or asset situated in India is always treated as income deemed to be accrue or arise in India.
2. **Income Of A Non-Resident And Non-Citizen Of India From The Shooting Of Cinematograph Film In India:** No; income of a non-resident and non-citizen of India from the shooting of cinematograph film in India is not treated as business connection in India provided the film is not shown in India.
3. **Capital Sain From Transfer Of Asset Situated In India:** Yes; income from any property or asset situated in India is always treated as income deemed to be accrue or arise in India.
4. **Allowances Paid By The (government To A Citizen Of India For The Services Rendered Outside India:** Yes; payments made by Indian Government to an Indian citizen for services rendered outside India are deemed to accrue or arise in India but foreign allowances are exempt **u/s 10(7)**.



5. **Past Period Foreign Untaxed Income Brought To India During The Previous Year:** No; it is not considered as an income related to current year and thus not taxable.
6. **gift Received By A Non-Resident On The Occasion Of His Wedding In India:** No; gift received by an individual on the occasion of his/her marriage is exempt from tax.

Answer 36

- Mr David is a non-resident for AY 2025-26, since he was not present in India at any time during PY 2024-25. As per Section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:
 - I. Income received or deemed to be received in India; and OO Income accruing/arising or deemed to accrue/arise in India.
- In view of the above provisions, income from agriculture in Pakistan and income from house property in Pakistan would not be chargeable to tax in the hands of David, assuming that the same were received in Pakistan.
- Income from 'salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue/arise in India as per Section 9. Hence, such income is taxable in the hands of Mr David, even though he is a non-resident. It has been assumed that Mr David is a citizen of India. However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India are exempt u/s 10(7). Hence, foreign allowance of ₹ 4,00,000 is exempt u/s 10(7).
- **Gross Total Income Of Mr David For AY 2025-26:**

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

Answer 37**Computation Of Total Income Of Mr Anirudh For AY 2025-26:**

Particulars	ROR (₹)	NOR (₹)	NR (₹)
STCG on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
Dividend from a Japanese company, received in Japan	10,000	-	-



Rent from property in London deposited in a bank in London [See Note]	52,500	-	-
Dividend from RP Ltd, an Indian Company	6,000	6,000	6,000
Agricultural income from land in Gujarat [Exempt u/s 10(1)]			-
Total Income	83,500	21,000	21,000

Note: It has been assumed that the rental income is the GAV of the property. Therefore, deduction @ 30% has been provided u/s 24(a) and the net income so computed is taken into account for determining the total income of ROR.

Rent received (assumed as gross annual value)	₹ 75,000
Less: Deduction u/s 24(a) (30% of ₹ 75,000)	(₹ 22,500)
Income from House Property	₹ 52,500

Answer 38

S.No	Particulars	ROR (₹)	NOR (₹)	NR (₹)
A	Rent from a property in Mumbai received in New York (Income accruing/arising in India, taxable in all three cases - 70% of ₹ 1,90,000)	1,33,000	1,33,000	1,33,000
B	Income from a business in New York controlled from Chennai [Income accruing/ arising abroad - taxable in case of ROR & NOR (1 of the 2 cases)]	1,50,000	1,50,000	NIL
C	Income from a business in USA controlled from Canada (Income accruing/arising abroad - taxable in case of only ROR)	2,60,000	NIL	NIL
D	Rent from a property in Canada received there (Income accruing/arising abroad & also received abroad - taxable in case of only ROR - 70% of ₹ 85,000)	59,500	NIL	NIL
E	Interest from deposits with an Indian company received in Canada (Income accruing/arising in India, taxable in all three cases)	25,000	25,000	25,000
F	Past untaxed profits for the year 2019-20 of a business in Canada remitted to India during the PY 2024-25 (Taxable in PY 19-20 and not in PY 24-25)	NIL	NIL	NIL
Total Income		6,27,500	3,08,000	1,58,000



Note: It has been assumed that the rent received is the GAV of the house property and therefore deduction @ 30% is available u/s 24(a) in respect of such rent. Accordingly, 70% of the rent is taxable.

Answer 39

Mr Prashant's current year stay in India is 200 days. Therefore, as per Section 6(1), he would qualify as a resident. Mr Prashant's stay during the past 7 years is 875 days (125 days x 7 years). Further, Mr Prashant would qualify as a resident for atleast 2 times in the past 10 years. Therefore, Mr Prashant would qualify as a ROR (ie, resident & ordinarily resident) in India as per Section 6(6)(a). Since Mr Prashant qualifies as a ROR, all his incomes would be taxable in India irrespective of the place of accrual or the place of receipt of income.

Computation Of Total Income For AY 2025-26:

(A)	Income from business in Australia controlled from Australia {Fully taxable in case of ROR}	₹ 20,00,000
(B)	Income from business in Sri Lanka controlled from Chennai {Fully taxable in case of ROR}	₹ 16,00,000
(C)	Short-term capital gains on sale of shares of an Indian company received in Australia {Fully taxable in case of ROR}	₹ 50,000
(D)	Income from agricultural land in Australia, received there and then brought to India {Fully taxable in case of ROR}	₹ 2,00,000
Total Income		₹ 38,50,000

Answer 40

Part (i): An individual is said to be resident in India in any previous year, if he satisfies any one of the following two conditions:

- He has been in India during the relevant previous year for a total period of 182 days or more; or
- He has been in India during the 4 years immediately preceding the relevant 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 the 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.

Mr Surya, an Indian citizen, has not satisfied either of the basic conditions for being a resident. Hence, he is nonresident in India for AY 2025-26.



Part (ii):

- a) Dividend of Rs 20,000 received from Switzerland based company transferred to Swiss Bank A/c is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.
- b) STCG of Rs 35,000 on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr Surya, since it has accrued and arisen in India even though the sale proceeds were credited to Swiss Bank A/c.
- c) Interest on fixed deposit with SBI amounting to Rs 8,000 credited to his savings bank account is taxable in the hands of Mr Surya as income from other sources, since it has accrued and arisen in India and is also received in India.

Therefore, total income shall be Rs 43,000.

Answer 41**Computation Of Total Income Of Mrs Geetha & Mrs Leena For AY 2025-26:**

S.No	Particulars	Mrs Geetha (NR) (₹)	Mrs Leena (Resident) (₹)
1	Income from profession in Malaysia (set up in India) received there (Note 1)		-
2	Profit from business in Delhi, but managed directly from Malaysia (Note 1)	40,000	-
3	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels (Note 1)		-
4	Dividend from PQR Ltd, an Indian Company	5,000	10,000
5	Dividend from Malaysian Company received in Malaysia (Note 1)	-	8,000
	Cash gift received from a friend on Mrs Leena's 50th birthday		
6	Note As per Section 56(2)(x), cash gifts received from a non-relative would be taxable, if the amount exceeds ₹ 50,000 in aggregate during the PY.	-	51,000
7	Agricultural income from land in Maharashtra [Exempt u/s 10(1)]	-	-



8	Past foreign untaxed income brought to India (Not taxable, since it does not represent income of PY 2024-25)	-	-
9	Fees for technical services rendered in India, but received in Malaysia (Note 1)	25,000	-
10	Income from a business in Pune (Mrs Geetha receives 50% income in India) (Note 2)	12,000	15,000
11	Interest on debentures in an Indian company (Mrs Geetha received the same Malaysia) (Note 2)	18,500	14,000
12	Short-term capital gain on sale of shares of an Indian company (Note 2)	15,000	25,500
13	Interest on savings account with SBI (Note 2)	12,000	8,000
Gross Total Income		1,27,500	1,31,500
Less: Deduction u/s 80C for life insurance premium paid (Assumed premium paid is within the specified percentage of capital sum assured) '		-	(30,000)
Less: Deduction u/s 80TTA in case of an individual, interest upto ₹ 10,000 from savings account with bank is allowable as deduction u/s 80TTA)		(10,000)	(8,000)
Total Income		1,17,500	93,500

Notes:

- I. Income from profession in Malaysia, rent from property in Malaysia and dividend from Malaysian company received in Malaysia by Mrs Geetha, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.

However, profit from business in Delhi would be taxable in India in the hands of Mrs Geetha, even though it is managed directly from Malaysia.

Further, fees for technical services rendered in India would also be taxable in the hands of Mrs Geetha, since it is deemed to accrue or arise in India.

- II. The income referred to in S No 10, 11, 12 and 13 are taxable in the hands of both Mrs Geetha and Mrs Leena due to their accrual/deemed accrual in India, even though a part of income from business in Pune and the entire interest on debentures in Indian company is received by Mrs Geetha outside India.

Answer 42

- A non-resident is chargeable to tax in respect of income received outside India only if such income accrues/arises or is deemed to accrue/arise to him in India.
- Payment to a management consultant relating to project financing is covered within the scope of "fees for technical services". Section 9 states that fees for technical services received by a non-resident would be deemed to accrue/ arise in India if such services are utilized in India.
- In the instant case, since the services were utilized in India, the payment received by Mr Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue/arise in India.

Answer 43

During PY 2024-25, X is in India for 172 days (ie, October 11, 2024 to March 31, 2025). Since he comes to India for the first time on October 11, 2024, he is unable to satisfy any of the basic conditions. Consequently, X is a non-resident in India for AY 2025-26. In case of non-resident, incomes received or earned in India only are chargeable to tax.

Income Of X For AY 2025-26 Shall Be Calculated As Follows:

Payer Of Technical Fees	Place Of Receipt Of Income	Place Of Accrual Of Income	Amount Taxable (₹)
South African Govt	UK	South Africa	Nil
South African Govt	India	South Africa	9,00,000
Indian Govt	UK	India	10,00,000
Indian Govt	India	India	11,00,000
Z	Outside India	Outside India	Nil
A	Outside India	India	2,10,000
B	Outside India	Outside India	Nil
Net Income			32,10,000

Answer 44**Computation Of Taxable Income Of Mr San jay:**

S. No.	Particulars	NOR (₹)	NR (₹)



1.	Interest on England Development Bonds (1/3rd received in India), amount of ₹ 20,000 being received in India would be taxable in case of both NOR and NR.	20,000	20,000
2.	Interest received from NR against a loan given to him to run a business in India would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both NOR and NR.	5,000	5,000
3.	Royalty received from Akhil, a resident for technical services given to run a business outside India would not be deemed to accrue or arise in India, since such services are utilised for business	Nil	Nil
	carried outside India. Thus, royalty would not be taxable in case of both NOR and NR.		
4.	Income from business in Sri Lanka of ₹ 25,000 out of which ₹ 15,000 were received in India. Whole of the income from business in Sri Lanka is taxable in case of NOR, since business is controlled from India. However, in case of NR, only the amount received in India would be taxable.	25,000	15,000
Total Income		50,000	40,000

Answer 45

- I. **Sale Of Plot Of Land At Jodhpur:** Income accruing or arising in the hands of Mr Jayesh, a non-resident, from transfer of a capital asset situated in India, namely, land in Jodhpur, would be deemed to accrue or arise in India. Hence, capital gains arising from transfer of such land would be chargeable to tax in the hands of Jayesh, even though the land is transferred to another non-resident outside India and consideration is received in foreign currency.
- II. **Rental Income From A House Property Situated In India:** Rental income from a house property in India would be deemed to accrue or arise in India as the source of income, namely, the house property, is in India. Therefore, rental income from a house property in India is taxable in the hands of Mr Arpit, even though the house has been let-out to a foreign company, the rent agreement is entered outside India and such income is received outside India.
- III. **Interest On Loan Payable By government Of Rajasthan:** Income by way interest payable by the Government is deemed to accrue or arise in India. Therefore, interest payable by the Government of Rajasthan would be taxable in the hands of ABC Express Bank, even though it is a foreign bank and the interest has been remitted outside India.
- IV. **Salary Income Earned Outside India:** Salary received outside India for services rendered outside India (in Dubai Branch) is not deemed to accrue or arise in India. Hence, the salary income would not be taxable



in the hands of Mr Bhavesh, a non-resident, since the same is received outside India and is not deemed to accrue or arise in India.

Answer 46

1. Interest payable by a NR to another NR would be deemed to accrue or arise in India only if the loan is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
2. Royalty includes consideration for grant of license for computer software. Hence, ₹ 10L payable by a business India in the hands of Mr Thomas, a NR, since it is for the purpose of business in India. Hence, the royalty is taxable in India.
3. No income shall be deemed to accrue or arise to Mr Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10L is not taxable in India.
4. ₹ 10 lakhs is deemed to accrue or arise in India to Mr Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr Thomas.

Answer 47

- (i) Salaries [including allowances] payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India. Thus, salary received from Government by Mr .Rahul, being a non-resident of ₹ 7.5L for rendering services in Japan would be taxable in his hands, after allowing standard deduction of ₹ 50,000. However, any allowance or perquisites allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, ₹ 2,40,000, being the allowance would be exempt.
- (ii) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export. Thus, income of ₹ 2,50,000 arising in the hands of Ms Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.
- (iii) Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the



purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India. In the present case, since Mr Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.

- (iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India. In the present case, since Mr James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of ₹ 1,20,000 (₹ 10,00,000 x 12%) payable to Mr Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr Akash.

Answer 48

Computation Of Taxable Income Of Mr Tilak:

S.No.	Particulars	ROR (₹)	NOR (₹)
[a]	Remuneration for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India - Income accruing/arising outside India and received outside India, thus taxable in case of only ROR.	1,50,000	Nil
[b]	Profits from a business in England controlled from Bombay ₹ 3L (out of which ₹ 25,000 is received in India) - Income fully taxable in case of both ROR and NOR.	3,00,000	3,00,000
[c]	Amount brought to India out of past untaxed profits earned in Singapore - Not to be treated as an income under any residential status.	Nil	Nil
[d]	Capital gain on sale of land in India but received in Malaysia - Income accruing/arising in India and thus taxable in case of both ROR and NOR.	2,00,000	2,00,000
[e]	Income from agriculture land at Nepal, received there and then brought to India - Exemption is not available u/s 10(1) in respect of agricultural income earned outside India. Income earned and received outside India is taxable only in case of ROR.	18,000	Nil
[f]	Principal repayment of loan taken for construction of his self-occupied house in India - Since the property is situated in India, principal repayment of housing loan shall be eligible as deduction u/s 80C in case of both ROR and NOR..	(50,000)	(50,000)



[g]	Interest on saving bank deposit in SBI - Income accruing/arising in India and thus taxable in case of both ROR and NOR. Further, deduction of ₹ 10,000 available u/s 80TTA in case of both ROR and NOR.	12,000 (10,000)	12,000 (10,000)
Total Income		6,20,000	4,52,000

Part II - MULTIPLE CHOICE QUESTIONS (MCQs):

- Mr Q earns the following income during AY 2025-26 [ie PY 2024-25]. Compute his income presuming that he is ROR, RNOR and NR.
 - Past untaxed profits of UK business of 2017-18 brought into India in 2024-25 ₹ 90,000
 - Interest on Government securities accrued in India but received in Paris ₹ 80,000
 - Interest on USA Government securities, received in India ₹ 20,000
 - ₹ 1,00,000 each
 - ₹ 80,000 each
 - ₹ 1,90,000 each
 - None of the above
- S, a person of Indian origin, visited India on 4.10.2023 and plans to stay here for 185 days. During 4 years prior to PY 2024-25, he was in India for 750 days. Earlier to that he was never in India. For AY 2025-26, S shall be
 - Resident and ordinarily resident in India
 - Resident but not ordinarily resident in India
 - Non-resident
 - None of the above
- Past-untaxed profits of ₹ 1,00,000 for PY 2019-20 relating to a business in Germany were remitted to India during PY 2024-25. What would be the taxability of such profits in PY 2024-25?
 - Taxable in India for ROR only
 - Not taxable in India for all (ROR, RNOR and NR)
 - Taxable only for RNOR and NR
 - Taxable in India for all (ROR, RNOR and NR)
- Mr Yash earns the following incomes during AY 2025-26 [ie, PY 2024-25]:



- Interest paid by Central Government of India but received in London - ₹ 20,000
- Pension from former employer in India, received in America - ₹ 82,000 (Std ded of 50K available)
- Profits from business in Paris, which is controlled in India, half of the profits being received in India - ₹ 1,60,000
- Income from agriculture in Pakistan and remitted to India - ₹ 40,000
- Income from property in UK and received there - ₹ 32,000
- Past foreign untaxed income brought to India in the previous year - ₹ 40,000
- Gift in foreign currency from a relative received in India - ₹ 50,000

Determine the taxable income of Mr Yash if he is ROR.

- a) ₹ 2,84,000
- b) ₹ 3,12,000
- c) ₹ 3,24,000
- d) ₹ 2,52,000

5. Determine the taxable income of Mr Yash if he is NOR:

- a) ₹ 2,02,000
- b) ₹ 2,12,000
- c) ₹ 2,84,000
- d) ₹ 2,12,300

6. Determine the taxable income of Mr Yash if he is NR:

- a) ₹ 1,22,000
- b) ₹ 2,12,000
- c) ₹ 1,82,000
- d) ₹ 1,32,000

7. Interest payable outside India by a non-resident in India to a non-resident in India shall:

- a) Be taxable in India provided the interest is paid in respect of money borrowed and used for a business or profession carried on in India or earning from any source of income in India
- b) Not be taxable in India
- c) Be taxable in India provided the interest is paid in respect of money borrowed and used for a business or profession carried on in India
- d) None of the above

8. Income earned and received outside India but later remitted to India, is taxable in case of:

- a) All assesseees
- b) ROR



- c) Non-resident
- d) None of the above

9. Following are the incomes of Mrs Leela for AY 2025-26 [ie, PY 2024-25].

- Salary accrued and received in India - ₹ 1,10,000 [Standard deduction of ₹ 50,000 available]
- Profit from a business at Australia - ₹ 90,000
- Dividend declared in Perth [by an Australia company] but received in India - ₹ 12,000
- Income from transfer of a long-term capital asset situated in India - ₹ 60,000
- Interest on debenture of a foreign company which was received in India - ₹ 18,000
- Interest received from a non-resident on a loan provided for a business carried on in India - ₹ 15,000
- Royalty received in Germany from a resident for technical services provided for a business carried on in Germany - ₹ 60,000
- Fees from an Indian company carrying on business at Delhi from technical services rendered at Delhi having been directly deposited by the company in her bank account in Delhi - ₹ 90,000.

- a) ₹ 4,05,000
- b) ₹ 3,35,000
- c) ₹ 3,65,000
- d) ₹ 4,45,000

10. Determine Mrs Leela's taxable income if she is NOR:

- a) ₹ 2,55,000
- b) ₹ 2,15,000
- c) ₹ 1,65,000
- d) None of the above

11. Determine Mrs Leela's taxable income if she is NR:

- a) ₹ 2,05,000
- b) ₹ 1,65,000
- c) ₹ 2,15,000
- d) ₹ 2,55,000

12. If Anirudh, a citizen of India has stayed in India for 181 days during PY 24-25 and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year, his residential status for AY 2025-26 would be:

- a) Resident and ordinarily resident



- b) Resident but not ordinarily resident
 - c) Non-resident
 - d) Cannot be ascertained with the given information
13. Raman was employed in Hindustan Lever Ltd. He received a salary of ₹ 40,000 p.m. from 1.4.2024 to 27.9.2024. He resigned and left for Dubai for the first time on 1.10.2024 and got salary of rupee equivalent of ₹ 80,000 p.m. from 1.10.2024 to 31.3.2025 in Dubai. His salary for October to December 2024 was credited in his Dubai bank account and the salary for January to March 2025 was credited in his Bombay account directly. He is liable to tax in respect of:
- a) Income received in India from Hindustan Lever Ltd;
 - b) Income received in India and in Dubai;
 - c) Income received in India from Hindustan Lever Ltd and income directly credited in India;
 - d) Income received in Dubai
14. Incomes which accrue or arise outside India but received directly in India are taxable in case of:
- a) Resident and ordinarily resident only
 - b) Both resident and ordinarily resident and resident but not ordinarily resident
 - c) Non-resident
 - d) All of the above
15. Income earned from a contract negotiated by an agent in India in the name of a non-resident but approved by such non-resident shall:
- a) Be taxable in India as such income is deemed to accrue or arise in India
 - b) Not be taxable in India as there is no business connection in India
 - c) Be taxable in India only if it is received in India
 - d) Be taxable in India as such income accrues or arises in India
16. Fees for technical services paid by Central Government will be taxable in case of:
- a) Resident and ordinarily resident only
 - b) Both resident and ordinarily resident and resident but not ordinarily resident
 - c) Non-resident
 - d) All of the above
17. Which of the following incomes is not deemed to accrue or arise in India u/s 9(l)(i) of the Income Tax Act?
- a) Income from any business connection in India
 - b) Income through or from any property in India
 - c) Income arising from transfer of a capital asset situate in India



d) Income relating to operations which are confined to purchase of goods in India for export purposes

18. Mr Happy, a US citizen, came to India for an assignment from 11.01.2021 to 09.10.2021 and went back to his home country on completion of the same.

He thereafter, visited India on 05.07.2023 again for an assignment, which ended on 26.05.2024. What is the latest date by which Mr Happy should depart from India after completing the assignment so as to qualify as non-resident for PY 2024-25? [Assume that he shall not be visiting India again during the year]

- a) 29-05-2024
- b) 30-05-2024
- c) 31-05-2024
- d) 28-09-2024

19. Mr Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April 2024. From the following details, determine the residential status of Mr Sumit for AY 2025-26, assuming that his stay in India in the last 4 previous years preceding PY 2024-25 is 365 days and last seven previous years preceding PY 2024-25 is 730 days:

- Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr Sumit: 25th April 2024
- Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr Sumit: 24th October 2024

Mr Sumit has been filing his income tax return in India as a resident for previous 2 years. What is his residential status for AY 2025-26?

- a) Resident and ordinarily resident
- b) Resident but not-ordinarily resident
- c) Non-resident
- d) Deemed resident but not-ordinarily resident

20. Aashish earns the following income during PY 2024-25:

- Interest on U.K. Development Bonds (1/4th being received in India) - ₹ 4,00,000
- Capital gain on sale of a building in India but received in Holland - ₹ 6,00,000

If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for AY 2025-26?

- a) ₹ 7,00,000
- b) ₹ 10,00,000



- c) ₹ 6,00,000
- d) ₹ 1,00,000

21. Mr Harry, an Indian citizen, is a marketing consultant who provides consultancy to various countries around the globe. Due to his profession, he is required to travel across various countries throughout the year.

His marketing project does not last for more than 40 days and therefore his stay in any country including India usually never exceeds 40 days during a year. His income is ₹ 80 lakhs across the globe which is not liable to tax in any country. During PY 2024-25, an Indian company provides him a marketing project in India. His stay in India for the project is expected to be only 25 days and his income from that project would be ₹ 30 lakhs. Being a highly qualified professional, he consults you about the tax regime on his income and his residential status in India.

- a) He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on ₹ 30L.
- b) He shall be treated as resident and ordinarily resident and shall be liable to pay tax on ₹ 80L.
- c) He shall be treated as non-resident and shall not be liable to any tax.
- d) He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on his entire income of ₹ 80L earned across the globe.

22. Mr Square an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during FY 2024-25 was 115 days. He is not liable to pay any tax in Dubai. Following are his details of stay in India in the preceding previous years:

Financial Year	Days of Stay in India
FY 2023-24	100
FY 2022-23	125
FY 2021-22	106
FY 2020-21	83
FY 2019-20	78
FY 2018-19	37

What shall be his residential status for PY 2024-25 if his income [other than income from foreign sources] is ₹ 20 lakhs?

- a) Resident but Not Ordinary Resident (RNOR)
- b) Resident and Ordinary Resident
- c) Non-resident



d] Deemed Resident but not ordinarily resident

23. Mr Ramesh, a citizen of India, is employed in the Indian embassy in Australia. He is a NR for AY 2025-26. He received salary and allowances in the Australia from the Government of India for the year ended 31.03.2025 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?

- a] Salary, allowances and perquisites received outside India are not taxable in the hands of Mr Ramesh, since he is non-resident.
- b] Salary, allowances and perquisites received outside India by Mr Ramesh are taxable in India since they are deemed to accrue or arise in India.
- c] Salary received by Mr Ramesh is taxable in India but allowances and perquisites are exempt.
- d] Salary received by Mr Ramesh is exempt in India but allowances and perquisites are taxable.

24. Mr Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2018. From Canada, he is managing his retail business of toys in India. For the purposes of his Indian business, he visits India every year from 1st September to 31st January.

His business income is ₹ 23.50L and ₹ 18L from retail trade business in Canada and in India, respectively for FY 24-25. He has no other income during PY 24-25.

Determine his residential status and income taxable in his hands for AY 25-26.

- a] ROR in India and income of ₹ 18L and ₹ 23.50L would be taxable.
- b] Non-Resident and ₹ 18L from Indian retail trade business would only be taxable.
- c] NOR and ₹ 18L from Indian retail trade business would only be taxable.
- d] Deemed resident and ₹ 18L from Indian retail trade business would only be taxable.

25. Mr Nishant, a NOR for PY 23-24 and ROR for PY 24-25 has received rent from property in Canada amounting to ₹ 1,00,000 during PY 23-24 in a bank in Canada. During FY 24-25, he remitted this amount to India through approved banking channels. Is such rent taxable in India, and if so, how much and in which year?

- a] Yes; ₹ 70,000 taxable in India during PY 23-24.
- b] Yes; ₹ 1,00,000 taxable in India during PY 23-24.
- c] Yes; ₹ 70,000 taxable in India during PY 24-25.
- d] No; Such rent is not taxable in India either during PY 23-24 or PY 24-25.



26. Who among the following will qualify as non-resident for PY 2024-25?

- Mr Joey, an Italian designer came on visit to India to explore Indian handloom on 03.09.2024 and left on 15.12.2024. For past four years, he visited India for fashion shows and stayed in India for 100 days each year.
- Mr Sanjay born and settled in Canada, visits India each year for three months to meet his parents and grandparents, born in India in 1946, living in Mumbai. His Indian income is ₹ 15,20,000.
- Mr Chang, a Korean scientist left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2020 till 01.07.2024.

Choose the correct answer:

- a) Mr Joey and Mr Chang
- b) Mr Sanjay
- c) Mr Sanjay and Mr Chang
- d) Mr Chang

27. Mr Raj, an Indian citizen and a Government employee, left India for the first time on 25.03.2024 on account of his transfer to High Commission in Singapore. During PY 2024-25, he visited India only for ten days on occasion of his sister's marriage. During FY 2024-25, his income composition includes salary, foreign allowances, rent from property in Singapore and interest earned from fixed deposits maintained with SBI. His taxable income for PY 2024-25 will include:

- a) All of them, since Mr Raj is a resident in India, hence his global income will be taxable
- b) Only interest earned from fixed deposits maintained in India
- c) No income shall be taxable since Mr Raj is a nonresident in India for PY 2024-25
- d) Salary and interest income of fixed deposits with SBI

28. Mr Suhaan (aged 35 years), a non-resident earned dividend income of ₹ 12,50,000 from an Indian Company which was declared on 30.09.2024 and credited directly to his bank account on 05.10.2024 in France and ₹ 15,000 as interest in Saving A/c from State Bank of India during PY 2024-25. Assuming that he has no other income, what will be amount of income chargeable to tax in his hands in India for AY 2025-26?

- a) ₹ 2,55,000
- b) ₹ 12,65,000
- c) ₹ 12,50,000
- d) ₹ 12,55,000



29. Mr Mango, an Indian citizen, lives in New York, USA since the last 10 years. He has a penthouse in Mumbai, given on rent @ ₹ 2,00,000 p.m. During PY 2024-25, he came to India for 152 days in aggregate. His total stay in India in the immediately preceding 4 previous years is 366 days. You, being the tax consultant of Mr Mango, advise him about his residential status for AY 2025-26.
- a) Non Resident
 - b) Resident but not ordinary resident
 - c) Resident and ordinary resident
 - d) Deemed resident
30. Lister Internationals Inc, a non-resident engaged in business of selling "Good Z", appoints Mr Risky as an agent in India for selling such product. Mr Risky works as an agent for several other persons also including nonresidents aiding them in selling their products. The appointment of Mr Risky will
- a) lead to business connection in India as he is not independent agent
 - b) lead to business connection in India as he is an independent agent
 - c) not lead to business connection in India as he is not independent agent
 - d) not lead to business connection in India as he is an independent agent
31. Determine residential status of Sundaram (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF,
- Mr Sundaram who is from Chennai visits India on 01.06.2024 and leaves to Malaysia on 10.02.2025. He has not visited India for the past 11 years.
- a) Non-resident
 - b) Resident but not ordinarily resident
 - c) Deemed resident
 - d) Resident and ordinarily resident
32. Mr Rajesh, aged 53 years, and his wife, Mrs Sowmya, aged 50 years, are citizens of Country X. They are living in Country X since birth. They are not liable to tax in Country X. Both of them have keen interest in Indian Culture. Mr Rajesh's parents and grandparents were born in Country X. Mrs Sowmya visits India along with Mr Rajesh for four months every year to be with her parents, who were born in Delhi and have always lived in Delhi. During their stay in India, they organize Cultural Programme in Delhi-NCR. Income of Mr Rajesh and Mrs Sowmya from the Indian sources for PY 24-25 is ₹ 18 lakhs and ₹ 16 lakhs,



respectively. What is the residential status of Mr Rajesh and Mrs Sowmya for AY 2025-26?

- a) Both are resident and ordinarily resident in India
- b) Both are non-resident in India
- c) Mr Rajesh is resident but not ordinarily resident in India and Mrs Sowmya is non-resident
- d) Mrs Sowmya is resident but not ordinarily resident in India and Mr Rajesh is resident and ordinarily resident in India.

33. Mr Sushant is a person of Indian origin, residing in Canada. During PY 2024-25, he visited India on several occasions and his period of stay, in total, amounted to 129 days during PY 2024-25 and his period of stay in India during PY 2023-24, PY 2022-23, PY 2021-22 and PY 2020-21 was 135 days, 115 days, 95 days and 125 days, respectively. He earned the following incomes during the PY 2024-25:

Source of Income	Amt (₹)
Income accruing/arising abroad but received India	2,50,000
Income accruing/arising in India	3,75,000
Income accruing/arising and received outside India from business controlled from India	5,50,000
Income accruing/arising and received outside India from business controlled outside India	6,50,000

What is the residential status of Mr Sushant for AY 2025-26 and his income liable to tax in India during AY 2025-26?

- a) Non-Resident; ₹ 6,25,000 is liable to tax in India
- b) Resident and ordinary resident; ₹ 18,25,000 is liable to tax in India
- c) Resident but not ordinarily resident; ₹ 11,75,000 is liable to tax in India
- d) Non-Resident; ₹ 11,75,000 is liable to tax in India

SOLUTIONS TO MULTIPLE CHOICE QUESTIONS

1. [a]	2. [c]	3- [b]	4. [a]	5. [b]	6. [d]
7. [c]	8. [b]	9. [a]	10. [a]	11. [d]	12. [b]



13. [b]	14. [d]	15. [a]	16. [d]	17. [d]	18. [a]
19. [a]	20. [a]	21. [a]	22. [d]	23. [c]	24. [c]
25. [d]	26. [b]	27. [d]	28. [d]	29. [b]	30. [d]
31. [b]	32. [d]	33. [a]			





CHAPTER - 3

INCOME OF OTHER PERSONS INCLUDED IN
ASSESSEE'S TOTAL INCOME

ILLUSTRATION 1

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

SOLUTION

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

ILLUSTRATION 2

Mr. A holds shares carrying 25% voting power in X [P] Ltd. Mrs. A is working as a computer software programmer in X [P] Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2025 - 26 if they are paying tax under default tax regime.

SOLUTION

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

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A (30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	75,000	2,85,000
Other Income		7,00,000
Gross total income		9,85,000



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

ILLUSTRATION 3

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

SOLUTION

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

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

Gross total income of Mrs. A = Salary received by Mrs. A [₹ 30,000×12] less ₹ 75,000, being the standard deduction under section 16(ja) plus other income [₹ 4,00,000] = ₹ 6,85,000

ILLUSTRATION 4

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary [computed] of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2025-26.

SOLUTION

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

Computation of Gross total income of Mr. B

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

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [Clubbed in the hands of Mr. B]		Nil



Income from house property		
Gross Annual Value [$\text{₹ } 6,000 \times 12$]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
30% of NAV i.e., 30% of $\text{₹ } 72,000$	21,600	
Interest on loan	-	50,400
Gross total income		50,400

ILLUSTRATION 5

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of $\text{₹ } 5,00,000$. He incurred a loss of $\text{₹ } 2,00,000$ during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of $\text{₹ } 5,00,000$ on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of $\text{₹ } 4,00,000$ during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

SOLUTION

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

In this case, Mr. Vaibhav received a gift of $\text{₹ } 5,00,000$ on 1.4.2024 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is computed as under:

Particulars	Mr. Vaibhav's capital contribution	Capital contribution out of gift from Mrs. Vaishaly	Total
Capital as on 1.4.2024	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000



Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 [3:5]	1,50,000 $4,00,000 \times \frac{3}{8}$	2,50,000 $4,00,000 \times \frac{5}{8}$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 is ₹ 2,50,000.

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

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

ILLUSTRATION 6

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

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

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

SOLUTION

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

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

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

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

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



ILLUSTRATION 7

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2024 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) [assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)].

SOLUTION

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

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

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

ILLUSTRATION 8

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

	Particulars	₹
a]	Salary income [computed] of Mrs. A	2,30,000
b]	Income from profession of Mr. A	3,90,000
c]	Income of minor son B from company deposit	15,000



d)	Income of minor daughter C from special talent	32,000
e)	Interest from bank received by C on deposit made out of her special talent	3,000
f)	Gift received by C on 30.09.2024 from friend of Mrs. A	2,500

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

SOLUTION

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

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

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

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

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

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	



	3,000	
Less : Exemption under section 10(32)	1,500	1,500
Gross Total Income		4,05,000

ILLUSTRATION 9

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2024. On 12-7-2024, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2024 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother

SOLUTION

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

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

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



TEST YOUR KNOWLEDGE

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

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

11. During the previous year 2024-25, the following transactions occurred in respect of Mr. A.
- (a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
 - (b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
 - (c) Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
 - (d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
 - (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent

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

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

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

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

13. A proprietary business was started by Smt. Rani in the year 2022. As on 1.4.2023 her capital in business was ₹ 3,00,000.



Her husband gifted ₹ 2,00,000 on 10.4.2023 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial Year 2023-24, ₹ 1,50,000 and Financial Year 2024-25 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2025-26 with reasons.

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

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

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

ANSWERS

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

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

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

	Particulars	₹
I.	Income of one daughter	9,000



	Less: Income exempt under section 10(32)	1,500
	Total [A]	7,500
II.	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt under section 10(32)	
	(₹ 1,500 + ₹ 1,500)	3,000
	Total [B]	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

1. The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
2. The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
3. This is the first year in which clubbing provisions are attracted.

11. Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2025-26

Particulars	Mr. A	Mrs. A	Minor Son
Income under the head "Salaries"			
Salary income [of Mrs. A]	-	2,40,000	
Pension income [of Mr. A] (₹ 10,000×12)	1,20,000	-	
Less: Standard deduction under section 16(ia)	50,000	50,000	
	70,000	1,90,000	
Income from House Property [See Note (3) below]	52,000	-	-
Income from other sources			
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note	45,000	-	-



[1] below]				
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note [2] below]	25,000	70,000	-	-
Income before including income of minor son under section 64(1A)		1,92,000	1,90,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note [4] below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note [5] below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

Notes:

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

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



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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

13. Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹



Capital as at 1.4.2023	3,00,000		3,00,000
Investment on 10.04.2023 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2023	1,50,000		1,50,000
Capital employed as at 1.4.2024	4,50,000	2,00,000	6,50,000
Profit for F.Y.2024-25 to be apportioned on the basis of capital employed as at 1.4.2024 [i.e., 45 : 20]	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is ₹ 1,20,000.

14. Clubbing of income and other tax implications

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

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

Tax implications

- Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- Salary of ₹ 1,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 75,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- However, if Mrs. B exercises the option of shifting out of default tax regime, salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries".
- Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.



- v. As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".
- vi. Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill
- vii. Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.
- viii. Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

ILLUSTRATION 15

Mr. Sharma invests Rs 10 lakh in a fixed deposit (FD) at a bank, in his wife's name. Interest of Rs. 1 lakh arises on this income. Mrs Sharma invests the interest on periodic basis and interest for an amount of Rs. 5,000 arises on the interest deposited by her in bank. Analyze the clubbing provisions and find out the taxability of interest accrued.

Solution:

Rs. 1 lakhs in the Now Interest income on FD will be clubbed with his (Mr. Sharma) income. Interest of Rs. 5,000 aroused out of Investment made by Mrs. Sharma will be taxed as her own income.

Illustration 16

Red holds 40% of shares in a Company. Mrs. Red (a CS) is employed in the company as a Company Secretary and is getting salary of Rs. 15,000 per month. Compute total income and tax payable by Red and Mrs. Red assuming other income of Red is Rs. 2,00,000 from a business.

Solution:

In the present case, Mrs. Red's salary income will be taxable in her hands only as she is earning the same through her professional qualification.



Computation of Total Income and Tax Liability

Particulars	Mr. Red (Rs.)	Mrs. Red (Rs.)
Income from Salary	Nil	1,80,000
Income from Business	2,00,000	Nil
Gross Total Income (or Total Income)	2,00,000	1,80,000
Tax Liability (as total income does not exceed Rs. 2,50,000)	Nil	Nil

Illustration 17

Mr. Amit is beneficially holding 21% equity shares of Essem Minerals Pvt. Ltd. Mrs. Amit is employed as Manager [in accounts department] in Essem Minerals Pvt. Ltd. at a monthly salary of Rs. 84,000. Mrs. Amit is not having any knowledge, experience or qualification in the field of accountancy. Will the remuneration [i.e., salary] received by Mrs. Amit be clubbed with the income of Mr. Amit?

Solution:

In this situation, Mr. Amit is having substantial interest in Essem Minerals Pvt. Ltd. and remuneration of Mrs. Amit is not justifiable [i.e., she is employed without any technical or professional knowledge or experience] and, hence, salary received by Mrs. Amit from Essem Minerals Pvt. Ltd. will be clubbed with the income of Mr. Amit and will be taxed in the hands of Mr. Amit.

Illustration 18

Mr. Kapoor gifted Rs. 8,40,000 to his wife. The said amount is invested by his wife in debentures of a company. Will the income from the debenture purchased by Mrs. Kapoor from gifted money be clubbed with the income of Mr. Kapoor?

Solution:

Rs. 8,40,000 is transferred to spouse. Fund is transferred via gift [i.e., without adequate consideration] and, hence, the provisions of section 64(1)(iv) will be attracted. The provisions of clubbing will apply even if the form of asset is changed by the transferee-spouse.

In this case asset transferred is money and, subsequently, the form of asset is changed to debentures, hence, income from debentures acquired from money gifted by her husband will be clubbed with the income of her husband. Thus, interest on debenture received by Mrs. Kapoor will be clubbed with the income of Mr. Kapoor.



Illustration 19

Mr X has transferred a sum of ₹ 20 lakhs to his wife in 2007 and Mrs X constructed a property out of this amount. She has since been using the property for her own residence. The transfer deed stipulates that in case of Mr X and his wife agreeing to live apart, the property will belong to her absolutely. Discuss the tax implications for the entire transaction.

Illustration 20

Mr Korani transferred 2,000 debentures of ₹ 100 each of Wild Fox Ltd to Mrs Resham Korani (his wife) on 03.04.2024 without consideration. Wild Fox Ltd paid interest of ₹ 30,000 in September 2024 which was deposited by Mrs Resham Korani with Kartar Finance Co in October 2024. Kartar Finance Co paid interest of ₹ 3,000 upto March 2025. Discuss the taxability of both interest incomes for AY 2025-26.

Illustration 21

Mr Chauhan commenced a proprietary business on 01.04.2023 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 4,00,000 during FY 2023-24. To help her husband tide over the loss, his wife Mrs Aparna, a CA gave a gift of ₹ 4,00,000 on 01.04.2024, which was immediately invested in the business by Mr Chauhan. He earned a profit of ₹ 5,00,000 during FY 2024-25. What is the amount to be clubbed in the hands of Mrs Aparna for AY 2025-26? Would your answer be different, if Mrs Aparna gave the said amount as loan?

Illustration 22

a) A business was started by Smt Sugandha in 2016. As on 01.04.2024, her capital in business was ₹ 4,00,000. Her husband, Mr Saurabh, gifted ₹ 3,00,000 on 01.04.2024 which Smt Sugandha invested in her business on the same date. Profits earned from business for different years are as follows:

Financial Year 2024-25	₹ 2,00,000	Financial Year 2025-26	₹ 2,40,000
Financial Year 2026-27	₹ 2,80,000	Financial Year 2027-28	₹ 3,00,000

Amount of profit was further invested in the business. Compute the amount to be clubbed in the income of Mr Saurabh in each of the year.

b) Presume that the amount was gifted by Mr Saurabh to Smt Sugandha on 10.04.2024 and was invested in the business on the same day.

Illustration 23 {June 2019 Exams - 3 Marks}

Briefly explain with example, the meaning of cross transfer, the objective to make such transactions and implications thereof under the Income Tax Laws.

Clubbing Of Income Of Minor Child - Section 64(1 A)

Illustration 24

Mr A has 3 minor children - 2 twin daughters and 1 son. Income of twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Compute the income in respect of minor children, to be clubbed in the hands of Mr A.

Illustration 25

Mr Ghose has four minor children consisting of 2 daughters and 2 sons. Annual income of 2 daughters was ₹ 7,500 and ₹ 5,000 and of sons was ₹ 5,500 and ₹ 1,250 respectively. The daughter who was having income of ₹ 5,000 was suffering from a disability specified u/s 80U. Work out the amount of income earned by minor children in the hands of Mr Ghose.

Illustration 26

Mr Dhaval earns a salary income of ₹ 3,50,000 (as computed). His minor children's incomes are as under:

Particulars	Amount (₹)
Minor daughter has earned the following income:	
• From a TV dance performance	₹ 50,000
• From interest on FD with a bank	₹ 5,000
Minor son has earned the following income:	
• From the sale of an own painting	₹ 10,000
• From interest on FD with a bank (deposited by Mr Dhaval from his income)	₹ 1,000

Calculate gross total income of Mr Dhaval for AY 2025-26.

Illustration 27

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 31-3-2025:

- M received a gift of ₹ 70,000 from her friend's father on the occasion of her birthday.



- ii. M won a prize money of ₹ 3,00,000 in National Quiz competition. This was invested in debentures of a company, from which interest of ₹ 19,000 [gross] accrued during the year.
- iii. N won prize in a lottery. The net amount received after deduction of tax at source was ₹ 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.

Illustration 28

Compute the total income of Mr Dhawal and his wife [Mrs Hetal] for AY 2025-26 from the following information:

Particulars	Amount (₹)
Salary income [computed] of Mrs Hetal	4,60,000
Income of minor son 'B' who suffers from disability specified u/s BOU	1,08,000
Income of minor daughter 'C' from singing	86,000
Income from profession of Mr Dhawal	7,50,000
Cash gift received by 'C' from friend of Mrs Hetal for winning singing competition	48,000
Income of minor married daughter 'A' from company deposit	30,000

Illustration 29

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

	Particulars	Amount (₹)
(i)	Salary income [computed] of Mrs Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2024 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 /Hr Dharmesh and his wife Mrs Anandi for Assessment Year 2024-25 assuming that they have not opted to be taxed u/s 115BAC.

Illustration 30

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 01.10.2024, HUF is partitioned and such property being divided equally. Net annual value of the property for PY 2024-25 is ₹ 1,00,000. Determine the tax implications.

Illustration 31

Details of income of Mr R and his wife Mrs R for PY 2024-25 are as under:

- i. Mr R transferred his self-occupied property without any consideration to the HUF of which he is a member. During PY 2024-25, the HUF earned an income of ₹ 50,000 from such property.
- ii. Mr R transferred ₹ 4,00,000 to his wife Mrs R on 01.04.2009 without any Consideration which was given as a loan by her to Mr Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr Girish. During PY 2024-25, she earned interest @ 11 % per annum.
- iii. Mr R and Mrs R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such company. During FY 2024-25, they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively without any technical/professional qualification.
- iv. Mrs R transferred 5,000 equity shares of RSB Ltd on 17.09.2013 to Mr R without any consideration. The company issued 3,000 bonus shares to Mr R in 2016. On 04.03.2025, Mr R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr R has income from commission ₹ 4,00,000 and Mrs R has interest income of ₹ 3,30,000. Compute Gross Total income of Mr R and Mrs R for A Y 2025-26.

Illustration 32

From the following transactions compute the total income of Mr Raman and his wife Savita for AY 2025-26.

- i. Mr Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @ 6% from 01-04-2024 to 31-03-2025 to the savings account of his brother's son for his education.



- ii. Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30% equity shares of the ABC Private Limited.
- iii. Raman started proprietary business on 01-04-2023 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during PY 2023-24. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2024 which was immediately invested in the business by Mr Raman. He earned a profit of ₹ 3,00,000 during PY 2024-25.
- iv. Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account.

Illustration 33

Mr Chaman who is 50 years old and his wife Mrs Chaman who is 48 years old furnish the following information [all the amount of incomes/gains/losses are computed as per the provisions of Income Tax Act]:

- i. Mr Chaman's salary income - ₹ 11,00,000
- ii. Mrs Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- iii. Mrs Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- iv. Mrs Chaman gifted ₹ 12,00,000 to Mr Chaman out of her Stridhan on 1.4.2023. Mr Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- v. Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during PY 2024-25. She kept that amount in savings bank account and earned interest of ₹ 15,000 during PY 2024-25.
- vi. Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned u/s 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr and Mrs Chaman and their minor children for AY 2025-26.

Illustration 34

Mr Jai, a resident individual, furnishes the following particulars of his income and other details for PY 2024-25:

Particulars	(₹)



Income from the activity of owning and maintaining race horses	40,000
Income from crossword puzzle solving	30,000
Income from agricultural land in Haryana	25,000
Dividend income from domestic company (gross)	15,000
Expenditure incurred in collecting the aforesaid dividend	2,500
Income from cycling business	1,50,000
Loss from warehousing facility for storage of edible oils	1,00,000
Share of loss from PR associates, a firm (having 4 equal partners) in which he is a partner	23,000

The following items have been brought forward from AY 2022-23:

Particulars	Amount (₹)
Brought forward loss from house property	1,00,000
Loss from the activity of owning and maintaining race horses	37,000
Loss from gambling	10,000
Unabsorbed depreciation	15,000
Speculation Loss	20,000

Mrs Jai (wife of Mr Jai) got a salary of ₹ 1,20,000 from PR associates during FY 2024-25. She is not qualified for the job. Compute the gross total income of Mr Jai for AY 2025-26 ignoring the provisions of section 115BAC.



SOLUTIONS

Answer 19

- Section 64(1) provides that while computing the total income of an individual, income from all assets (other than house property) transferred directly or indirectly by the individual to his spouse shall be included in the total income of the individual. This provision shall not apply in cases where the assets have been transferred for adequate consideration or in connection with an agreement to live apart.
- In the present case, Section 64(1) will be applicable and Section 27 shall not be applicable because what is transferred is cash and not a house property. Hence, although Mrs X will be treated as owner of the house property, the income from house property will be included in the income of Mr X.
- The provision in the transfer deed stating that in case of Mr X and his wife agreeing to live apart, the property will belong to Mrs X is of no consequence.

Answer 20

- Section 64(1) provides that income arising from assets transferred without adequate consideration by an individual to his spouse is liable to be clubbed in the hands of the individual. However, if such income is invested by the spouse, then income on such income is not to be clubbed.
- Therefore, ₹ 30,000, being the interest on debentures earned by Mrs Resham Korani in September 2024 is taxable in the hands of Mr Korani since he had transferred the debentures of Wild Fox Ltd without consideration to her.
- However, interest earned by Mrs Resham Korani by depositing the debenture interest with Kartar Finance company, does not arise from the transferred asset. Consequently, the interest of ₹ 3,000 upto March 2025 earned by Mrs Resham Korani shall be taxable in her individual capacity and will not be clubbed with the income of Mr Korani.

Answer 21

- Section 64(1) of the Income Tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration.
- In this case, Mr Chauhan received a gift of ₹ 4,00,000 on 01.04.2024 from his wife Mrs Aparna, which he invested in his business immediately. The income to be clubbed in the hands of Mrs Aparna for AY 2025-26



is computed as under:

Previous Year	Capital As On 1st April (₹)	Profit Earned (₹)	Amount To Be Clubbed (₹)
PY 2024-25	10,00,000 (6L + 4L)	5,00,000	2,00,000 $\{[(5,00,000/10,00,000) \times 4,00,000]\}$

- If Mrs Aparna gave the said amount of ₹ 4,00,000 as a bonafide loan, then clubbing provisions would not be attracted.

Answer 22

The profit earned on the amount of gift is to be clubbed provided the gift amount has been invested on the first day of the relevant previous year. Profit on profit is not to be clubbed.

Part (a) - Amount To Be Clubbed In Various Years Shall Be As Given Below:

Previous Year	Capital As On 1st April (₹)	Profit Earned (₹)	Amount (₹)
PY 2024-25	7,00,000	2,00,000	85,714.29 $(2,00,000/7,00,000 \times 3,00,000)$
PY 2025-26	9,00,000	2,40,000	80,000.00 $(2,40,000/9,00,000 \times 3,00,000)$
PY 2026-27	11,40,000	2,80,000	73,684.21 $(2,80,000/11,40,000 \times 3,00,000)$
PY 2027-28	14,20,000	3,00,000	63,380.28 $(3,00,000/14,20,000 \times 3,00,000)$

Part (b) - Amount To Be Clubbed In Various Years Shall Be As Given Below:

Previous Year	Capital As On 1st April (₹)	Profit Earned (₹)	Amount (₹)
PY 2024-25	4,00,000	2,00,000	Nil, since the amount of gift was not invested in business as on 1/4/2024
PY 2025-26	9,00,000	2,40,000	80,000.00 $(2,40,000/9,00,000 \times 3,00,000)$
PY 2026-27	11,40,000	2,80,000	73,684.21 $(2,80,000/11,40,000 \times 3,00,000)$
PY 2027-28	14,20,000	3,00,000	63,380.28 $(3,00,000/14,20,000 \times 3,00,000)$

Answer 23

Cross transfer means transfer of income-yielding assets whether directly or indirectly so as to reduce the



burden of taxation on the transferors. 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 as per the Supreme Court's decision in Apex Court in the case of CIT vs Keshavji Morarji. In such a case, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise.

Example: If Mr A makes a gift of ₹ 5,00,000 to the wife of his brother B for the purchase of a house by her and simultaneously, Mr B makes a gift of shares in a foreign company worth ₹ 5,00,000 owned by him to Mr A's minor son, the income from the assets transferred would be assessed in the hands of the deemed transferor. This is because both Mr A and Mr B are the indirect transferors of the income to their minor son and spouse, respectively, with an intention to reduce their burden of taxation. Accordingly, dividend from shares accruing to Mr A's minor son is taxable in the hands of Mr A and rental income from house property accruing to Mrs B is taxable in the hands of Mr B.

Answer 24

Particulars	Amount (₹)	Amount (₹)
Twin minor daughters [2,000 x 2 daughters]	4,000	
Less: Exemption u/s 10(32) [1,500 per child x 2]	(3,000)	1,000
Minor son	1,200	
Less: Exemption u/s 10(32)	(1,200)	Nil
Total Income To Be Clubbed		1,000

Note: As per Section 10(32), if income of an individual (ie the parent) includes income of his minor child, such parent shall be allowed an exemption of upto ₹ 1,500 per child.

Answer 25

Particulars	Amount (₹)	Amount (₹)
Income of two daughters {7,500 + Nil}	7,500	
Less: Income exempt u/s 10(32)	(1,500)	6,000
Income of two sons {5,500 + 1,250}	6,750	



Less: Income exempt u/s 10(32) {1,500 + 1,250}	(2,750)	4,000
Total Income To Be Clubbed		10,000

Note: The income of daughter suffering from disability specified u/s 80U is not to be clubbed.

Answer 26

Computation Of Gross Total Income Of Mr Dhaval	Amount (₹)
Income From Salary	3,50,000
Income From Other Sources:	
• Minor Daughter's income from TV show [see Note below]	Nil
• Minor Daughter's FD interest income clubbed after allowing exemption of ₹ 1,500 u/s 10(32)	3,500
• Minor Son's income from sale of painting [see Note below]	Nil
• Minor Son's FD interest income clubbed after allowing exemption of ₹ 1,000 u/s 10(32)	Nil
Gross Total Income	3,53,500

Note: The income derived by minor from manual work or from any activity involving exercise of his skill, talent or specialized knowledge or experience will not be included in the income of his parent. Hence, ₹ 50,000 being the income of the minor daughter from dance and ₹ 10,000 being the income of minor son from sale of own painting shall not be clubbed in the hands of Mr Dhaval.

Answer 27

- Gift Received From Non-Relative By Minor Daughter M:** Gift of ₹ 70,000 received by minor daughter M, from non-relative would be taxable, since the amount of gift exceeds ₹50,000. It would be included in the hands of her father, Mr Vinod Amin, since his income before considering clubbing provisions is higher than that of his wife.
- Prize Money Of ₹ 3,00,000 In National Quiz Competition/Interest On Debentures Received By Minor Daughter M:** Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Quiz Competition by minor daughter M from exercise of special talent would not be included in the income of either parent.



However, interest of ₹ 19,000 on debentures has to be included in the hands of her father, Mr Vinod Amin, even if the investment is made out of income arising from application of special talent. Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter M so included in the hands of Mr Vinod Amin u/s 10(32).

- iii. **Winning From Lottery By Minor Child N:** Winnings of ₹ 1,50,000 [$1,05,000 \times 100/70$] from lotteries by minor child N is includible in the hands of his father, Mr Vinod Amin. Mr Vinod Amin can claim credit of tax of ₹ 45,000 deducted at Source from such lottery income.

Answer 28

Computation Of Total Income Of Mr Dhawal And Mrs Hetal For AY 2025-26:

Particulars	Mr Dhawal (₹)	Mrs Hetal (₹)
Salaries		4, 60,000
Profits and gains of business or profession	7,50,000	
Income from Other Sources:		
Income by way of interest from company deposit earned by minor daughter 'A'	30,000	
Less: Exemption u/s 10(32)	(1,500)	
Total Income	7,78,500	4,60,000

Notes:

- The income of a minor child suffering from any disability of the nature specified u/s 80U shall not be included in the hands of the parents. Hence, ₹ 1,08,000 being the income of minor son 'B' who suffers from disability shall not be included in the hands of either of his parents.
- The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialized knowledge or experience will not be included in the income of his parent. Hence, in the given case, ₹86,000 being the income of the minor daughter 'C' from singing shall not be clubbed in the hands of the parents.
- Gift received by 'C' will not be clubbed in hands of Mr Dhawal as it is less than ₹ 50,000. Cash gifts received from any person/persons exceeding ₹ 50,000 in aggregate during the year is taxable. Since the cash gift in this case does not exceed ₹ 50,000, the same is not taxable.



Answer 29**Computation Of Total Income Of Mr Dharmesh And Mrs Anandi For AY 2025-26:**

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 ₹ 3,08,000 of minor son A who suffers from disability specified u/s 80U	-	-
{Since minor child A is suffering from disability specified u/s, his income would not be included in the income of the parent but would be taxable in the hands of the minor child only}		
Income Of Minor Son "B":		
• Income of ₹ 1,00,000 from scholarship {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)}		
• Income from fixed deposit with PNB {Since Mr Dharmesh's income is greater than that of Mrs Anandi, income of minor son B from fixed deposit would be included in the hands of Mr Dharmesh after allowing an exemption of ₹ 1,500 u/s 10(32). Interest from bank deposit	3,500	-
has to be included in Mr Dharmesh's income, even if deposit is made out of income earned from scholarship}		
Income Of Minor Daughter "C":		
• Income of ₹ 1,86,000 from script writing for television serials {Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent}	-	-
• Cash gifts of ₹ 45,000 received from friend of Mrs Anandi {Gift not exceeding ₹ 50,000 received from a non-relative is not taxable u/s 56(2)(x)}	-	-



Total Income	17,53,500	9,60,000

Conversion Of Self-Acquired Property Into Common Property - Section 64(2)

Answer 30

Tax Implications For The Period Prior To Partition {1st April 2024 To 30th September 2024}:

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 [ie, 30.09.2024] would be included in the total income of Mr Sarthak. Such income would come out to ₹ 35,000 $\{6/12 \times ₹ 70,000$ [Net Annual Value of ₹ 1,00,000 less 30% deduction u/s 24(a)].

Tax Implications For The Period Prior To Partition {1st October 2024 To 31st March 2025}:

- Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.
- Further, since the HUF was partitioned on 1.10.2024, 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 25% share of ₹ 8,750 and Juhi's 25% of ₹ 8,750 would be included in the total income of Mr Sarthak.
- 25% share of Sarthak's minor daughter, Aditi, ie ₹ 8,750 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 u/s 10(32). 25% share of Sarthak's major son, Arjun, ie, ₹ 8,750 would be included in Arjun's total income.

Answer 31

Computation Of Gross Total Income Of Mr R And Mrs R For AY 2025-26:

Particulars	Mr R (₹)	Mrs R (₹)
Income From House Property:		
Since Mr R has transferred his property to his HUF without consideration, income of ₹ 50,000 from such property would be included in the total income of Mr R	50,000	-
Capital Gains:		



• Capital gains arising to Mr R from transfer of equity shares of RSB Ltd gifted to him by Mrs R would be included in the hands of Mrs R [$\text{₹ } 5,20,000 \times 5,000/8,000$]		3,25,000
• Capital gains arising to Mr R from transfer of bonus shares issued by RSB Ltd on the basis of holding of the said equity shares would be included in the income of Mr R and not Mrs R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset, ie Mrs R [$\text{₹ } 5,20,000 \times 3,000/8,000$]	1,95,000	
Income From Other Sources:		
• Income from commission	4,00,000	-
• Interest income	-	3,30,000
• Income of ₹ 44,000, ie 11% of ₹ 4,00,000, being the amount transferred by Mr R to Mrs R without any consideration and loaned by her to Mr Girish, would be included in the income of Mr R	44,000	-
• Income of ₹ 38,500, ie 11% of ₹ 3,50,000, being the interest earned by Mrs R out of amount gifted by Mr R and thereafter, given by her as loan to Mr Girish, would be included in the income of Mrs R, as income derived by Mrs R from accretion of the amount gifted by Mr R (ie, interest income) cannot be included in the income of Mr R.	—	38,500
Total Income {Before considering adjustment on account of item (iii), ie salary income from a company in which both Mr R and Mrs R have substantial interest}	6,89,000	6,93,500
Salary Income From A Company In Which Both Mr R And Mrs R Have Substantial		
Interest:		
Since both Mr R and Mrs R have substantial interest in AMG Ltd (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by		
way of salary from AMG Ltd. such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr R and Mrs R would be included in the hands of Mrs R in this case,		
since her total income, before including such income, is higher than that of Mr R.	-	2,70,000
Salary income of Mr R = ₹ 3,20,000 - ₹ 50,000 (Standard Deduction)	-	2,20,000
Salary income of Mrs R = ₹ 2,70,000 - ₹ 50,000 (Standard Deduction)		



Gross Total Income	6,89,000	11,83,500

Answer 32

S.No.	Particulars	Mr Raman (₹)	Mrs Savita (₹)
(i)	Interest On Fixed Deposits {Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit} [1 5,00,000 x 6%]	30,000	-
(ii)	Salary Income {₹ 3,00,000 (₹ 25,000 x 12) - Standard deduction of ₹ 50,000} {Since Mrs Savita possesses the relevant professional qualifications for working as an accountant, her salary would not be included in the income of Raman, who has substantial interest in the company}		2,50,000
(iii)	Savita gifted ₹ 4,00,000 to Mr Raman, which Mr Raman has invested in the business. In such case, proportionate income (i.e., $1/3 \times ₹ 3,00,000$) arising from such investment is to be included in the total income of Savita. • Mr Raman's contribution in capital as on 1.4.2024 = ₹ 8,00,000 (₹ 10L - ₹ 2L) • Mrs Savita's contribution on 1.4.2024 = ₹ 4,00,000 • ₹ 3,00,000, being the profit for PY 2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 (8:4 or 2:1)	2,00,000	1,00,000
	Total Income [Before Considering Minor Income From Interest On Savings Account]	2,30,000	3,50,000
(iv)	Cash award won in a debate by Sajan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent.	-	5,500
	However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹1,500) is to be included in the hands of Mrs Savita, since her income is higher than that of her husband [₹ 7,000 - ₹1,500]		
	Gross Total Income	2,30,000	3,55,500
	Less: Deduction u/s 80TTA (Interest on savings bank account)	-	[5,500]



Total Income	2,30,000	3,50,000

Answer 33**Computation Of Total Income Of Mr Chaman, Mrs Chaman, Ms Naina & Master Neelabh For AY 2025-26:**

Particulars	Mr Chaman [₹]	Mrs Chaman [₹]	Ms Naina [₹]	Master Neelabh [₹]
• Salary income of Mr Chaman {Assumed that standard deduction of ₹ 50,000 u/s 16[ia] has already been deducted}	11,00,000	-	-	-
• Mrs Chaman's professional income from Kathak performances	-	2,50,000	-	-
• Mrs Chaman's LTCG from sale of shares	-	5,50,000	-	-
• Short-term capital loss suffered by Mr Chaman on investment made by Mr Chaman from amounts gifted by Mrs Chaman { STCL suffered by Mr Chaman shall be treated as STCL in the hands of Mrs Chaman. STCL of ₹ 5,10,000 can be set-off against the LTCG of ₹ 5,50,000 earned by Mrs Chaman}		(5,10,000)		
Less: Deduction u/s 80DD {It is assumed that the disabled minor child is dependent on Mr Chaman and therefore, Mr Chaman is entitled to claim a deduction of ₹ 75,000. as the minor child is suffering from a disability of less than 80%}	(75,000)	-	-	-
Income Before Including Income Of Minor Children u/s 64[1A]	10,25,000	2,90,000	-	-
• Income of Miss Naina from various quiz competitions held online {Income earned by minor child due to his own skill or talent is taxable in the hands of the minor child}	-	-	3,56,000	-
• Interest income of Miss Naina from savings bank account {Income of minor child clubbed in the income of the parent whose total income before such clubbing is higher after allowing exemption of ₹ 1,500 u/s 10[32]; further deduction	3,500			



of ₹ 10,000 is available u/s 80TTA in respect of interest earned on saving deposits]				
• Interest on fixed deposit earned by Master Neelabh [disabled minor child] [Income earned by disabled minor child is taxable in the hands of minor child only; clubbing provisions aren't applicable in such a case]				35,000
Total Income	10,28,500	2,90,000	3,56,000	35,000

Answer 34**Computation Of Gross Total Income Of Mr Jai For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary		70,000
Salary received by Mrs Jai {Salary received by Mrs Jai shall be clubbed in the hands of Mr Jai since Mr Jai has a substantial interest in PR Associates by having 25% share of profit in it and Mrs Jai is not qualified for the job} '	1,20,000	
Less: Standard deduction u/s 16[ia]	(50,000)	
Income u/h PGBP:		35,000
Income from cycling business	1,50,000	
Less: Loss from warehousing facility for storage of edible oils [Warehousing facility for storage of edible oils is a normal business and not a Section 35AD specified business. Loss from a normal business can be set-off against income of any normal business]	(1,00,000)	
Less: B/f unabsorbed depreciation [Unabsorbed depreciation can be set-off against any income other than salary and casual income]	(15,000)	
Income u/h Other Sources:		48,000
• Income from the activity of owning and maintaining race horses	40,000	
Less: Loss from the activity of owning and maintaining race horses {B/f loss from the activity of owning and maintaining race horses can be c/f and set-off for 4 years only against income from activity of owning and maintaining race horses}	(37,000)	



• Dividend income from domestic company {No deduction is allowed from dividend income other than interest expenses}	15,000	
• Income from crossword puzzle solving	30,000	
Gross Total Income		1,53,000

Note 1: Income from Agricultural land in Haryana is exempt as per Section 10(1).

Note 2: Profit share from a partnership firm is exempt u/s 10(2A). Thus, there will be no treatment of share of loss from PR associates, a firm (having 4 equal partners) in which he is a partner.

Note 3: B/f loss from house property can be set-off only against income of house property. Hence, such loss has to be carried forward to AY 2026-27.

Note 4; Loss from gambling can neither be set-off nor be carried forward.

Note 5: B/f loss from speculative business can be set off against income of any other speculative business. Hence, such loss has to be carried forward to AY 2026-27.





CHAPTER - 4

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

ILLUSTRATION 1. (easy)

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2025-26:

Particulars	
Income from salary [computed]	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest [FD] received	80,000

Compute the total income of Mr. A for the A.Y.2025-26, assuming that

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

SOLUTION

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

Particulars	Amount	Amount
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources [interest on fixed deposit with bank]	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-



Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes:

- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income

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

Particulars	Amount	Amount
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property of ₹ 2,20,000 cannot be set off against income under any other head and cannot be carried forward to next assessment year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.



ILLUSTRATION 2. (easy)

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2024-25:

Particulars	Amount
Income from salary [computed]	45,000
Income from house property	[24,000]
Income from non-speculative business	[22,000]
Income from speculative business	[4,000]
Short-term capital losses	[25,000]
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2025-26, assuming that he pays tax under section 115BAC?

SOLUTION**Total income of Mr. B for the A.Y. 2025-26**

Particulars	Amount	Amount
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	[22,000]	
Speculative loss to be carried forward [Note (ii)]	[4,000]	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iii)]	[19,000]	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iii)]		



Taxable income		45,000

Notes:

- Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short-term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any

ILLUSTRATION 3. (easy)

During the P.Y. 2024-25, Mr. C has the following income and the brought forward losses:

Particulars	
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2023-24	[96,000]
Short term capital loss of A.Y.2024-25	[37,000]
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2025-26?

SOLUTION**Taxable capital gains of Mr. C for the A.Y. 2025-26**

Particulars		
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the A.Y.2024-25	[37,000]	1,13,000
Long term capital gain	75,000	



Less: Brought forward long-term capital loss of A.Y.2023-24 ₹ 96,000 set off to the extent of ₹ 75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2023-24 of ₹ 21,000 [i.e. ₹ 96,000 – ₹ 75,000] can be carried forward to the next year to be set-off against long-term capital gains of that year.

ILLUSTRATION 4 (easy)

Mr. D has the following income for the P.Y.2024-25:

Particulars	
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss [relating to A.Y. 2024-25]	50,000
Brought forward loss from the activity of owning and maintaining the race horses [relating to A.Y.2022-23]	96,000

What is the total income in the hands of Mr. D for the A.Y. 2025-26?

SOLUTION

Total income of Mr. D for the A.Y. 2025-26

Particulars		
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 [₹ 96,000 – ₹ 75,000] from the activity of owning and maintaining race horses to be carried forward to A.Y.2026-27		
Income from textile business	85,000	



Less: Brought forward business loss from textile business	50,000	35,000
Total income	35,000	

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

ILLUSTRATION 5 (average)

Mr. E has furnished his details for the A.Y.2025-26 as under:

Particulars	
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	[40,000]
Short term capital gain	80,000
Long term capital loss of A.Y.2023-24	[30,000]
Winning from lotteries (Gross)	20,000

Compute the total income of Mr. E for the A.Y.2025-26

SOLUTION

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

Particulars		
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	[40,000]	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000



Note:

Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.



TEST YOUR KNOWLEDGE

6. Compute the gross total income of Mr. F for the A.Y. 2025-26 from the information given below –

Particulars	
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2024-25)	[90,000]
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	[45,000]

(average)

7. Mr. Soohan submits the following details of his income for the A.Y.2025-26:

(difficult)

Particulars	
Income from salary (computed)	3,00,000
Loss from let out house property	[-] 40,000
Income from sugar business	50,000
Loss from iron ore business for P.Y. 2019-20 (discontinued in P.Y. 2020-21)	[-] 1,20,000
Short term capital loss	[-] 60,000



Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning [Gross]	50,000
Winnings from card games [Gross]	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

8. Mr. Batra furnishes the following details for year ended 31.03.2025:

Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile [after allowing current year depreciation]	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary [computed]	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- Losses from activity of owning and maintaining race horses-pertaining to A.Y.2022-23 - ₹ 25,000.
- Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the Assessment Year 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2026-27

(average)

9. Mr. A furnishes you the following information for the year ended 31.03.2025:

(difficult)



(i)	Income from plying of vehicles [computed as per books] (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments [Computed as per books] [Sales turnover ₹ 1,35,70,000] Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2025-26. Assume 10% of the turnover during the P.Y.2024-25 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii)	He has brought forward depreciation relating to A.Y. 2023-24	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2025-26 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

10. Mr. Aditya furnishes the following details for the year ended 31-03-2025

(difficult)

Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary [computed]	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares [STT not paid]	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange [STT paid at the time of acquisition and sale of shares]	1,02,000

Following are the brought forward losses:

1. Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 ₹ 2,000.
2. Brought forward loss from trading business ₹ 5,000 relating to A.Y.2020-21

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



11. Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2024-25

	Particulars	
1.	Income from Salary (computed)	15,000
2.	Income from business	66,000
3.	Long term capital gain on sale of land	10,800
4.	Loss on maintenance of race horses	15,000
5.	Loss from gambling	9,100

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

	Particulars	
1.	Unabsorbed depreciation	11,000
2.	Loss from Speculative business	22,000
3.	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the A.Y. 2025-26 and the amount of loss, if any that can be carried forward or not. **(difficult)**

12. The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2025:

Particulars	
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000



Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

13. Mr. Rajat submits the following information for the financial year ending 31st March, 2025. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should: **(difficult)**

- Compute the total income; and
- Ascertain the amount of losses that can be carried forward.

	Particulars	
(i)	He has two let out house property: [a] House No. I – Income after all statutory deductions [b] House No. II – Current year loss	72,000 [30,000]
(ii)	He has three proprietary businesses: [a] Textile Business: i. Discontinued from 31st October, 2024 – Current year loss ii. Brought forward business loss of A.Y. 2020-21	40,000 95,000
	[b] Chemical Business: i. Discontinued from 1st March, 2022 – hence no profit/loss ii. Bad debts allowed in earlier years recovered during this year iii. Brought forward business loss of A.Y. 2021-22	Nil 35,000 50,000
	[c] Leather Business: Profit for the current year	1,00,000
	[d] Share of profit in a firm in which he is partner since 2009	16,550
(iii)	[a] Short-term capital gain [b] Long-term capital loss	60,000 35,000
(iv)	Contribution to LIC towards premium	10,000

14. Ms. Geeta, a resident individual, provides the following details of her income/ losses for the year ended 31.3.2025:

- Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.



- III. Long-term capital gain on sale of land ₹ 5,00,000.
- IV. ₹ 51,000 received in cash from friends in party
- V. ₹ 55,000, being dividend income on listed equity shares of domestic companies.
- VI. Brought forward business loss of A.Y. 2023-24 ₹ 12,50,000

Compute gross total income of Ms. Geeta for the A.Y. 2025-26 and ascertain the amount of loss that can be carried forward. **(average)**

15. Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25:

	Particulars	
1.	Income from salary [computed]	18,000
2.	Net annual value of house property	70,000
3.	Income from business	80,000
4.	Income from speculative business	12,000
5.	Long term capital gain on sale of land	15,800
6.	Long term capital gain on sale of land	9,000
7.	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

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

Particulars	
Unabsorbed depreciation	9,000
Loss from Speculative business	16,000
Short term capital loss	7,800

Compute the gross total income of Mr. P for the A.Y. 2025-26, and the amount of loss that can or cannot be carried forward.

(average)



ANSWERS

6. Gross Total Income of Mr. F for the A.Y. 2025-26

Particulars		
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Notes:

- (i) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders
- (ii) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (iii) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2024-25 cannot be set-off in the A.Y.2025-26, since there is no long-term capital gains in that year. It has to be carried forward for setoff against long-term capital gains, if any, during A.Y.2026-27.

7. Computation of Gross Total Income of Mr. Soohan for the A.Y.2025-26

Particulars		
Salaries		



Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron- ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2019-20 to be carried forward to A.Y.2026-27		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend [fully taxable in the hands of shareholders]	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y.2026-27		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt under section 10(1).



8. Computation of Gross Total Income of Mr. Batra for the A.Y. 2025-26

Particulars		
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2017-18 set-off to the extent of ₹ 50,000 [See Note 1]	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2022-23 set-off to the extent of ₹ 15,000	15,000	NIL
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2026-27 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2026-27 [See Note 3]		
Gross Total Income		2,00,000

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

Particulars	
Current year loss from speculative business [See Note-4]	60,000



Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2022-23	10,000

Notes: -

- As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2017-18 expired in the A.Y. 2025-26, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2026-27.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

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

Particulars	
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2023-24	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
Total tax liability	1,10,760



Note:

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

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

- (ii) Income from plying of light goods vehicles: Income calculated under section 44AE(1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If income is declared as per presumptive provisions, his total income would be as under:

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
	7,996



Add : Health and Education cess @4%	2,07,898
Total tax liability	2,07,900
Total tax liability (rounded off)	

10. **Computation of total income of Mr. Aditya for the A.Y.2025-26**

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carried forward to A.Y. 2026-27		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2020-21 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	5,000	Nil
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2026-27 as per section 73(2)		
Loss of ₹ 20,000 from specified business covered under section 35AD to be carried forward for set- off against income from specified business as per section 73A.	2,00,000	
Capital Gains		
Long term capital gain on sale of urban land	75,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]		



Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y.2026-27

Particulars	₹
<u>Loss from House property</u> As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2033-34, in this case.	50,000
<u>Loss from speculative business A</u> Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30, in this case, as specified under section 73(4).	20,000
<u>Loss from specified business</u> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000



Loss from the activity of owning and maintaining race horses

2,000

Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses.

If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2027-28, in this case, as specified under section 74A(3).

11. Computation of Gross Total Income of Mr. Garg for the A.Y. 2025-26

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
<i>Less: Unabsorbed depreciation brought forward from A.Y.2024-25</i> <i>[Unabsorbed depreciation can be set-off against any head of income other than "salary"]</i>	11,000	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
<i>Less: Brought forward short-term capital loss [Short- term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]</i>	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2026-27

Particulars	₹



[1]	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2024-25 has to be carried forward to A.Y. 2026-27 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2028-29]	22,000
[2]	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30]	15,000
[3]	Loss from gambling can neither be set-off nor be carried forward.	

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property since Mr. Srivatsan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000



Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		30,000
Total income		85,000

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹2,40,000 – ₹30,000 – ₹2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.
- Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- Loss from card games can neither be set off against any other income, nor can be carried forward.
- For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)]. Mr. Srivatsan is entitled to deduction u/s 80C, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

13. Computation of total income of Mr. Rajat for the A.Y. 2025-26

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2020-21 set off against the business income of current year	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A Under section 80C – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to A.Y. 2026-27

Particulars	₹
Brought forward chemical business loss of A.Y. 2021-22 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2025-26 to be carried forward u/s 74	35,000

Notes:

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



14. **Computation of Gross Total Income of Ms. Geeta for the A.Y. 2025-26**

Particulars	₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: B/f business loss of A.Y. 2023-24 ₹12,50,000 to be set-off to the extent of ₹7,50,000	7,50,000
	Nil
[Balance b/f business loss of ₹5,00,000 can be carried forward to the next year]	
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid [See Note 2 below]	3,00,000
	2,00,000
Income from other sources	
Cash gift received from friends - since the value of cash gift exceeds ₹50,000, the entire sum is taxable	51,000
Dividend income from a domestic company is fully taxable in the hands of shareholders	55,000
	1,06,000
Gross Total Income	3,06,000

Notes:

- Balance brought forward business loss of assessment year 2023-24 of ₹5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against longterm capital gain on sale of land as per section 70(3).

15. **Computation of Gross Total Income of Mr. P for the A.Y. 2025-26**

Particulars	₹	₹
i. Income from salary		18,000
ii. Income from House Property		



Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	21,000	49,000
iii. Income from business and profession		
a) Income from business	80,000	
Less : Current year depreciation	8,000	
	72,000	
Less : Unabsorbed depreciation	9,000	63,000
b) Income from speculative business	12,000	
Less : B/f loss of ₹ 16,000 from speculative business set-off to the extent of ₹ 12,000	12,000	Nil
(Balance loss of ₹ 4,000 [i.e. ₹ 16,000 – ₹ 12,000] can be carried forward to the next year)		
iv. Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

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

Notes:

- Loss on gambling can neither be set-off nor be carried forward.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.



- iii. Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2026-27. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Question 16

Simran is engaged in various types of activities. Compute the total income of Simran from the following particulars of her income for the year ended 31.03.2025:

S.No	Particulars	Amount (₹)
[a]	Profit of business of consumer and house-hold products	50,000
[b]	Loss of business of readymade garments	10,000
[c]	Brought forward loss of catering business which was closed in AY 2024-25	15,000
[d]	Short-term loss on sale of securities and shares	15,000
[e]	Profit of speculative transactions entered into during the year	12,500
[f]	Loss of speculative transactions of AY 2020-21 not set-off till AY 2024-25	15,000

Question 17 {Nov 2020 Exams - 8 Marks}

Ms Pooja a resident individual provides the following information of her income/losses for the year ended on 31st March, 2025;

S.No.	Particulars	Amount (₹)
1.	Income from salary [Computed]	2,20,000
2.	Income from House Property [let out] [Net Annual Value]	1,50,000
3.	Share of loss from firm in which she is partner	10,000
4.	Loss from specified business covered u/s 35AD	20,000
5.	Income from textile business before adjusting the following items:	3,00,000
	[a] Current year depreciation	60,000
	[b] Unabsorbed depreciation of earlier year	2,25,000
	[c] Brought forward loss of textile business of the AY 2023-24	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 (STT paid at the time of acquisition and sale)	1,50,000
9.	Dividend from units of UTI	5,000

During PY 2024-25, Ms Pooja has repaid ₹ 5,25,000 towards housing loan from a scheduled bank. Out of this, ₹ 3,16,000 was towards payment of interest and rest towards principal.

Compute the gross total income of Ms Pooja 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.

Question 18 {Nov 2022 Exams - 4 Marks}

Compute the gross total income of Mr Prakhar for AY 2025-26 and the losses to be carried forward, from the information given below:

S.No.	Particulars	Amount
(i)	Income from House Property [computed]	₹ 3,60,000
(ii)	Short term capital loss on shares of a company	(-) ₹ 18,700
(iii)	Long term capital gain on sale of agricultural land	₹ 6,000
(iv)	Income from rubber business [plants grown by Mr Prakhar]	₹ 80,000
(v)	Loss from garment business b/f discontinued in FY 2022-23	(-) ₹ 70,000
(vi)	Loss from betting	(-) ₹ 5,500
(vii)	Income from lotteries [net]	₹ 5,460

Question 19

Mr A furnishes you the following information for the year ended 31.03.2025:

S.No.	Particulars	Amount (₹)
(i)	Income from plying of vehicles [computed as per books] (He owned 5 light goods vehicles throughout the year)	3,20,000
(ii)	Income from retail trade of garments [Computed as per books] (Sales turnover ₹ 1,35,70,000) Mr A had declared income on presumptive basis u/s 44AD for the first time in AY 2024-25. Assume 10% of the turnover during PY 2024-25 was received in	7,50,000



	cash and balance through account payee cheque and all the payments in respect of expenditure were also made through account payee cheque or debit card	
(iii)	He has brought forward depreciation relating to AY 2024-25	1,00,000

Compute taxable income of Mr A and his tax liability for AY 2025-26 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime as prescribed u/s 115BAC.

SOLUTIONS

Answer 16

Computation Of Total Income Of Simran For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Profit of business of consumer and house-hold products	50,000	25,000
Less: Loss of business of readymade garments for the year adjusted	(10,000)	
Less: B/f loss of catering business	(15,000)	
Profit of speculative Transaction		12,500
Total Income		37,500

Note 1: Loss of speculative transaction of AY 2020-21 is not allowed to be set-off against the profit of speculative transaction of AY 2025-26, since such loss can be c/f for maximum 4 years [ie up to AY 2024-25].

Note 2: Short term capital loss of ₹ 15,000 on sale of securities and shares has to be c/f since there are no capital gains for AY 2025-26. The loss is to be c/f for set off in future years against STCG/LTCG. Such loss can be c/f for a maximum period of 8 AYs.



Answer 17**Computation Of Gross Total Income Of Ms Pooja For AY 2025-26:**

Particulars	(₹)	(₹)
Salary Income [Computed]	2,20,000	
Less: HP loss of ₹ 2,11,000 set-off to the extent of ₹ 2,00,000 as per Section 71	(2,00,000)	20,000
Income From House Property:		Nil
Net Annual Value of House Property	1,50,000	
Less: Deduction u/s 24(a) [30% of NAV]	(45,000)	
Less: Deduction u/s 24(b) [Interest on housing-loan]	(3,16,000)	
Loss From House Property	(2,11,000)	
Out of loss of ₹ 2,11,000, loss upto ₹ 2,00,000 has been set-off against salary income and the balance loss of ₹ 11,000 has been c/f to AY 2026-27		
Profits & Gains Of Business Or Profession:		Nil
• Share of loss from firm [Profit share from partnership firm is exempt u/s 10(2A). Loss from exempt source has no tax treatment. Hence loss from firm can neither be set-off nor be c/f]		
• Loss from specified business u/s 35AD [Can be set-off only against income from any specified business. Hence, it has to be c/f to AY 2026-27]		
• Income from textile business	3,00,000	
Less: Current year depreciation	(60,000)	
Less: Brought forward loss of textile business	(90,000)	
Less: Unabsorbed depreciation (₹ 2,25,000) set-off to the extent of ₹ 1,50,000	(1,50,000)	
Net Income From Business/Profession	Nil	
Capital Gains:		50,000
LTCG on sale of debentures	75,000	
LTCG on sale of listed equity shares (STT paid)	1,50,000	
Less: Set-off of LT capital loss on sale of equity shares (STT not paid)	(1,00,000)	
Less: Set-off of balance unabsorbed depreciation	(75,000)	
Net Capital Gains	50,000	



Other Sources:	
Dividends from UTI	5,000
Gross Total Income	75,000

Losses To Be Carried Forward To AY 2026-27:

Particulars	(₹)
(i) Losses from specified business	20,000
[Can be c/f indefinitely for set-off against income from any specified business]	
(ii) Loss from house property	11,000
{Can be c/f upto 8 successive AYs' for set-off against income from house property}	

Answer 18**Computation Of Gross Total Income Of Mr Prakhar (AY 2025-26);**

Particulars	(₹)	(₹)
House Property Income (Computed)		3,60,000
PGBP:		
Income from rubber business [35% of income from manufacture of rubber is business income, ie 80,000 x 35%, and the balance 65% would be agricultural income]	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	28,000	Nil
Capital Gains;		
LTCG on sale of agricultural land, assuming that the same is urban agricultural land	6,000	
Less: Set-off of ST capital loss of ₹ 18,700 against LTCG to the extent of ₹ 6,000 {Sec 74}	[6,000]	Nil
Other Sources:		7,800
Income from lotteries (₹ 5,460 x 100/70)		



[Note: Tax @ 30% has to be deducted on winnings from lotteries u/s 1948 only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word "net" is given in the bracket. Since, the word "net" is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @ 30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460]	
Gross Total Income	3,67,800
Losses To Be Carried Forward To AY 2026-27:	
• Loss from garment business pertaining to PY 2022-23 (₹ 70,000 - ₹ 28,000)	42,000
• Short term capital loss on shares of a company of AY 2025-26 (₹ 18,700 - ₹ 6,000)	12,700
• Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.	-

Answer 19**Computation Of Total Income And Tax Liability Of Mr A For AY 2025-26;**

Particulars	Amount (₹)
Income from retail trade - as per books (See Note 1 below)	7,50,000
Income from plying of vehicles - as per books (See Note 2 below)	3,20,000
Current year business income (before set-off of losses & unabsorbed depreciation)	10,70,000
Less: Set-off of brought forward depreciation relating to AY 2023-24	(1,00,000)
Total Income	9,70,000
Tax on normal income of ₹ 9,70,000 at slab rates	1,06,500
Add: Health & Education Cess @ 4%	4,260
Tax Liability	1,10,760

Note 1 - Income from Retail Trade; Presumptive business income u/s 44AD is ₹ 8,41,340, ie 8% of ₹ 13,57,000 (being 10% of the turnover received in cash) and 6% of ₹ 1,22,13,000 (being the amount of turnover received through account payee cheque). However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per



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

Note 2 - Income from Plying of Vehicles: Income calculated u/s 44AE would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. But income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per Section 44AE. Hence, the assessee can adopt income as per books (ie ₹ 3,20,000), provided he maintains books of accounts u/s 44AA and gets his accounts audited u/s 44AB.

Note 3: It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions u/s 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

Note 4: If income is declared as per presumptive provisions, his total income would be as under:

Particulars	Amount (₹)
Income from retail trade u/s 44AD {As computed above}	8,41,340
Income from plying of vehicles u/s 44AE {₹ 7,500 x 12 months x 5 vehicles}	4,50,000
Current year business income	12,91,340
Less: Set off of b/f depreciation (Not available since it has been deemed to be already provided)	Nil
Total Income	12,91,340
Tax on normal income of ₹ 12,91,340 at slab rates	1,99,902
Add: Health & Education Cess @ 4%	7,996
Total Tax Liability (Rounded-Off u/s 288B)	2,07,900



CHAPTER - 5

DEDUCTIONS FROM GROSS TOTAL INCOME

ILLUSTRATION 1. (easy)

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., he pays tax under the optional tax regime].

SOLUTION

- The statement is not correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.
- The statement is correct. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

ILLUSTRATION 2 (easy)

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) –

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)
(i)	30/3/2012	Self	9,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000



SOLUTION

	Date of issue of policy	Person insured	Actual capital sum assured [₹]	Insurance premium paid during 2024-25 [₹]	Deduct- ion u/s 80C for A.Y.2025- 26 [₹]	Remark [restricted to % of sum assured] [₹]
(i)	30/3/2012	Self	9,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped Son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				1,23,000	

ILLUSTRATION 3

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

SOLUTION

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

1. Premium paid in respect of a contract for deferred annuity
2. Any sum deducted from the salary payable of a Government employee for securing a deferred annuity
3. Contribution to SPF/PPF/RPF

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

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



ILLUSTRATION 4 (easy)

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2024-25:

What is the deduction allowable under section 80C for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

Computation of deduction under section 80C for A.Y.2025-26

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,20,000, as the policy is taken after 31.3.2012)	22,000
Total	1,72,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

ILLUSTRATION 5 (average)

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

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

SOLUTION

- i. Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]
 - a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.



- b) Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000

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

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of upto ₹ 2,01,600, being 14% of salary [₹ 14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contribution of ₹ 1,80,000 would be allowed as deduction under section 80CCD(2).



ILLUSTRATION 6 (easy)

The gross total income of Mr. X for the A.Y.2025-26 is ₹ 8,00,000. He has made the following investments/payments during the FY.2024-25 –

Particulars	₹
(1) Contribution to PPF	1,10,000
(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3) Repayment of housing loan taken from Standard Chartered Bank	25,000
(4) Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2025-26 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION**Computation of deduction under Chapter VI-A for the A.Y.2025-26**

Particulars	₹
Deduction under section 80C	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to ₹1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
- Contribution to approved pension fund of LIC	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2025-26	1,50,000



ILLUSTRATION 7 (average)

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION**Deduction allowable under section 80D for the A.Y.2025-26**

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600)
- The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).



3. In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 [i.e., ₹ 1,400 + ₹ 3,000], which is within the maximum permissible limit of ₹ 5,000.

ILLUSTRATION 8 (average)

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Deduction allowable under section 80D for the A.Y.2025-26

Particulars	₹	₹
(i) Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii) Contribution to CGHS	6,000	
	28,000	
restricted to		25,000
(iii) Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
	53,000	
restricted to		50,000
		75,000

ILLUSTRATION 9 (easy)

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities [Equal Opportunities, Protection of Rights and Full Participation] Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available



under section 80DD for the A.Y. 2025-26, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

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

ILLUSTRATION 10 (easy)

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

SOLUTION

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

ILLUSTRATION 11 (average)

Mr. B has taken three education loans on April 1, 2024, the details of which are given below:

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

Compute the amount deductible under section 80E for the A.Y.2025-26 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.



Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

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

ILLUSTRATION 12 [average]

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2025 and he does not own any other house property

SOLUTION

Particulars	₹
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE ₹ 1,85,000 [₹ 3,85,000 – ₹ 2,00,000]	
Restricted to	50,000

ILLUSTRATION 13 [difficult]

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019



Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

SOLUTION

Particulars	₹
Mr. A	
Interest deduction for A.Y.2025-26	
a. Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%] Restricted to	2,00,000
b. Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA ₹ 1,87,000 [₹ 3,87,000 – ₹ 2,00,000] Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y.2025-26	
1. Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%] Restricted to	2,00,000



2. Deduction under Chapter VI-A from Gross Total Income

Deduction u/s 80EEA is not permissible since:

- loan is taken from NBFC
- stamp duty value exceeds ₹ 45 lakh.

Deduction under section 80EEA would not be permissible due to either violation listed above.

Nil

Mr. C

Deduction under Chapter VI-A from Gross Total Income

Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs x 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]

1,50,000

Mr. D

Deduction under Chapter VI-A from Gross Total Income

Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.

Nil

ILLUSTRATION 14 [difficult]

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

- i. Premium paid to insure the life of her major daughter [policy taken on 1.4.2018] [Assured value ₹ 1,80,000] – ₹ 20,000.
- ii. Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000
- iii. Donation to a public charitable institution ₹ 50,000 by way of cheque.
- iv. LIC Pension Fund – ₹ 60,000
- v. Donation to National Children's Fund - ₹ 25,000 by way of cheque
- vi. Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque
- vii. Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- viii. Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Total Income of Mr. Shiva for A.Y. 2025-26



Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	25,000
Restricted to		
Deduction under section 80G (See Working Note		87,500
below]		
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case.



₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

ILLUSTRATION 15 [average]

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

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

1. Actual rent paid less 10% of total income

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

2. 25% of total income = $\frac{25 \times 4,60,000}{100} = ₹ 1,15,000$

3. Amount calculated at ₹ 5,000 p.m. = ₹ 60,000

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

ILLUSTRATION 16 [easy]

During the P.Y. 2024-25, ABC Ltd., an Indian company,

- 1] contributed a sum of ₹ 2 lakh to an electoral trust; and
- 2] incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.



SOLUTION

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

ILLUSTRATION 17 [difficult]

Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000
(iii)	50	1.8.2024	Casual	24,500
(iv)	100	1.9.2024	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. 2025-26, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024?

SOLUTION

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed “additional employees” during the P.Y. 2024-25.

I. If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.



Working Note:**Number of additional employees**

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2024 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100	275
Number of “additional employees”		75

Notes –

- 1] Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the P.Y.2024-25, since they are employed for less than 240 days in that year.
Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost
- 2] As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, 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. 2026-27.

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 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000

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



ILLUSTRATION 18 (average)

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2026. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

The net royalty of ₹ 2,48,000 [i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income] is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder –

ILLUSTRATION 19 (average)

Mr. A, a resident individual aged 61 years, has earned business income [computed] of ₹ 1,35,000, lottery income of ₹ 1,20,000 [gross] during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

SOLUTION

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

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

ILLUSTRATION 20 (difficult)

Mr. Gurnam, aged 42 years, has salary income [computed] of ₹ 5,50,000 for the previous year ended 31.03.2025. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):



- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- (ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife
- (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

SOLUTION**Computation of total income of Mr. Gurnam for the Assessment Year 2025-26**

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
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

Notes:

- As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.

In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured

Therefore, in the present case, deduction of ₹ 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.
- As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.
- No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of ₹ 10,000. Therefore, deduction of ₹



10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

ILLUSTRATION 21 [difficult]

Mr. Y furnishes you the following information for the year ended 31.3.2025:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2025	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2025-26, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2024-25 is the sixth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$\begin{aligned}
 &= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\% \\
 &= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 50\% = ₹ 7.5 \text{ lakhs}
 \end{aligned}$$

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





TEST YOUR KNOWLEDGE

22. Examine the following statements with regard to the provisions of the Incometax Act, 1961:

- i. During the financial year 2024-25, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- ii. Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- iii. In order to be eligible to claim deduction under section 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- iv. Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.
- v. Mrs. Sheela, widow of Mr. Satish [who was an employee of M/s. XYZ Ltd.], received ₹ 7 lakhs on 1.5.2024, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2025-26
- vi. Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

[average]

23. Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- I. Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- II. Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
- III. Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.

[average]

24. For the A.Y. 2025-26, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹



58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2025, in a tax efficient manner.

(average)

25. Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2024-25, furnishes you the following information:

- (i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹ 50,000.
 - (ii) Five-year post-office time deposit - ₹ 20,000
 - (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.
 - (iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.
- Compute the total income of Mr. Rajmohan for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

(difficult)

26. Compute the eligible deduction under Chapter VI-A for the A.Y. 2025-26 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2025-26 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2024-25

(difficult)

Sl.	Particulars	Amount
I.	Life Insurance premium paid (Policy taken on 31-03- 2012 and sum assured is ₹ 4,70,000)	35,000
II.	Public Provident Fund contribution	1,50,000
III.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
IV.	Payment to L.I.C. Pension Fund	1,40,000
V.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
VI.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000



27. Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2024-25.

(average)

Particulars	Mr. Rudra	Unit in DTA
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2025 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26 if both the units were set up and start manufacturing from 22-05-2016.



ANSWERS

22.

- i. **The statement is correct.** The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- ii. **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)
- iii. **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- iv. **The statement is not correct.** An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of ₹ 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)
- v. **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26
- vi. **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

23.

- i. The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.



- ii. The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- iii. Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.

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

Particulars	₹
Gross total income incl. long term capital gain	8,18,240
Less: Deductions under Chapter VI-A	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	8,18,240
Tax on total income	
LTCG ₹ 2,45,000 x 20%	49,000
Balance total income ₹ 5,73,240	13,662
	62,662
Add: Health and Education cess @4%	2,506
Total tax liability	65,168
Total tax liability (Rounded off)	65,170

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		



Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D [it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen]	50,000	
Under section 80G [See Notes 1 & 2 below]	17,662	
Under section 80TTB [See Note 3 below]	50,000	2,37,662
Total income [excluding long term capital gains]		3,35,578
Total income [including long term capital gains]		5,80,578
Total income [rounded off]		5,80,580
Tax on total income [including long-term capital gains of ₹ 2,45,000]		
LTCG ₹ 2,45,000 x 20%		49,000
Balance total income ₹ 3,35,580 [See Note 4 below]		1,779
		50,779
Add: Health and Education cess @4%		2,031
Total tax liability		52,810

Since the tax liability is lower under the optional tax regime [i.e., normal provisions of the Act] as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)

Notes:

- i. Computation of deduction under section 80G:

Particulars	₹
Gross total income [excluding long term capital gains]	5,73,240
Less: Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,240
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324



Deduction under section 80G – 50% of ₹ 35,324	17,662

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

25. Computation of total income of Mr. Rajmohan for the A.Y.2025-26

Particulars		₹	₹
Gross Total Income			6,40,000
Less:	Deduction under Chapter VI-A		
	<u>Under section 80C</u>		
	Repayment of loan taken for acquisition of residential house	50,000	
	Five year time deposit with Post Office	20,000	
		70,000	
	<u>Under section 80E</u>		
	Interest on loan taken for higher education of spouse, being a relative.	10,000	
	Under section 80G (See Note below) Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income			5,47,500

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



Therefore, the deduction under section 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

26. Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2025-26

Particulars	₹	₹
Deduction under section 80C		1,50,000
Life insurance premium paid ₹ 35,000 [allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012]	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

27. Computation of deduction u/s 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before



01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

Since A.Y. 2025-26 is the 9th assessment year from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}
 \end{aligned}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2025 which is ₹ 3,00,00,000.

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000



ILLUSTRATION 28 (easy)

Compute the eligible deduction u/s 80C for AY 2025-26 in respect of life insurance premium paid by Mr X during PY 2024-25, the details of which are given hereunder:

	Date Of Issue Of Policy	Person Insured	Actual Capital Sum Assured (₹)	Insurance Premium Paid During FY 24-25 (₹)
(i)	01.06.2011	Mr X	4,00,000	75,000
(ii)	01.05.2014	Mrs X, his wife	1,00,000	25,000
(iii)	01.07.2015	Ms Y, his handicapped daughter [Section 80U disability]	5,00,000	60,000
(iv)	01.07.2015	Mr Z, his son	1,00,000	25,000
		Total Premium Paid		1,85,000

ILLUSTRATION 29 (average)

Mr A has income u/h Business/Profession ₹ 19,90,000. His investments are as given below:

1. Investment in NSC ₹ 50,000.
2. Investment in PPF in name of Mrs A ₹ 5,000.
3. Premium of ₹ 11,000 paid for LIC policy taken in the name of dependent father on 08.08.2024.
4. Premium of ₹ 6,000 paid for LIC policy taken in the name of independent son on 15.12.2024 (sum assured under the policy is ₹ 1,00,000),
5. Premium of ₹ 21,000 paid for LIC policy taken in the name of independent married daughter on 13.02.2025 (sum assured under the policy is ₹ 1,00,000).

Compute the tax liability of Mr A for AY 2025-26.

ILLUSTRATION 30 (average)

Compute the amount of deduction available u/s 80C from the following information:

- a) Deposited ₹ 15,000 in FD with ICICI bank, interest thereon being ₹ 2,500. The tenure of FD is 10 years.
- b) Paid ₹ 12,500 towards 5 year time deposit in an account under Post Office Time Deposit Rules, 1981.
- c) Paid tuition fees ₹ 17,000 for son's education. The break up is as follows:



- Lecture fees - ₹ 11,500
- Development fees - ₹ 5,500

- d) Paid stamp duty ₹ 20,000 on transfer of a residential house property to the assessee. The house has been let out during the year.
- e) Paid ₹ 17,500 for subscription to notified units of mutual fund referred to u/s 10(23D) - approved mutual fund.
- f) The assessee is an employee at Google India Pvt Ltd. He had taken a housing loan of ₹ 1,50,000 from the company and paid ₹ 10,000 as interest and ₹ 22,000 as principal amount.

ILLUSTRATION 31 (difficult)

Compute the amount of deduction available u/s 80C from the following information:

- a) Paid ₹ 15,000 as PPF in the name of brother.
- b) Subscribed to NSC ₹ 14,000.
- c) Paid tuition fees for daughter's education as follows:
- i) ₹ 5,000 for coaching from a computer institute
 - ii) ₹ 20,000 for B.Com from DU
 - iii) ₹ 7,000 for 'MBA' CAT Coaching
- d) Subscribed to a FD of ₹ 50,000 in Canara Bank to avail attractive interest @ 9.5% p.a. FD to mature in 4 years.
- e) Paid life insurance premium for spouse ₹ 10,000.
- f) Repaid principal amount ₹ 15,000 of a loan taken from LIC and the house was purchased on 17th June 2011.

ILLUSTRATION 32 (difficult)

Compute the total income of Mr A for PY 2024-25 from the following information:

Particulars	Amount (₹)
Income u/h Salary	3,50,000
Interest on bank fixed deposits	13,000
LIP on his own life (sum assured ₹ 40,000)	6,000
LIP on the life of his wife	2,000



LIP on the life of his major son (not dependent on A)	2,500
LIP on life of dependent brother	2,000
Contribution to RPF	40,000
Amount deposited in PPF Account	15,000
Contribution to ULIP	33,000
Repayment of principal amount of housing loan taken from a friend	23,000
Subscription to units of a notified mutual fund	25,000
Amount incurred on education of 3 children {X-24,000; Y-17,000; Z- 15,000}	56,000
Term deposit for 3 years with a scheduled bank	20,000
Five year time deposit in post office	15,000

ILLUSTRATION 33 (average)

Mr Abhik, an individual, made payment of health insurance premium to GIC in an approved scheme. Premium paid on his health is ₹ 20,000 and his spouse's health is ₹ 15,000 during FY 2024 -25. He also paid health insurance premium of ₹ 35,000 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 u/s 80D available to Mr Abhik from his gross total income for AY 2025-26.

ILLUSTRATION 34 (average)

A, an individual has made the following payments in PY 2024-25. Compute the deduction allowable u/s 80D.

- ₹ 5,000 paid by cheque to GIC for insuring A's own health.
- ₹ 4,000 paid by cheque to GIC for insuring health of A's wife, not dependent on him.
- ₹ 6,000 paid by cheque to GIC for insuring the health of A's dependent major child.
- ₹ 1,000 paid in cash to GIC for insuring the health of A's dependent minor daughter.
- ₹ 1,000 paid by cheque to GIC for insuring health of A's dependent brother.
- ₹ 48,000 paid by cheque to GIC for insuring health of A's mother (aged 67 years), not dependent upon A.
- ₹ 1,000 paid by cheque to GIC for insuring health of A's grandfather dependent upon A.



- ₹ 1,000 paid by cheque to GIC for insuring health of A's minor son, not dependent upon him.

What will be the amount of deduction if A's mother is not a senior citizen?

ILLUSTRATION 35 (difficult)

The GTI of Mr Nepal for AY 2025-26 was ₹ 12,00,000, He has made the following investments/payments:

S.No	Particulars	Amount (₹)
1	Life insurance premium paid [Policy value ₹ 1,00,000] (taken on 1.03.2012)	25,000
2	Contribution to Public Provident Fund (PPF)	70,000
3	Repayment of housing loan to Indian Bank	50,000
4	Payment made to LIC pension fund	20,000
5	Medical insurance premium for self, wife and dependent children.	28,000
6	Medical insurance premium for parents (aged over 80 years)	52,000

Compute eligible deduction under Chapter VI-A for AY 2025-26.

ILLUSTRATION 36 (average)

From the following particulars furnished by Mr Arjun (52 years old), compute the deduction available to him u/s 80D for AY 2025-26.

S.No	Particulars	Amount (₹)
1	Premium paid for insuring the health of:	
	• Self	10,000
	• Spouse	8,000
	• Dependent Son	4,000
	• Mother	38,000
2	Paid for Preventive Health Check-up of:	
	• Self	2,000
	• Spouse	1,500
	• Mother	4,000



3	Incurred medical expenditure of ₹ 25,000 and ₹ 15,000 for his mother, aged 80 years and father, aged 85 years. Both mother and father are resident in India.

ILLUSTRATION 37 (average)

Calculate the amount of deduction allowable under Chapter VI-A from the following information:

- Mr X (aged 60 years) is himself suffering from normal disability on 31.03.2025. He spent ₹ 1,00,000. on the treatment of his disability.
- His sister is also suffering from a severe disability (ie disability of more than 80%). He has spent ₹ 2,00,000 on her treatment.

His father (aged 85 years) is also suffering from a specified disease. He has spent ₹ 75,000 on the treatment of his father. He had taken an insurance policy for his father and got reimbursement of ₹ 8,000 as insurance claim from the insurance company for treatment.

Deduction u/s 80E**ILLUSTRATION 38 (average)**

Gross total income of Mr A for PY 2024-25 is ₹ 5,20,000. He had taken a loan of ₹ 6,00,000 in PY 2024-25 from a bank for pursuing the MBA course by his wife from IIM Bangalore. During PY 2024-25, he repaid the 1st installment of loan of ₹ 55,000 and interest of ₹ 70,000.

- Compute his total income for AY 2025-26.
- What will be your answer if loan was taken for an adopted child?

ILLUSTRATION 39 (difficult)

Mr Ray, a resident individual, aged 37 years, gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

- A housing loan of ₹ 36,00,000 taken on 15th March 2022 for the purchase of a house to be used for self residence at a cost of ₹ 47,00,000. The stamp duty value of the house was ₹ 42,00,000 at the time of purchase. Amount of re-payment of loan during PY 2024-25 was:

[A] towards principal: ₹ 1,25,000

[B] towards interest: ₹ 3,65,000

This is the first and only residential house owned by Mr Ray.



(ii) A vehicle loan of ₹ 16,00,000 taken on 31st October 2021 for the purchase of electric vehicle for personal use.

Amount of re-payment of loan during PY 2024-25 was:

(A) towards principal: ₹ 75,000

(B) towards interest: ₹ 1,90,000

(iii) Besides these loans, he has also paid a sum of ₹ 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction[s] available to Mr Ray under various provisions of Income Tax Act for AY 2025-26 so that he gets the maximum benefits assuming that he does not opt to pay tax u/s 115BAC.

ILLUSTRATION 40 (average)

Mr Suraj, an Indian citizen, gives the following details of his income and expenses during FY 2024-25.

Particulars	(₹)
Income from profession	11,70,000
Winnings from lottery	70,000
Contribution to ULIP 1971 plan for spouse	70,000
Cheque donation to National Defence Fund	60,000
Cheque donation to Government for promoting family planning	35,000
Cheque donation to approved public charitable institute	1,20,000

Compute the deduction u/s 80G allowable to him for AY 2025-26,

ILLUSTRATION 41 (average)

The Gross Total Income of Y is ₹ 34,50,000 which consists of only income from business. The assessee has made the following donations during the PY:

- ₹ 11,000 to Prime Minister Drought Relief Fund.
- ₹ 10,000 to Prime Minister National Relief Fund.
- ₹ 2,000 to National Children Fund.
- ₹ 90,000 to Municipal Corporation of Delhi, for opening a Girl's School



- ₹ 12,000 for repairs of notified temple
- Clothes worth ₹ 20,000 were given to approved blind school
- ₹ 15,000 worth of books to school for distribution among poor students.
- ₹ 11,000 to a poor student for higher studies.
- ₹ 21,000 for construction of a Dharamshalla only for Hindus.
- ₹ 3,00,000 to State of Delhi for Family Planning.

Compute the total income of Y for AY 2025-26 assuming ₹ 70,000 have been deposited in Public Provident Fund.

ILLUSTRATION 42 (average)

GTI of Mr X, a tax consultant based at Bombay, is ₹ 6,50,000 [income u/h salary of ₹ 6,00,000 and interest on savings bank deposit of ₹ 50,000]. He pays ₹ 9,500 as medical insurance premium deductible u/s 80D and ₹ 80,000 as house rent. He deposits ₹ 24,000 in PPF. Compute his taxable income for AY 2025-26. Assume that X satisfies all conditions of Section 80GG.

ILLUSTRATION 43 (difficult)

X, a professional consultant, based at Delhi furnishes following particulars of his income & expenditure relevant for AY 2025-26. Assuming that X is eligible for deduction u/s 80GG, find out his income for AY 2025-26:

Particulars	Amount (₹)
Income from profession	6,70,000
STCG u/s 111A {occurring before July 23, 2024}	4,000
LTCG {occurring before July 23, 2024}	10,000
Winning from a camel race	1,700
Winning from a horse race	2,000
Winning from lottery	1,600
Income from other sources {other than all sorts of winnings}	10,000
Payment of medical insurance premium on own life	3,000
Payment of rent	80,000
Contributions towards public provident fund	70,000



ILLUSTRATION 44 [difficult]

M/s ABC & Co, a partnership firm, started its pharmaceuticals business on 01-04-2024. During PY 2024-25, it appoints the following persons:

Date Of Appointment	No Of Employees	Designation	Emoluments (In ₹ Per Person/Month)
01-04-2024	25	Accounting and office staff	22,000
01-05-2024	25	Technical staff	25,200
01-08-2024	100	Supervisors	28,000
01-09-2024	200	Helpers	22,000
Total	350		

Determine the amount of deduction available, if any, for AY 2025-26, if turnover of ABC & Co. for PY 2024-25 is ₹ 74 crore and tax audit u/s 44AB is applicable and all the employees participate in the recognised provident fund.

What would be your answer if the business of M/s ABC & Co was of manufacture of leather products instead of pharmaceutical products? Assume that all the requirements under the relevant section, relating to the aforesaid deduction, have been fulfilled

ILLUSTRATION 45 [difficult]

Compute the income chargeable to tax (to be included u/h other sources) and deduction u/s 80TTA in all the following cases:

- Case 1: Mr X earned interest of ₹ 15,000 on a bank FDR (Fixed Deposit Receipt).
- Case 2: Mr Y earned interest of ₹ 15,000 on a savings bank account.
- Case 3: Mr Z earned interest of ₹ 15,000 on a post office savings bank account
- Case 4: Following interest incomes were earned during a year:
 - > Interest earned from RD (recurring deposit) is ₹ 5,000;
 - > Interest earned from a savings bank account is ₹ 4,000;
 - > Interest earned on post office time deposit is ₹ 3,000; and
 - > Interest earned on post office savings bank account is ₹ 8,000.



ILLUSTRATION 46 (average)

Mr X, a writer and a professional, furnishes the following particulars for the PY ended 31.03.2025:

Particulars	Amount (₹)
Royalty on books (eligible for deduction u/s 80QQB)	42,000
Expenditure on books	8,000
Income from profession	3,80,000
Deposited in public provident fund (20.02.2025)	70,000

You are required to compute

- (i) Taxable income,
- (ii) Tax payable for AY 2025-26.

ILLUSTRATION 47 (average)

Mr Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in FY 2019-20. During PY 2024-25, total turnover of Unit A is ₹ 180 lacs and total turnover of Unit B is ₹ 120 lacs. Export turnover of Unit A for the year is ₹ 150 lacs and the profit of Unit A is ₹ 60 lacs. Calculate the deduction available, if any, to Mr Suresh u/s 10AA of the Income Tax Act, 1961, for AY 2025-26, if Unit A had started manufacturing in FY 2019-20.

ILLUSTRATION 48 (difficult)

Mrs Vibha Gupta, a resident individual, is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2025, pertaining to these two units.

Particulars	DTA Unit (₹ In Lakhs)	SEZ Unit (₹ In Lakhs)
Export Turnover	100	1,000
Total Turnover	400	1,100
Net Profit	50	220

Compute the deduction available u/s 10 A A:

- (i) When the SEZ unit had been set up on 12-3-2016; and
- (ii) When the SEZ unit had been set up on 12-8-2019.



ILLUSTRATION 49 (average)

Rudra Ltd has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for FY 2024-25:

Particulars	Rudra Ltd (₹ In Lakhs)	Unit In DTA (₹ In Lakhs)
Total Sales	600	200
Export Sales	460	160
Net Profit	80	20

Compute the quantum of eligible deduction u/s 10AA for AY 2025-26 in the following situations:

(i) Both the units were set up and began manufacturing from 25.07.2016.

(ii) Both the units were set up and began manufacturing from 10.04.2019.

ILLUSTRATION 50 (average)

The GTI of Mr Mayank for AY 2025-26 was ₹ 8,00,000. He has made the following investments/payments during PY 2024-25. Compute eligible deduction under Chapter VI-A for AY 2025-26.

S.No	Particulars	Amount (₹)
1	LIC premium paid (Policy value ₹ 2,00,000) (taken on 1.07.2012)	30,000
2	Contribution to Public Provident Fund (PPF)	1,10,000
3	Repayment of housing loan to Indian Bank	35,000
4	Payment made to LIC Pension Fund	28,000
5	Medical insurance premium for self, wife and dependent children	22,000
6	Medical premium for parents (aged over 80 years), who are not dependent on Mayank	32,000
7	Donation to Congress Party by cheque	30,000

ILLUSTRATION 51 (average)

Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

Particulars	(₹)
Pension	6,60,000



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

Compute the total income of Mr Prakash for AY 2025-26 from the following particulars:

- I. Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2015 and the sum assured is ₹ 2,00,000.
- II. Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- III. ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.
- IV. Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- V. A sum of ₹ 15,000 donated in cash to an institution approved for the purposes of Section 80G for promoting family planning.



SOLUTIONS

Deduction u/s 80C:

Answer 28

Computation Of Eligible Deduction u/s 80C For AY 2025-26 (Life Insurance Premium Paid By Mr X):

	Date Of Issue Of Policy	Person Insured	Actual Capital Sum Assured	Insurance Premium Paid During FY 24-25	Restricted To % Of Sum Assured	Deduction u/s 80C For AY 2025-26
(i)	01.06.2011	Mr X	4,00,000	75,000	20%	75,000
(i)	01.05.2014	Mrs X	1,00,000	25,000	10%	10,000
(iii)	01.07.2015	Handicapped Daughter	5,00,000	60,000	15%	60,000
(iv)	01.07.2015	Son	1,00,000	25,000	10%	10,000
Total						1,55,000
Maximum deduction u/s 80C restricted to						1,50,000

Answer 29

Computation Of Total Income Of Mr A (PY 2024-25, AY 2025-26)

Particulars	Amount (₹)
Income u/h Business/Profession	19,90,000
Gross Total Income	19,90,000
Less: Deduction u/s 80C:	
• Amount invested in NSC during current year	(50,000)
• Amount invested in PPF in name of Mrs A	(5,000)
• Premium of LIC policy for father (deduction not available)	-
• Premium of LIC policy for independent son (Max 10% of ₹ 1,00,000)	(6,000)
• Premium of LIC policy for independent married daughter (10% of ₹ 1 lakh)	(10,000)



Total Income	19,19,000
Computation Of Tax Liability:	
Tax on ₹ 19,19,000 at slab rates	3,88,200
Add: Health & Education Cess @ 4%	15,528
Tax Liability	4,03,728
Tax Liability (Rounded off u/s 288B)	4,03,730

Answer 30**Computation Of Deduction u/s 80C:**

Particulars	Amount (₹)
• Amount invested in fixed deposit of ICICI bank	15,000
• Amount invested in 5 Year Time Deposit A/c	12,500
• Tuition fees for son's education (no deduction for development fees)	11,500
• Stamp duty on transfer of house to the assessee	20,000
• Subscription to notified units of mutual fund	17,500
• Repayment of housing loan taken from employer (pvt employer not included)	Nil
Total	76,500

Answer 31**Computation Of Deduction u/s 80C:**

Particulars	Amount (₹)
• Amount invested in PPF (deduction allowed only for self, spouse or children)	Nil
• Amount invested in NSC	14,000
• Tuition fees for daughter's education (no deduction for private coaching)	20,000
• Amount invested in FD (minimum lock-in-period should be 5 years)	Nil
• Life insurance for spouse	10,000
• Principal repayment of housing loan	15,000



Total	59,000

Answer 32**Computation Of Total Income Of Mr A (PY 2024-25. AY 2025-26)**

Particulars	Amount (₹)	Amount (₹)
Income u/h 'Salary'		3,50,000
Income u/h 'Other Sources' - (Interest on bank FD)		13,000
Gross Total Income		3,63,000
Less: Deduction u/s 80C [Total comes out to ₹ 1,77,500 but maximum ₹ 1,50,000 is available as deduction]:		[1,50,000]
• Premium of LIC policy for self [Max 10% of ₹ 40,000]	[4,000]	
• Premium of LIC policy for wife	[2,000]	
• Premium of LIC policy for independent son	[2,500]	
• Premium of LIC policy for dependent brother [not allowed]	Nil	
• Contribution to RPF	[40,000]	
• Investment in PPF	[15,000]	
• Contribution to ULIP	[33,000]	
• Repayment of housing loan to friend [not allowed]	Nil	
• Investment in units of a notified Mutual Fund	[25,000]	
• Tuition Fees [Tuition fees allowed for any two children: 24K + 17K]	[41,000]	
• Term deposit for 3 years with bank [Not allowed as less than 5 years]	Nil	
• Five Year Time deposit in P.O.	[15,000]	
Total Income		2,13,000

Answer 33

Mr Abhik will be eligible to claim deduction u/s 80D on payment of health insurance premium to GIC in a medical insurance scheme approved by the Central Government since the premium has been paid otherwise than by way of cash.



Particulars	Amount (₹)
On health insurance premium paid on the health of himself and his spouse	25,000
(₹ 20,000 + ₹ 15,000 - ₹ 35,000, but restricted to ₹ 25,000)	
On health insurance premium paid on the health of his father, who is a senior citizen (whether dependent or not)	35,000
Total Deduction u/s 80D	60,000

Answer 34**Part (a) - Deduction Allowable u/s 80D for AY 2025-26:**

	Particulars	Actual Payment (₹)	Maximum Deduction Allowable (₹)
A.	Premium Paid For Self, Spouse & Dependent Children (Allowed Only When Paid Otherwise Than In Cash)		
(i)	Medical insurance premium paid for self	5,000	5,000
(ii)	Medical insurance premium paid for independent wife (allowed)	4,000	4,000
(iii)	Medical insurance premium paid for dependent major child	6,000	6,000
(iv)	Medical insurance premium paid for dependent minor daughter (in cash)	Nil	Nil
(viii)	Medical insurance premium paid for independent minor child (not allowed)	Nil	Nil
		15,000	15,000
B.	Premium Paid For Parents, Whether Dependent Or Not (Allowed If Paid Otherwise Than In Cash)		
	Medical insurance premium paid for dependent brother (not allowed)	Nil	Nil
(vi)	Medical insurance premium paid for dependent mother (senior citizen)	48,000	48,000
(vii)	Medical insurance premium paid for dependent grandfather (not allowed)	Nil	Nil
		48,000	48,000
	Total Deduction u/s 80D (15,000 + 48,000)		63,000



Note: Total Deduction under 'A.' should not exceed ₹ 25,000. Total deduction under 'B.' should not exceed ₹ 50,000.

Part [b]: If A's mother is not a senior citizen, total deduction under 'B.' would have been limited to ₹ 25,000 and the total deduction allowable u/s 80D would come out to ₹ 40,000 (25,000 + 15,000).

Answer 35

Computation Of Eligible Deduction Under Chapter-VI A Of Mr Nepal For AY 2025-26:

Particulars	Amount (₹) •	Amount (₹)
Deduction u/s 80C;		
• LIC premium paid ₹ 25,000 [Limited to 20% of policy value of ₹ 1,00,000]	20,000	
• Contribution to PPF	70,000	
• Repayment of housing loan to Indian Bank	50,000	
Deduction u/s 80CCC: Payment to LIC Pension Fund	20,000	
Deduction u/s 80C, 80CCC & 80CCD limited to ₹ 1,50,000 as per Section 80CCE		1,50,000
Deduction u/s 80D:		
• Payment of medical insurance premium ₹ 28,000 for self, wife and dependent children (maximum deduction allowed is ₹ 25,000)	25,000	
• Medical insurance premium paid for parents ₹ 52,000 (limited to ₹ 50,000)	50,000	75,000
Eligible Deduction Under Chapter VI-A		2,25,000

Answer 36

Computation Of Deduction u/s 80D For AY 2025-26:

S.No	Particulars	Amount (₹)	Amount (₹)
[1]	I In respect of premium paid for insuring the health of;		
	• Self	10,000	
	• Spouse	8,000	
	• Dependent Son	4,000	
		22,000	



	II	In respect of expenditure paid on preventive health check-up of:		
		• Self	2,000	
		• Spouse	1,500	
		[Restricted to ₹ 3,000 since maximum deduction allowable is ₹ 25,000 only]	3,500	25,000
[2]	I	In respect of payment towards health insurance premium for his mother	38,000	
		In respect of preventive health check-up of his mother - ₹ 4,000		
	II	{Restricted to ₹ 2,000 (₹ 5,000 - ₹ 3,000), since maximum deduction for preventive health check-up u/s 80D is ₹ 5,000}	2,000	
	III	Medical expenditure for father would only be eligible for deduction [Note]	15,000	
		Total comes out to ₹ 55,000, but maximum deduction allowable is ₹ 50,000	55,000	50,000
Total Deduction u/s 80D [(1) + (2)]				75,000

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

Answer 37

- Deduction available u/s 80U in respect of self = ₹ 75,000
- Deduction available u/s 80DD in respect of dependent sister who is suffering from a severe disability = ₹ 1,25,000 [irrespective of expenditure incurred].
- Deduction available u/s 80DDDB for medical expenditure incurred on father (85 years) suffering from a specified disease [expenditure incurred or ₹ 1,00,000 whichever is lower as reduced by the amount of reimbursement received from insurance company] = ₹ 67,000 (₹ 75,000 - ₹ 8,000)

Total Deduction Available = ₹ 75,000 + ₹ 1,25,000 + ₹ 67,000 = ₹ 2,67,000

Answer 38

- a) Deduction of ₹ 70,000 is available u/s 80E. Total income would come out to ₹ 4,50,000 [GTI of ₹ 5,20,000 minus deduction u/s 80E of ₹ 70,000].



- b) There will be no change in the amount of deduction. Adopted child is included in the definition of relative for the purposes of section 80E.

Answer 39**(i) Deduction Allowable While Computing Income u/h "Income From House Property":**

Interest for PY 2024-25 = ₹ 3,65,000. The loan has been taken on or after 1st April 1999 for purchase/construction of house property. The house has been purchased/constructed within 5 years from the end of the year in which the loan was taken. Assuming that a certificate has been obtained from the lender certifying the amount of interest, Mr Ray is eligible for a deduction of maximum ₹ 2,00,000 u/s 24(b) in respect of self-occupied property.

Deduction Under Chapter VI-A From Gross Total Income:

> Loan has been taken for purchase/construction of a residential house property to be used for residential purposes only. Thus, deduction of ₹ 1,25,000 is available u/s 80C in respect of principal repayment of housing loan.

> Excess interest on loan for which deduction could not be claimed u/s 24(b) = ₹ 1,65,000 (₹ 3,65,000 - ₹ 2,00,000). The housing loan has been sanctioned during the period starting from 1st April 2019 to 31st March 2022 for purchasing a house property whose SDV doesn't exceed ₹ 45L. Further, this is the first and only residential house owned by Mr Ray. Since all the conditions of Section 80EEA are satisfied, Mr Ray will be eligible for a deduction of ₹ 1,50,000 u/s 80EEA.

(ii) Deduction u/s 80EEB is available for interest payable on loan taken for purchase of electric vehicle provided the loan has been sanctioned during the period starting from 1st April 2019 to 31st March 2023. Therefore, Mr Ray will be eligible for deduction of ₹ 1,50,000 u/s 80EEB. No benefit is available in respect of principal repayment of loan taken for purchase of electric vehicle.

(iii) Deduction u/s 80GGC is available for donations given to political parties provided donation has been given by any mode other than cash. No deduction shall be- available in the present case since the donation of ₹ 15,000 has been given in cash.

Deduction u/s 80G:**Answer 40**

> Total Donation To Organizations Approved u/s 80G (other than National Defence Fund) - ₹ 1,55,000

> Adjusted GTI = GTI - STCG u/s 111 A - LTCG - Deduction u/s 80C to 80U (except 80G)

= ₹ 12,40,000 - ₹ 70,000 (ie, contribution to ULIP) = ₹ 11,70,000



> Qualifying Amount = 10% of Adjusted GTI or donation given, whichever is less - ₹ 1,17,000 or ₹ 1,55,000 = ₹ 1,17,000

Computation Of Deduction Available To Mr Suraj u/s 80G:

S.No.	Particulars	Amount (₹)
1.	Donation to National Defence Fund by cheque {100% of ₹ 60,000 is allowed as deduction without any qualifying limit}	60,000
2.	Donation to Government for promoting family planning by cheque {100% of ₹ 35,000, subject to qualifying limit of ₹ 1,17,000 is allowed as deduction}	35,000
3.	Donation to approved public charitable institute by cheque {50% of qualifying limit after adjusting donation for family planning is allowed as deduction, re 50% of ₹ 82,000 [₹ 1,17,000 - ₹ 35,000]}	41,000
Total Deduction u/s 80G		1,36,000

Answer 41

Computation Of Total Income Of V (PY 2024-25, AY 2025-26):

Particulars	Amount (₹)
Income u/h Business/Profession	34,50,000
Gross Total Income	34,50,000
Less: Deduction u/s 80C [PPF]	[70,000]
Less: Deduction u/s 80G:	
• Prime Minister's Drought Relief Fund (50%)	[5,500]
• Prime Minister's National Relief Fund (100%)	[10,000]
• National Children Fund (100%)	[2,000]
• Other Donations u/s 80G [3,00,000 + 19,000]	[3,19,000]
Total Income	30,43,500

- Total Donation to Organizations Approved u/s 80G + Govt (family planning): ₹ 4,02,000
 - > Municipal Corporation of Delhi for opening girl's school: ₹ 90,000



> Repairs of a notified temple: ₹ 12,000

> State of Delhi for family planning: ₹ 3,00,000

- Adjusted GTI = GTI - LTCG - STCG u/s 111A - Deduction u/s 80C to 80U (except 80G)
= 34,50,000 - 70,000 = ₹ 33,80,000
- Qualifying Amount = 10% of Adjusted GTI or Donation, whichever is less
= 3,38,000 or 4,02,000, whichever is less = ₹ 3,38,000
- Deduction of donation for family planning = ₹ 3,00,000

50% of balance amount for other donations = 50% of (₹ 3,38,000 - ₹ 3,00,000) = ₹ 19,000

Note: Donations in kind, donations to poor, donations only for the benefit of a particular community do not qualify for deduction u/s 80G.

Answer 42

Computation Of Total Income Of Y (PY 2024-25, AY 2025-26):

Particulars	Amount (₹)
Income u/h Salary	6,00,000
Income u/h Other Sources (Interest)	50,000
Gross Total Income	6,50,000
Less: Deduction u/s 80C (PPF)	(24,000)
Less: Deduction u/s 80D (Medical Insurance Premium)	(9,500)
Less: Deduction u/s 80TTA (Interest on savings bank deposits)	(10,000)
Less: Deduction u/s 80GG	(19,350)
Total Income	5,87,150

Working Note:

- Adjusted GTI = GTI - LTCG - STCG u/s 111A - Deduction u/s 80C to 80U (except 80GG) = 6,50,000 - (24,000 + 9,500 + ₹ 10,000) = ₹ 6,06,500



- Least of the following is eligible for deduction u/s 80GG:
 - > Rent paid over 10% of Adjusted GTI - $(80,000 - 10\% \text{ of } 6,06,500) = ₹ 19,350$
 - > 25% of Adjusted GTI = $25\% \text{ of } 6,06,500 = ₹ 1,51,625$
 - > ₹ 5,000 per month = ₹ 60,000.

Answer 43**Computation Of Total Income Of X (PY 2024-25, AY 2025-26):**

Particulars	Amount (₹)
Income u/h Business/Profession	6,70,000
Income u/h Capital Gains	
• LTCG	10,000
• STCG u/s 111 A	4,000
Income u/h Other Sources	
• Winnings from camel races	1,700
• Winnings from horse races	2,000
• Winnings from lottery	1,600
• Other Income	10,000
Gross Total Income	6,99,300
Less: Deduction u/s 80C (PPF)	(70,000)
Less: Deduction u/s 80D (Medical Insurance Premium)	(3,000)
Less: Deduction u/s 80GG	(18,770)
Total Income	6,07,530

- Adjusted GTI = GTI - LTCG - STCG u/s 111 A - Deduction u/s 80C to 80U (except 80GG)

$$= 6,99,300 - 10,000 - 4,000 - (70,000 + 3,000) = ₹ 6,12,300$$

- Least of the following is eligible for deduction u/s 80GG:

$$> \text{Rent paid over } 10\% \text{ of Adjusted GTI} = (80,000 - 10\% \text{ of } 6,12,300) = ₹ 18,770$$

$$> 25\% \text{ of Adjusted GTI} = 25\% \text{ of } 6,12,300 = ₹ 1,53,075$$



> ₹ 5,000 per month = ₹ 60,000

Deduction u/s 80JJAA

Answer 44

(I) Where ABC & Co Has Started Pharmaceuticals Business On 1.4.2024:

M/s ABC & Co, a partnership firm, would be eligible for deduction u/s 80JJAA in respect of additional employees employed by it during PY 2024-25, since it is subject to tax audit u/s s44AB.

However, only employees employed on 1.4.2024 will qualify as "additional employees" since employees employed on 1.5.2024 and 1.8.2024 draw monthly emoluments exceeding ₹ 25,000. Also, employees employed on 1.9.2024 have been employed for less than 240 days in PY 2024-25. Hence, they would not be included in the meaning of "additional employees".

Deduction u/s 80JJAA = 30% x ₹ 66,00,000, being additional employee cost in respect of employees employed on 1.4.2024 [25 employees x ₹ 22,000 p.m. x 12 months] = ₹ 19,80,000

(II) Where ABC & Co Has Started Manufacture Of Leather Products On 1.4,2024:

In this case the firm has started manufacture of leather products, new employees employed for 150 days in the year would qualify as "additional employees" for the purpose of Section 80JJAA. Therefore, employees employed on 1.9.2024 would also qualify as additional employees.

Additional Employee Cost	(₹)
Employees employed on 1.4.2024 [25 employees x ₹ 22,000 p.m. x 12 months]	66,00,000
Employees employed on 1.9.2024 [200 employees x ₹ 22,000 p.m. x 7 months]	3,08,00,000
Total	3,74,00,000
Deduction u/s 80JJAA: 30% of ₹ 3,74,00,000 = ₹ 1,12,20,000	

Note: The benefit. Of employment for minimum period of 150 days instead of 240 days during the year to qualify as "additional employee" for the purpose of Section 80JJAA is available in respect of assessee engaged in apparel business, leather products and footwear products.



Answer 45

- Case 1: No deduction is available in respect of interest on FD. Full interest of ₹ 15,000 is taxable.
- Case 2: Deduction is available u/s 80TTA for ₹ 10,000. Balance ₹ 5,000 interest is taxable.
- Case 3: Deduction is available u/s 80TTA for ₹ 10,000. Further, interest on post office savings bank account is exempt u/s 10(15) to the extent of ₹ 3,500 per year in case of an individual account. Therefore, amount of ₹ 1,500 is taxable after allowing exemption of ₹ 3,500 u/s 10(15) and deduction of ₹ 10,000 u/s 80TTA.
- Case 4: Deduction upto ₹ 10,000 is available u/s 80TTA for interest earned on a savings account with a bank or a post office. Further, interest on post office savings bank a/c is exempt u/s 10(15) to the extent of ₹ 3,500 per year in case of an individual account.

Interest earned from RD (recurring deposit) - ₹ 5,000	Fully Taxable
Interest earned from a savings-bank account - ₹ 4,000	₹ 4,000 allowed as deduction u/s 80TTA
Interest earned on Post Office Time Deposit - ₹ 3,000	Fully Taxable
Interest earned on post office savings bank account is ₹ 8,000	₹ 3,500 allowed as exemption u/s 10(15), ₹ 4,500 allowed as deduction u/s 80TTA.
Taxable Amount	₹ 8,000

Answer 46**Computation Of Total Income Of Mr X (PY 2024-25, AY 2025-26):**

Particulars	Amount (₹)
Income u/h Business/Profession	3,80,000
Income u/h Other Sources - Royalty [42,000 - 8,000]	34,000
Gross Total Income	4,14,000
Less: Deduction u/s 80C (PPF)	[70,000]
Less: Deduction u/s 80QQB	[34,000]
Total Income	3,10,000
Computation of Tax Liability:	
Tax on normal income of ₹ 3,10,000 at slab rates	3,000



Less: Rebate u/s 87A	[3,000]
Tax Liability	Nil

Answer 47**Computation Of Deduction Under Section 10AA:**

(i)	If Unit In SEZ Was Set Up On 12-03-2016: Since the SEZ unit was set up in PY 2015-16, PY 2024-25 shall be the 10th assessment year. Therefore, it shall be eligible for deduction of 50% of the profits derived from export, assuming all the other conditions specified in Section 10AA are fulfilled.
	$= \text{Prof its of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$
	$= 220 \text{ lakhs} \times \frac{1,000 \text{ lakhs}}{1,100 \text{ lakhs}} \times 50\% = 100 \text{ lakhs}$
(ii)	If Unit In SEZ Was Set Up On 12-08-2019: Since the SEZ unit was set up in PY 2019-20, PY 2024-25 shall be the 6th assessment year. Therefore, it shall be eligible for deduction of 50% of the profits derived from export, assuming all the other conditions specified in Section 10AA are fulfilled.
	$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$
	$= 220 \text{ lakhs} \times \frac{1,000 \text{ lakhs}}{1,100 \text{ lakhs}} \times 50\% = ₹ 100 \text{ lakhs}$
The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations.	

Answer 48

- As per Section 10AA, deduction is allowed to a SEZ unit in the following manner:
 - > First 5 Years: 100% of the profit and gains derived from export of goods/services
 - > Next 5 Years: 50% of the profit and gains derived from export of goods/services



• **Computation Of Total Sales Export Sales And Net Profit Of Unit In SEZ (Rs, In Lakhs):**

Particulars	Rudra Ltd	Unit In DTA	Unit In SEZ
Total Sales	600	200	400
Export Sales	460	160	300
Net Profit	80	20	60

(i) If Unit In SEZ Was Set Up And Began Manufacturing From 25.07.2016: Since it is the 9th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the export profit of such unit assuming all the other conditions specified u/s 10AA are fulfilled.

= 50% of [(₹ 60 lakhs * ₹ 300 lakhs)/₹ 400 lakhs]

= 50% of ₹ 45 lakhs

= ₹ 22.5 lakhs

(ii) If Unit In SEZ Was Set Up And Began Manufacturing From 10.04.2019: Since it is the 6th year of operation of the eligible unit, it shall be eligible for deduction upto 50% of the export profit of such unit.

= 50% of [(₹ 60 lakhs * ₹ 300 lakhs)/₹ 400 lakhs]

= 50% of ₹ 45 lakhs

= ₹ 22.5 lakhs

Miscellaneous Questions

Answer 49

(i) True: Deduction u/s 80E is available to an individual in respect of interest on loan taken for his higher education or for higher education of his relative. Relative includes spouse and children of the individual. Therefore, Mr Amit will get the deduction u/s 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr Amit's eligibility for deduction u/s 80E.

(ii) True: Subscription to notified bonds issued by NABARD would qualify for deduction u/s 80C.

(iii) False: There is no stipulation u/s 80C that investment, subscription, etc should be made out of income chargeable to tax.



(iv) False: Deduction u/s 80E is in respect of interest paid on education loan. Hence, ₹ 14,000 is available as deduction.

Answer 50

Computation Of Eligible Deduction Under Chapter VI-A Of Mr Mayank For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Deduction u/s 80C:		
• LIC premium paid ₹ 30,000 [Deduction restricted to 10% of sum assured since the policy was taken on or after 1.4.2012] (₹ 2,00,000 x 10%)	20,000	
• Public Provident Fund	1,10,000	
• Repayment of housing loan to Indian Bank	35,000	
Deduction u/s 80CCC: Payment towards LIC pension fund	28,000	
Aggregate deduction u/s 80C, 80CCC & 80CCD is restricted to ₹ 1,50,000		1,50,000
Deduction u/s 80D:		
• Payment of medical insurance premium ₹ 22,000 for self, wife and dependent children	22,000	
• Medical insurance premium of ₹ 32,000 paid for non-dependent parents [limit of ₹ 50,000 is applicable for senior citizens]	32,000	54,000
Deduction u/s 80GGC: Donation to National Congress party by crossed cheque		30,000
Eligible Deduction Under Chapter VI-A		2,34,000

Answer 51

Computation Of Total Income Of Mr Prakash For AY 2025-26:

Particulars	(₹)	(₹)
Income Under The Head "Salaries":		
Pension	6,60,000	
Less: Standard deduction u/s 16[ia] {Lower of ₹ 50,000 or actual salary/pension}	(50,000)	6,10,000
Income From Other Sources:		



Interest from bank on fixed deposit [Gross]		55,000
Gross Total Income		6,65,000
Less: Deduction Under Section 80C: LIC premium of ₹ 22,500 {Restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012}		20,000
Less: Deduction Under Section 80D:		31,000
> Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr Prakash is a senior citizen	26,000	
> Preventive health check-up for Self, ₹ 1,500, and for his parents, ₹ 4,500, restricted to ₹5,000 [deduction allowed even if the same is paid in cash]	5,000	
Less: Deduction Under Section 80E: Interest on loan taken from bank for MBA course pursued by his daughter]		6,500
Less: Deduction Under Section 80G: Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash		Nil
Less: Deduction Under Section 80TTB: Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr Prakash is a senior citizen		50,000
Total Income		5,57,500





CHAPTER - 6

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

ILLUSTRATION 1 [average]

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

SOLUTION

	Rs.
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	<u>1,20,000</u>
	8,50,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	<u>8,00,000</u>
Tax Liability	75,400
Average rate of tax $(₹ 75,400 / ₹ 8,00,000 \times 100)$	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment. Alternatively, Mr. A can pay tax on non-monetary perquisites as under –

Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).



ILLUSTRATION 2 (average)

Examine the TDS implications under section 194A in the cases mentioned hereunder–

1. On 1.10.2024, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.
2. On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest @ 9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.
3. On 1.10.2024, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025.

SOLUTION

1. ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹ 45,000 [$9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$] under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4,500.
2. XYZ Bank has to deduct tax at source @ 10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times \frac{9}{12}$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted @ 10% u/s 194A.
3. No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2024 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000.

ILLUSTRATION 3 (average)

There are a large number of gamers who play with very insignificant amount and withdraw also very small amount. Deducting tax at source under section 194BA for each insignificant withdrawal would increase compliance for tax deductor. Can there be relaxation to ease compliance?

Answer:

Tax may not be deducted on withdrawal on satisfaction of all of the following conditions, namely:

- (i) net winnings comprised in the amount withdrawn does not exceed ₹ 100 in a month;



- (ii) tax not deducted on account of this concession is deducted at a time when the net winnings comprised in withdrawal exceeds ₹ 100 in the same month or subsequent month or if there is no such withdrawal, at the end of the financial year; and
- (iii) the deductor undertakes responsibility of paying the difference if the balance in the user account at the time of tax deduction under section 194BA is not sufficient to discharge the tax deduction liability.

ILLUSTRATION 4 [average]

When the net winnings is in kind how will tax deduction under section 194BA operate?

Answer:

At the outset, it may be clarified that where money in user account is used to buy an item in kind and given to user then it is net winnings in cash only and the deductor is required to deduct tax at source under section 194BA accordingly.

However, there could be a situation where the winning of the game is a prize in kind. In that situation provision of section 194BA(2) will operate.

According to this where the net winnings are wholly in kind or partly in cash, and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the net winnings. In these situations, the person responsible for paying, shall, before releasing the winnings, ensure that tax has been paid in respect of the net winnings. In the above situation, the deductor will release the net winnings in kind after the deductee provides proof of payment of such tax (e.g., Challan details etc.).

In the alternative, as an option to remove difficulty if any, the deductor may deduct the tax under section 194BA and pay to the Government.

ILLUSTRATION 5 [average]

How will the valuation of winnings in kind required to be carried out?

Answer:

The valuation would be based on fair market value of the winnings in kind except in following cases:-

1. The online game intermediary has purchased the winnings before providing it to the user. In that case the purchase price shall be the value for winnings.
2. The online game intermediary manufactures such items given as winnings. In that case, the price that it



charges to its customers for such items shall be the value for such winnings.

It is further clarified that **GST will not be included for the purposes of valuation** of winnings for TDS under section 194BA.

ILLUSTRATION 6 [average]

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during P.Y.2024-25:

Rs. 20,000 on 1.5.2024

Rs. 25,000 on 1.8.2024

Rs. 28,000 on 1.12.2024

On 1.3.2025, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

SOLUTION

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2024, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @ 1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 [i.e., ₹ 30,000 – ₹ 1,030] has to be paid to Mr. X.

ILLUSTRATION 7 [average]

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

SOLUTION

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).



Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case. However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

- i. He owns ten or less goods carriages at any time during the previous year.
- ii. He is engaged in the business of plying, hiring or leasing goods carriages;
- iii. He has furnished a declaration to this effect along with his PAN.

ILLUSTRATION 8 (average)

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss. Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

SOLUTION

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

ILLUSTRATION 9 (average)

XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions under section 194-I are attracted.

SOLUTION

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was



credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source = ₹ 6,00,000 × 10% = ₹ 60,000

ILLUSTRATION 10 (average)

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2024. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2024?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

SOLUTION

Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @5% till 30.09.2024 and thereafter @2%. The tax is to be deducted in the last month of the P.Y. 2024-25 i.e., March 2025 or in the last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, ₹ 11,000 [(₹ 55,000 × 2% × 10)] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of ₹ 7,700 [(₹ 55,000 × 2% × 7)] has to be deducted from rent payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 2%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 × 20% × 10], but the same has to be restricted to ₹ 55,000, being rent for March, 2025.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 × 20% × 7], but the same has to be restricted to ₹ 55,000, being rent for December, 2024.

Summary of rates and threshold limit under section 194J for deduction of tax at source

Nature of payment	TDS rate	Separate Limit
Fees for technical services (not being professional services)	2%	₹ 30,000
Fees for professional services	10%	₹ 30,000
Royalty in the nature of consideration for sale, distribution or exhibition of cinematographic films	2%	} ₹ 30,000
Other royalty	10%	



Any remuneration or fees or commission, by whatever name called, other than those on which tax is deductible under section 192, to a director of a company	10%	Nil
Non-compete fees	10%	₹ 30,000

In case of a payee, engaged only in the business of operation of call centre, the tax shall be deducted at source @2%

ILLUSTRATION 11 [average]

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2024 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

SOLUTION

TDS provisions under section 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2024-25.

ILLUSTRATION 12 [average]

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the FY.2024-25
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000 in November 2024
2.	Mr. Rajesh, a wholesale trader whose turnover was 95 lakhs in P.Y. 2023-24.	Contract Payment for reconstruction of residential house [made during the period January- March, 2025]	₹ 20 lakhs in January, 2025, 15 lakhs in Feb 2024 and ₹ 20 lakhs in March 2024.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	₹ 51 lakhs



4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	₹ 48 lakhs

SOLUTION

	Particulars of the payer	Nature of payment	Aggregate of payments in the FY.2023-24	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	₹ 5 lakhs	No; TDS under section 194C is not attracted since the payment is for Personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for Business purposes	₹ 80,000	Yes, u/s 194H, since the payment exceeds ₹ 15,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, u/s 194M @2%, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed 50 lakhs. Since, his turnover does not exceed ₹ 1 crore in the P.Y.2023-24, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2024-25.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, u/s 194M @2%, since the payment of ₹ 51 lakhs made in March 2025 exceeds the threshold of 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.



4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

Example (average)

The persons referred to in (i) to (vi) in Column (2) of the table below have always been filing their returns of income on or before the due date u/s 139(1). The persons mentioned in (vii) to (x) in Column (2) of the table below have not filed their returns of income for the last five years. Determine the liability of deduction of tax at source u/s 194N by the bank/co-operative bank referred to in column (3) of the table below in each of the following individual cases, assuming that this is the only withdrawal in the PY.2023-24 by the persons referred to in Column (2).

(1)	(2)	(3)	(4)	(5)	(6)
	Person making the withdrawal	Bank/Co operative Bank from which money is withdrawn	Date of withdrawal	Amount of withdrawal (₹)	TDS u/s 194N (₹)
(i)	Mr. Harishit	SBI	1.7.2024	1,10,00,000	₹ 10,00,000 x 2% = ₹ 20,000
(ii)	Mr. Pranav	SBI	1.8.2024	90,00,000	Nil (since withdrawals < ₹ 1 crore)
(iii)	ABC Cooperative Society	SBI	1.9.2024	2,70,00,000	Nil (since withdrawals < ₹ 3 crore)
(iv)	XYZ Cooperative Society	MNO Co operative bank	1.9.2024	3,10,00,000	₹ 10,00,000 x 2% = ₹ 20,000
(v)	Mr. Vaibhav	MNO Co operative bank	1.9.2024	2,10,00,000	₹ 1,10,00,000 x 2% = ₹ 2,20,000
(vi)	A Ltd.	MNO Co operative bank	1.10.2024	1,05,00,000	₹ 5,00,000 x 2% = ₹ 10,000



(vii)	M/s. DEF & Co., a firm	MNO Co operative bank	1.2.2025	90,00,000	₹ 70,00,000 x 2% = ₹ 1,40,000
(viii)	Mr. Varun	BOI	1.2.2025	1,20,00,000	₹ 80,00,000 x 2% (+) ₹ 20,00,000 x 5% = ₹ 2,60,000
(ix)	Mr. Rakesh	BOI	1.2.2025	45,00,000	₹ 25,00,000 x 2% = ₹ 50,000
(x)	PQR Co-operative Society	BOI	1.2.2025	3,30,00,000	₹ 2,80,00,000 x 2% (+) ₹ 30,00,000 x 5% = ₹ 7,10,000

ILLUSTRATION 13 [difficult]

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases –

- Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.6.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2024 on LIC policy taken on 31.12.2011, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.
- Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.

SOLUTION

- Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).
- Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2024 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.



ILLUSTRATION 14 [difficult]

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2024. He has purchased the house property and the land in the year 2023 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

SOLUTION

(i)	Tax implications in the hands of Mr. X
	As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2025-26. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
(ii)	Tax implications in the hands of Mr. Y
	In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(x) includes only capital assets specified thereunder.
(iii)	TDS implications in the hands of Mr. Y
	Since the sale consideration of house property or the stamp duty value of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs or ₹ 85 lakhs). TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.



ILLUSTRATION 15 (difficult)

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is ₹ 9,500.

1. From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y.2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
2. What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y. 2025-26, if tax deductible at source has been fully deducted? Examine.
3. Is Mr. Sharma required to file his return of income for A.Y. 2025-26, if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

SOLUTION**1) Computation of total income of Mr. Sharma for A.Y.2025-26**

Particulars	₹	₹
I Salaries		
Pension (₹52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16[ia]	50,000	
		5,74,000
II Income from Other Sources		
Interest on fixed deposit (₹20 lakh x 8%)	1,60,000	
Interest on savings account	9,500	1,69,500
Gross total income		7,43,500
Less: Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (₹2 lakh, restricted to ₹1.5 lakh)	1,50,000	



Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		5,43,500

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

Particulars	₹
Tax payable [$₹43,500 \times 20\% + ₹10,000$] Add: Health and Education Cess@4% Tax liability	18,700
Tax liability (rounded off)	748
	19,448
	19,450

- 2) SBI, being a specified bank, is required to deduct tax at source u/s 194P and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- 3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a “specified senior citizen”. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

ILLUSTRATION 16 (average)

Whether payment through overseas credit card would be counted in LRS?

Answer:

No TCS shall be applicable on expenditure through international credit card while being overseas till further order.

ILLUSTRATION 17 (average)

Whether the threshold of ₹ 7 lakh, for TCS to become applicable on LRS, applies separately for various purposes like education, health treatment and others? For example, if remittance of ₹ 7 lakh under LRS is made in a financial year for education purpose and other remittances in the same financial year of ₹ 7 lakh is made for



medical treatment and ₹ 7 lakh for other purposes, whether the exemption limit of ₹ 7 lakh shall be given to each of the three separately?

Answer:

It is clarified that the threshold of ₹ 7 lakh for LRS is combined threshold for applicability of the TCS on LRS irrespective of the purpose of the remittance. Thus, in the given example, upto ₹ 7 lakh remittance under LRS during a financial year shall not be liable for TCS. However, subsequent ₹ 14 lakh remittance under LRS shall be liable for TCS in accordance with the TCS rates applicable for such remittance. TCS rates would be applicable as under:-

Remittances	Rate of TCS
First ₹ 7 lakh remittance under LRS during the financial year 2024-25 for education purpose (or for that matter any purpose)	No TCS
Remittances beyond ₹ 7 lakh under LRS during the financial year 2024-25	TCS at 0.5% (if it is for education purpose financed by loan from a financial institution), 5% (if it is for education or medical treatment) and 20% (if it is for other purposes)

ILLUSTRATION 18 (average)

Whether the threshold of ₹ 7 lakh, for TCS to become applicable on LRS, applies separately for each remittance through different authorised dealers? If not, how will authorised dealer know about the earlier remittances by that remitter through some other authorised dealer?

Answer:

It is clarified that the threshold of ₹ 7 lakh for LRS is qua remitter and not qua authorised dealer. Since the facility to provide real time update of remittance under LRS by remitter is still under development by the RBI, it is clarified that the details of earlier remittances under LRS by the remitter during the financial year may be taken by the authorised dealer through an undertaking at the time of remittance. If the authorised dealer correctly collects the tax at source based on information given in this undertaking, he will not be treated as "assessee in default". However, for any false information in the undertaking, appropriate action may be taken against the remitter under the Act.

It is further clarified that same methodology of taking undertaking from the buyer of overseas tour program package may be followed by the seller of such package.



ILLUSTRATION 19 (average)

There is threshold of ₹ 7 lakh for remittance under LRS for TCS to become applicable while there is another threshold of ₹ 7 lakh for purchase of overseas tour program package where reduced rate of 5% of TCS applies. Whether these two thresholds apply independently?

Answer:

Yes, these two thresholds apply independently. For LRS, the threshold of ₹ 7 lakh applies to make TCS applicable. For purchase of overseas tour program package, the threshold of ₹ 7 lakh applies to determine the applicable TCS rate as 5% or 20%.

ILLUSTRATION 20 (average)

A resident individual spends ₹ 3 lakh for purchase of overseas tour program package from a foreign tour operator and remits money which is classified under LRS. There is no other remittance under LRS or purchase of overseas tour program during the financial year. Whether TCS is applicable?

Answer:

In case of purchase of overseas tour program package which is classified under LRS, TCS provision for purchase of overseas tour program package shall apply and not TCS provisions for remittance under LRS. Since for purchase of overseas tour program package, the threshold of ₹ 7 lakh for applicability of TCS does not apply, TCS is applicable and tax is required to be collected by the seller. In this case the tax shall be required to be collected at 5% since the total amount spent on purchase of overseas tour program package during the financial year is less than ₹ 7 lakh. The TCS should be made by the seller.

ILLUSTRATION 21 (average)

There are different rates for remittance under LRS for medical treatment/education purposes and for other purposes. What is the scope of remittance under LRS for medical treatment/education purposes?

Answer:

As per the clarification by the RBI, remittance for the purposes of medical treatment shall include,-

- i. remittance for purchase of tickets of the person to be treated medically overseas (and his attendant) for commuting between India and the overseas destination;



- ii. his medical expense; and
- iii. other day to day expenses required for such purpose.

Education Remittance for purpose of education shall include,-

- i. remittance for purchase of tickets of the person undertaking study overseas for commuting between India and the overseas destination;
- ii. the tuition and other fees to be paid to educational institute; and
- iii. other day to day expenses required for undertaking such study.

ILLUSTRATION 22 (average)

Whether purchase of international travel ticket or hotel accommodation on standalone basis is purchase of overseas tour program package?

Answer:

The term 'overseas tour program package' is defined as to mean any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.

It is clarified that purchase of only international travel ticket or purchase of only hotel accommodation, by itself is not covered within the definition of 'overseas tour program package'. To qualify as 'overseas tour program package', the package should include at least two of the followings:

- (i) international travel ticket,
- (ii) hotel accommodation (with or without food)/boarding/lodging,
- (iii) any other expenditure of similar nature or in relation thereto.

Q.23 Whether TCS@1% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/ distributors?

(average)

A. To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding ₹ 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.



Q.24 Whether TCS@1% on sale of motor vehicle is applicable only to luxury cars?

[average]

A. No, as per section 206C(1F), the seller shall collect tax@1% from the purchaser on sale of any motor vehicle of the value exceeding ₹ 10 lakhs.

Q.25 Whether TCS@1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions, of motor vehicle or any other goods or provision of services?

[average]

A. Government, institutions notified under United Nations (Privileges and Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State shall not be liable to levy of TCS@1% under section 206C(1F).

Q.26 Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?

[average]

A. Tax is to be collected at source@1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

Q.27 Whether TCS@1% on sale of motor vehicle is applicable in case of an individual?

[average]

A. The definition of "Seller" as given in clause (c) of the Explanation below sub-section (11) of section 206C shall be applicable in the case of sale of motor vehicles also.

Q.28 How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?

[average]

A. The provisions of TCS on sale of motor vehicle exceeding ₹ 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding ₹ 10 lakhs would attract TCS@1%.

ILLUSTRATION 30 [difficult]

Mr. Gupta, a resident Indian, is in retail business and his turnover for FY.2023-24 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the FY.2024-25 was ₹ 95 lakh (₹ 20 lakh on 1.6.2024, ₹ 25 lakh on 12.8.2024, ₹ 22 lakh on 23.11.2024 and ₹ 28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for FY.2023-24 was ₹ 15 crores.



1. Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
2. Would your answer be different if Mr. Gupta's turnover for FY.2023-24 was ₹ 8 crores, all other facts remaining the same?
3. Would your answer to [1] and [2] change, if PAN has not been furnished by the buyer or seller, as required?

SOLUTION

1. Since Mr. Gupta's turnover for FY.2023-24 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the FY.2024-25, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being

the sum exceeding ₹ 50 lakhs) in the following manner-

No tax is to be deducted u/s 194Q on the payments made on 1.6.2024 and 12.8.2024, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2024 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2025.

Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

2. If Mr. Gupta's turnover for the FY.2023-24 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the FY.2023-24 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2024 and 12.8.2024, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2024 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2025.

3. In case [1], if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 [5% of ₹ 28 lakhs] has to be deducted by Mr. Gupta u/s 194Q on 23.11.2024 and 25.3.2025, respectively.



In case [2], if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 [i.e., 1% of ₹ 17 lakhs] and ₹ 28,000 [1% of ₹ 28 lakhs] has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2024 and 25.3.2025, respectively.



TEST YOUR KNOWLEDGE

31] Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year –

(difficult)

Particulars	Rs.
2023-24	1,05,00,000
2024-25	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2024-25:

Particulars	Rs.
Interest paid to UCO Bank on 15.8.2024	41,000
Contract payment to Raj [2 contracts of ₹ 12,000 each] on 12.12.2024	24,000
Shop rent paid [one payee] on 21.1.2025	2,50,000
Commission paid to Balu on 15.3.2025	7,000

32] Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2024-25 as per the provisions of the Income-tax Act, 1961.

(difficult)

S. No.	Date	Nature of Payment



(i)	1-10-2024	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN.
(ii)	1-11-2024	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2024	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2025	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2025	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2025	Payment of commission of ₹ 14,000 to Mr. Y.

33] Examine the applicability of TDS provisions and TDS amount in the following cases:

(difficult)

- Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2024.
- Fee paid on 1.12.2024 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.
- ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2025.

34] Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2024-25:

(difficult)

- Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2025.
- Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- Rs. 2,00,000 paid to Mr. A, a resident individual, on 22-02-2025 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

35] Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

(average)



ANSWERS

31] As the turnover of business carried on by Ashwin for F.Y. 2023-24, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2024-25, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted @10% under section 194-I as the annual rental payment exceeds ₹ 2,40,000.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 15,000.

32]

- i. No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
 - He owns ten or less goods carriages at any time during the previous year.
 - He is engaged in the business of plying, hiring or leasing goods carriages;
 - He has furnished a declaration to this effect along with his PAN.
- ii. As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- iii. Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2024 to M/s X Ltd. is less than the threshold limit of ₹ 30,000.
- iv. According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person



other than the customer or associate of such customer. Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for 'sale'.

- v. As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 2,50,000.
- vi. As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 15,000.

Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

33]

- a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source: = ₹ 2,60,000 × 2% = ₹ 5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA.

- b) As per the provisions of section 194J, a HUF is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.



In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2024 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y. 2024-25. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 x 10% = ₹ 1,900

34]

1. Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200

2. Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000.

3. As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.



35] The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable [after considering tax deducted at source] on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income, the entire tax liability is fully deductible at source @30% under section 194B, 194BA and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is 10,000 or more.

ILLUSTRATION 36 (easy)

Mr Bharat is working in LG India Pvt Ltd. He is working on a salary of ₹ 50,000 p.m. and he has reported investments worth ₹ 40,000 qualifying for deduction u/s 80C. Tax was deducted at the applicable rates for the month of April and May. The employer has increased the salary of the employee to ₹ 70,000 p.m. wef June 1, 2024. Discuss TDS implications for the employer wef June 1, 2024.

ILLUSTRATION 37 (easy)

Mr y has invested some amount in ABC Ltd and the company has paid him interest of ₹ 3,60,000 after deducting TDS of 10%. The cheque was collected by the bank and the bank charges were 1%. Compute his tax payable/tax refund for AY 2025-26.

ILLUSTRATION 38 (easy)

X is a sole proprietor. His annual turnover is more than ₹ 1,80,00,000 since last 5 years. During the year ended March 31, 2025, A4r X makes the following payments to a non-banking company:

1. Interest on loan taken for the marriage of his daughter [7 5 lakhs interest paid on 01.03.2025]



2. Interest on loan taken for business purposes [₹ 6 lakhs interest paid on 21.03.2025]

Tax is deductible on interest other than interest on securities u/s 194A. Discuss whether the aforesaid payments are covered by this provision. ,

ILLUSTRATION 39 (easy)

Mr A won the first prize in a lottery ticket on June 1, 2024 and the prize money was a Maruti car worth ₹ 8 lakhs. Section 194B requires deduction of tax from the winnings of lottery at the time when the prize money is paid. Discuss the procedure to be adopted before handing over the prize to Mr A.

ILLUSTRATION 40 (easy)

What will be the amount of TDS in the following cases?

- a) Premier Horse Club India has paid ₹ 5,00,000 to Deepika Padukone as winnings from horse races.
- b) Local Horse Club India has paid ₹ 8,000 to Rakhi Sawant as winnings from horse races.

ILLUSTRATION 41 (average)

Mrs Y has made payments of ₹ 5 lacs to a contractor [for business purposes] during the last two quarters of the year ended 31.03.2025. Her turnover for the year ended 31.03.2024 was ₹ 115 lacs. Is there any obligation to deduct tax at source?

ILLUSTRATION 42 (average)

X Ltd pays ₹ 1,00,000 to Y Ltd. a resident contractor, who under a contract dated October 15, 2024, manufactures a product according to specification of X Ltd. Y Ltd has manufactured the product by purchasing raw-material from

X Ltd. Discuss relevant TDS implications in the present case.

ILLUSTRATION 43 (average)

X Ltd makes the following payments during FY 2024-25 to Y Ltd towards work done under different contracts:

Contract No	Date of Payment	Amount (₹)
1.	July 5, 2024	20,000



2.	August 6, 2024	24,000
3.	September 8, 2024	25,000
4.	October 10, 2024	3,000
5.	December 10, 2024	30,000

X Ltd claims that it is not liable to deduction of tax at source u/s 194C. Examine the correctness of the claim made by the company. What would be the position if the value of the Contract No 5 is ₹ 1,000 only and there is no other contract during the remaining part of year?

ILLUSTRATION 44 (average)

X Ltd makes the following payments during PY 2024-25. Determine the amount of tax deductible u/s 194C.

1. Payment to A, a resident transport contractor: ₹ 11,50,000 (PAN is intimated by A to X Ltd and A owns 9 carriages throughout PY 2024-25)
2. Payment to B, a resident transport contractor: ₹ 1,20,000 (PAN is not intimated by B or B does not have PAN. B owns 8 carriages throughout PY 2024-25).
3. Payment to C, a resident catering contractor: ₹ 21,50,000 (PAN is intimated by C to X Ltd).
4. Payment to D, a resident catering contractor: ₹ 2,00,000 (PAN is not intimated by D or D does not have PAN).

TDS On Rent - Section 194I

ILLUSTRATION 45

Compute the TDS amount in the following cases. Assume all payments are made during PY 2024-25:

	Person Receiving The 'Payment [Payee]	Mr A	Mr B	Mr C	Mr D
Cases	Person Making The Payment [Payer]	Mr P [Turnover of PY 2023-24 is ₹ 90L]	Mr P [Turnover of PY 2023-24 is ₹ 1.2 Cr]	Partnership Firm	Company [Indian Company]
Case 1;	House Property Rent [PY 24-25]:	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000
	Amount of TDS (₹)				
Case 2:	Rent for P&M [PY 24-25]:	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000



	Amount of TDS (₹)				
Case 3•	House Property Rent (PY 24-25):	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000
	Amount of TDS (₹)				
Case 4:	Rent for P&M (PY 24-25):	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000
	Amount of TDS (₹)				

ILLUSTRATION 46 (average)

X is a sole proprietor. His annual turnover is more than ₹ 1.5 crores since last 5 years. During PY 2024-25, he makes the following payments of rent:

1. Rent of ₹ 5 lakhs paid to A Ltd on March 1, 2025 for a residential property for his personal use.
2. Rent of ₹ 6 lakhs paid to B on March 21, 2025 for taking a machinery on rent.

Discuss whether the aforesaid payments are covered u/s 194I.

ILLUSTRATION 47

X Ltd has taken a building on rent from A for setting up its office. Rent payable is ₹ 40,000 p.m. A does not have PAN. Discuss TDS implications u/s 194I for PY 2024-25.

ILLUSTRATION 48

Mr Dhanapal wishes to purchase a residential house costing ₹ 60 lakhs from Ms Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for ₹ 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.

ILLUSTRATION 49

Comment on the applicability of provisions of Section 194J in the following cases:

- a) A television company pays ₹ 40,600 to a cameraman for shooting of a documentary film.
- b) East Bengal Club, a renowned football club has engaged A, a resident in India, as its coach and has paid a remuneration of ₹ 6 lakh annually.
- c) A company operating a television channel makes payment of ₹ 5 lakh to a former cricketer for making running commentary of a one-day cricket match.



ILLUSTRATION 50 [average]

An amount of ₹ 40,000 was paid to Mr X on 1.7.2024 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr X on 28.2.2025, from which tax 10% [amounting to ₹ 9,000] on the entire amount of ₹ 90,000 was deducted. This TDS of ₹ 9,000 was deposited only on 22.6.2025, Compute the interest chargeable u/s 201.

ILLUSTRATION 51 [average]

Ashwin, a resident individual carrying on business, furnishes you the following information:

- Turnover during FY 2023-24: ₹ 1,20,00,000
- Turnover during FY 2024-25: ₹ 98,00,000

State whether TDS provisions are attracted for the under-mentioned expenses incurred during FY 2024-25. All payments are made to residents. If tax has to be deducted at source, state the amount of TDS.

- a) Commission paid to Babloo on 15th September 2024: ₹ 18,000
- b) Payment to Vijay for repair of office building: ₹ 23,000
- c) Payment of fees for technical services to Vivek: ₹ 35,000

ILLUSTRATION 52

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

- (i) Ms Varsha received a sum of ₹ 95,000 on 30th September 2024 towards maturity proceeds of LIC taken on 1st October 2016 for which sum assured was ₹ 80,000 and annual premium was ₹ 10,000.
- (ii) Mr Deepak transferred a residential house property to Mr Karan for ₹ 45 lakhs. The stamp duty value of such property is ₹ 55 lakhs.
- (iii) XYZ Private Limited pays the following amounts to Mr Narayan during PY 2024-25:
 - ₹ 22,000 towards fee for professional services
 - ₹ 18,000 towards royalty.
- (iv) Payment of ₹ 1,75,000 made to Mr Vaibhav for purchase of calendar according to specifications of M/s ABC Limited. However, no material was supplied for such calendar by ABC Limited to Mr Vaibhav.



- (v) Talent Private Limited pays ₹ 12,000 to Ms Sudha, its director, towards sitting fee which is not taxable u/s 192.
- (vi) Radha Limited is engaged for Shyam Limited only in the business of operation of call centre. On 18/03/2025, the total amount credited by Shyam Limited in the ledger account of Radha Limited is ₹ 70,000 regarding service charges of call centre. The amount is paid through cheque on 28/03/2025 by Shyam Limited.

ILLUSTRATION 53. (difficult)

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- i. Mr Tandon received a sum of ₹ 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- ii. A sum of ₹ 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 ₹ 21,000. The lucky draw was organized by M/s Maximus Retail Ltd for its customer.
- iv. Finance Bank Ltd sanctioned and disbursed a loan of ₹ 10 crores to Borrower Ltd on 31-3-2025. Borrower Ltd paid a sum of ₹ 1,00,000 as service fee to Finance Bank Ltd for processing the loan application.
- v. Mr Ashok, working in a private company, is on deputation for 3 months (from December 2024 to February 2025) at Hyderabad where he pays a monthly house rent of ₹ 52,000 for those three months, totalling to ₹ 1,56,000. Rent is paid by him on the first day of the relevant month.

ILLUSTRATION 54 (difficult)

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

S. No.	Particulars Of The Payer	Nature Of Payment	Aggregate Payments Made In FY 24-25 (₹)
(i)	Mr Kale, receiving pension from Central Government	Contractual payment made during April 2024 for reconstruction of his residential house in Arunachal Pradesh	52,50,000



(ii)	Mr Rahul, a wholesale trader of spices whose turnover was ₹ 5 crores for FY 2023-24	Contract payment for construction of office godown during January to March 2025 to Mr Akhilesh, an individual	50,00,000
(iii)	Mr Golu, an individual carrying garment trading business with turnover of ₹ 95 lakhs in FY 2023-24	Payment of commission to Mr Vinay for securing a contract from a big business house in November 2024	1,20,000
(iv)	XYZ Urban Co-Operative Bank	Payment by way of cash withdrawal by ABC & Co, a partnership firm, amounting ₹ 1.2 crores during FY 2024-25. ABC & Co has filed its tax returns for the last 3 FYs in time.	1,20,00,000

ILLUSTRATION 55 (average)

State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for FY 2024-25 under the Income Tax Act, 1961. Assume that all payments are made to residents:

- Mr Mahesh has paid ₹ 6,00,000 on 15.10.2024 to M/s Fresh Cold Storage Pvt Ltd for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 crores during PY 2023-24.
- Mr Ramu, a salaried individual, has paid rent of ₹ 60,000 per month to Mr Shiv Kumar from 1st July 2024 to 31st March, 2025. Mr Shiv Kumar has not furnished his Permanent Account Number.

ILLUSTRATION 56 (average)

Discuss the liability of tax deduction at source under the Income Tax Act, 1961 in respect of the following cases with reference to AY 2025-26:

- 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.
- ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during PY 2024-25 as under:

Bill No	Date	Amount (₹)
1	30.04.2024	27,000



57	30.06.2024	25,000
105	30.09.2024	28,000
151	30.12.2024	32,000

ILLUSTRATION 57 (average)

Examine the applicability and the amount of TDS to be deducted in the following cases for FY 2024-25:

- 5 and Co. Ltd paid ₹ 25,000 to one of its directors as sitting fees on 02-02-2025.
- ₹ 2,20,000 paid to Mr Mohan, a resident individual, on 28-02-2025 by the State of Haryana on compulsory acquisition of his urban land.
- Mr Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in PY 2023-24. He purchased goods from Mr Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during PY 2024-25 on various dates is ₹ 80 lakhs which are as under:

10-06-2024	₹ 25,00,000
20-08-2024	₹ 27,00,000
12-10-2024	₹ 28,00,000

He credited Mr Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2025 ₹ 80 lakhs. Mr Agarwal's turnover for FY 2024-25 is ₹ 20 crores.

ILLUSTRATION 58 (difficult)

Answer the following:

- Miss Tara, a resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those video on social media. On 1st December 2024, 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.
- Ms Aruna is a Chief Executive Officer of a multi-national company. She hires Mr Suresh for supply of her housing staff (like gardener, chefs and drivers, etc) and makes the following payments to him: ₹



25,00,000 on 10th August 2024 and ₹ 30,00,000 on 22nd September 2024. Determine of amount of tax to be deducted.

- iii. Would your answer be different if Ms Aruna is business-woman and her books are not audited in immediately preceding financial year and payment to Mr Suresh is for business purposes.
- iv. By virtue of an agreement with Nationalized Bank, Ms 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.

ILLUSTRATION 59 [difficult]

Discuss TDS liability in respect of the following cases with reference to AY 2025-26. [State applicable provision and given brief reasons for your answer, wherever applicable]

Part (i) - 3 Marks: XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during FY 2024-25 are as given:

Particulars	Date Of Payment	[₹]
Advance payment	1.4.2024	40,00,000
Payment for supplies	2.7.2024	20,00,000
Advance payment	4.8.2024	12,00,000

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

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

Part (ii) - 1 Mark: MJ, a part time director of ABZ Pvt Ltd. was paid an amount of ₹ 2,49,000 as commission on sales [which was not in the nature of salary] for the period 01.04.2024 to 31.03.2025.

Part (ii) - 3 Marks: Mr Kumar, a resident senior citizen, aged 86 years, is a retired State Government employee. He gets pension of ₹ 72,000 pm. He has his saving account with Bank of Baroda, a bank notified by the Central Govt u/s 194P, has received the interest on saving account ₹ 15,000 during PY 2024-25. His pension is also credited in this account. In the same bank, he has deposited ₹ 10 lakhs in a 5 Year Term Deposit @ 7% simple interest on 01.07.2024. He has no other income. He has decided to opt out of the default tax regime provisions prescribed u/s 115BAC. Discuss requirement of filing of income tax return also.



ILLUSTRATION 60 (difficult)

XYZ Pvt Ltd sells two cars to Mrs Anju costing ₹ 4,00,000 and ₹ 12,00,000 respectively on 01.05.2024 and 25.12.2024. Mrs Anju has furnished her PAN and filed her return of income regularly before the due date. Examine TCS implications.

ILLUSTRATION 61 (difficult)

What are the clarifications made by CBDT with respect to Section 206C(1F) relating to the following issues:

- a) Whether TCS on sale of motor vehicle is applicable only to luxury car?
- b) Whether TCS is applicable on each sale or aggregate value of sale of motor vehicle, exceeding ₹ 10 lakhs?
- c) Whether TCS is applicable in case of an individual?
- d) Whether TCS on sale of motor vehicle is at retail level also or only by manufacturer to distributor or dealer?

ILLUSTRATION 62 (difficult)

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 AY 2025-26.

- i. Mr Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹ 5 lakhs on 01.07.2024 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.
- ii. Mr Anu doing business of textile as a proprietor. His turnover in the business is ₹ 11 crores in PY 2023-24. He received payment against sale of textile goods from Mr Ram of ₹ 75 lakhs against the sales made to him in PY 2024-25 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].

ILLUSTRATION 63 (difficult)

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co Ltd. an Indian company, on 1.10.2024 and charged ₹ 8 crores for the lease. ABC Co Ltd sold coal for ₹ 2 crores to Mahapower Ltd. another Indian company, during PY 2024-25. Mahapower Ltd furnishes a declaration to ABC Co Ltd that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co Ltd and Mahapower Ltd for FY 2023-24 amounted to ₹ 11 crores and ₹ 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any?



ILLUSTRATION 64. [average]

Explain the provisions of tax collection at source for overseas remittance by an authorized dealer. Also enumerate the rate of tax to be collected and the amount on which no tax is to be collected.

ILLUSTRATION 65 [easy]

What is the difference between TDS and TCS under the Income Tax Act, 1961?

SOULTIONS**TDS On Salaries (Section 192)****Answer 36****Computation Of TDS For The Months Of April 2024 & May 2024:**

Particulars	Amount (₹)
Salary Income {(₹ 50,000 x 12 months) - ₹ 50,000 Statutory Deduction}	5,50,000
Gross Total Income	5,50,000
Less: Deduction u/s 80C	[40,000]
Total Income	5,10,000
Tax on ₹ 5,10,000 at slab rates	14,500
Add: Health & Education Cess @ 4%	580
Tax Liability	15,080
TDS To Be Deducted Monthly (₹ 15,080/12 Months)	1,256.67

If employer has deducted tax at source for the months of April 2024 & May 2024, and the salary has been increased to ₹ 70,000 p.m, wef June 1, 2024, tax to be deducted in subsequent installments at the time of payment of salary shall be:



Particulars	Amount (₹)
Salary Income $\{[(50,000 \times 2 \text{ months}) + (70,000 \times 10 \text{ months})] - ₹ 50,000 \text{ Statutory Deduction}\}$	7,50,000
Gross Total Income	7,50,000
Less: Deduction u/s 80C	[40,000]
Total Income	7,10,000
Tax on ₹ 7,10,000 at slab rates	54,500
Add: Health & Education Cess @ 4%	2,180
Tax Liability (on the basis of revised income)	56,680.00
Less: Tax already deducted (₹ 1,256.67 x 2 months)	[2,513.34]
Tax To Be Deducted In Balance 10 Installments	54,166.66
TDS To Be Deducted Monthly (₹ 54,166.66/10 Months)	5,416.66

TDS On Interest On Securities - Section 193

Answer 37

Computation Of Total Income Of Mr Y:

Particulars	Amount (₹)
Gross interest (3,60,000/90%)	4,00,000
Less: Bank charges deductible u/s 57 (1% of 3,60,000)	[3,600]
Income u/h 'other sources'	3,96,400
Total Income	3,96,400

Computation Of Tax Liability Of Mr Y:

Particulars	Amount (₹)
Tax on ₹ 3,96,400 at slab rates	7,320
Less: Rebate u/s 87A	[7,320]
Tax Liability	Nil



Less: TDS	(40,000)
Refund Amount	40,000

Answer 38

X, the payer, is an individual. His turnover for the preceding financial year exceeds ₹ 1 crore. Consequently, tax is to be deducted u/s 194A. Section 194A is applicable in such a case regardless of the fact whether payment of interest pertains to a personal loan or a business loan. Tax will be deductible on ₹ 5,00,000 as well as ₹ 6,00,000 @ 10%.

Answer 39

- Section 194B requires a person responsible for paying to any person any income by way of winnings from lotteries or crossword puzzles exceeding ₹ 10,000 to deduct TDS @ 30% at the time of payment of such prize money. Where the winnings are wholly in kind, the person responsible for paying winnings shall, before releasing the winnings in kind, ensure that tax has been paid in respect of such winnings.
- If the amount of TDS is to be recovered from Mr A, TDS liability would come out to ₹ 2,40,000 (30% of ₹ 8,00,000). The car would be released to Mr A only once the amount of TDS has been recovered from Mr A.
- If the amount of TDS is not to be recovered from Mr A, then the amount of winnings of ₹ 8,00,000 would be grossed-up. The grossed-up amount would be ₹ 11,42,857.14 (₹ 8,00,000/70%). TDS liability would come out to ₹ 3,42,857.14 (30% of ₹ 11,42,857.14)

Answer 40

- a) Amount of TDS shall be ₹ 1,50,000 (₹ 5,00,000 × 30%).
- b) Amount of TDS shall be Nil because no TDS is to be deducted u/s 194BB if the amount of winnings from horse races does not exceed ₹ 10,000.

Answer 41

- In the case of an individual, the provisions of Section 194C shall apply if the turnover from business during the preceding financial year exceeds ₹ 1 crore and payment is made for a purpose other than personal purpose.



- In the given case, since the business turnover of Mrs Y has exceeded ₹ 1 crore for the year ended 31st March 2024 and the payment is relating to business activities, she shall be liable to deduct tax at source in respect of payment made to a contractor during PY 2024-25 at the applicable rate.

Answer 42

- Where a person manufactures or supplies product according to the requirement or specification of a customer by using material purchased from the customer himself or his associate, such transaction is covered within the scope of Section 194C.
- In the present case, Y Ltd procures raw-material from X Ltd and supplies a product as per the specifications of X Ltd. Payment made to Y Ltd is covered u/s 194C. Since the contractor is a company, TDS rate would be 2%.
- TDS shall be deducted on the invoice value excluding the value of material purchased from such customer if such value is mentioned separately in the invoice. Where the material component has not been separately mentioned in the invoice, TDS shall be deducted on the whole of the invoice value.

Answer 43

- Tax is deductible u/s 194C if consideration for a single contract exceeds ₹ 30,000. Moreover, tax is deductible u/s 194C if the aggregate consideration for all contracts during a financial year exceeds ₹ 1,00,000
- In the present problem, consideration for one single contract in none of the cases exceeds ₹ 30,000. However, aggregate consideration for all the five contracts is more than ₹ 1,00,000. consequently, X Ltd is liable to deduct tax @ 2% of the aggregate consideration of ₹ 1,02,000. TDS amount shall be ₹ 2,040.
- In case value of Contract No 5 is ₹ 1,000, then X Ltd will not be liable to deduct tax u/s 194C because the aggregate consideration of all the five contracts is ₹ 73,000.

Answer 44

- Payment/credit of consideration of a works contract to a resident contractor is covered by Section 194C. Tax will be deducted at the rate of 1% (if recipient is an individual/HUF) or 2% (if recipient is any other person). If PAN of the contractor is not available, tax will be deducted at the rate of 20%.
- No tax is required to be deducted in case payment is being made to a transporter provided all the conditions listed below are fulfilled:
 - > The transporter is engaged in the business of plying, hiring or leasing goods carriages;



- > The transporter owns ten or less goods carriages at any time during the PY; and
 - > The transporter has furnished a declaration to this effect along with his PAN.
- The amount of TDS under the different situations has been calculated below:

Particulars	Amount (₹)
Payment to A [All the conditions listed above are fulfilled, thus no TDS]	Nil
Payment to B [PAN has not been intimated, thus TDS @ 20% of ₹ 1,20,000]	24,000
Payment to C [PAN has been intimated, tax will be deducted @ 1% of ₹ 21,50,000]	21,500
Payment to D [PAN has not been intimated, thus TDS @ 20% of ₹ 2,00,000]	40,000
Total	85,500

TDS On Rent - Section 194I

Answer 45

Cases	Person Receiving The Payment [Payee]	Mr A	Mr B	Mr C	Mr D
	Person Making The Payment [Payer]	Mr P [Turnover of PY 2023-24 is ₹ 90L]	Mr P [Turnover of PY 202-243 is ₹ 1.2 Cr]	Partnership Firm	Company [Indian Company]
Case 1:	House Property Rent (PY 24-25)	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000
	Amount of TDS (₹)	Nil	₹ 30,000	₹ 30,000	₹ 30,000
Case 2:	Rent for P&M (PY 24-25)	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000
	Amount of TDS (₹)	Nil	₹ 6,000	₹ 6,000	₹ 6,000
Case 3:	House Property Rent (PY 24-25)	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000
	Amount of TDS (₹)	Nil	Nil	Nil	Nil
Case 4:	Rent for P&M (PY 24-25)	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000	₹ 2,00,000
	Amount of TDS (₹)	Nil	Nil	Nil	Nil



Answer 46

- X, the payer, is an individual. His business turnover for PY 2023-24 exceeds ₹ 1 crore. Consequently, tax is deductible on payment/credit of rent u/s 194I for PY 2024-25. Section 194I is applicable regardless of the fact whether payment/credit of rent is for personal purposes or business purposes.
- Rate of TDS will be 10% where rent is paid for land, building, furniture, fixtures, etc. Rate of TDS will be 2% where rent is paid for use of machinery, plant or equipment.
- In the present case, TDS of ₹ 50,000 will be deducted in case of rent paid to A Ltd for renting of residential property. Further TDS of ₹ 12,000 will be deducted in case of rent paid to B for taking a machinery on rent.

Answer 47

If PAN is not intimated by the recipient to the deductor, the rate of TDS shall be either the normal rate (ie 10%.) or flat rate of 20%, whichever is higher. In the present case, rent for the entire year comes out to ₹ 4,80,000 which is more than the threshold limit of ₹ 2,40,000 as given u/s 194I. Accordingly, TDS is to be deducted at the rate of 20% on each monthly payment of ₹ 40,000. TDS for one month would come to ₹ 8,000 and ₹ 96,000 for the entire year.

Answer 48

- Since the sale consideration of residential house exceeds ₹ 50 lakhs, Mr Dhanapaf is required to deduct tax at source @ 1% of sale consideration of ₹ 60 lakhs u/s 194IA.
- TDS provisions u/s 194IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds ₹ 50 lakhs.

Answer 49

- Section 194J is applicable if the payment has been made in connection with receipt of professional services. Professional services would include services rendered by a lawyer, engineer, architect, accountant, etc. CBDT has notified that professional services would also include services provided by sportspersons, umpires, sports columnists, commentators, anchors, trainers, etc.
- Therefore, services provided in all the three cases would get covered within the scope of 'professional services' & since the amount in each individual case exceeds ₹ 30,000, tax would be required to be deducted u/s 194J.



TDS Procedures

Answer 50

Interest u/s 201(1A) would be computed as follows:

Particulars	Amount (₹)
Interest @ 1% on ₹ 4,000 for 8 months (01.07.2025 to 28.02.2025)	320
Interest @ 1.5% on ₹ 9,000 for 4 months (28.02.2025 to 22.06.2025)	540
Total Interest Payable u/s 201	860

Answer 51

As the business turnover of AAr Ashwin for FY 2023-24 (ie ₹ 120 lakhs) exceeds the monetary limit of ₹ 1 crore, he has to comply with TDS provisions given u/s 194A, 194C, 194H, 194I & 194J during FY 2024-25, subject to, however, the exemptions provided under relevant sections for applicability of TDS.

- Commission Paid To Babloo: Tax is to be deducted @ 5% u/s 194H if the amount of commission exceeds ₹ 15,000. Since the amount of commission is ₹ 18,000, TDS is to deducted u/s 194H @ 5%. Amount of TDS would be ₹ 900.
- Payment To Vijay For Repair Of Office Building: TDS is to be deducted @ 1% u/s 194C if the payment is made to an individual for repair of office building; however, tax has to be deducted only if the payment exceeds ₹ 30,000. In this case, Mr Ashwin is not required to deduct tax at source, as the amount of payment towards repair of office building does not exceed ₹ 30,000, assuming that ₹ 23,000 is the only payment made to Mr Vijay during PY 2024-25.
- Payment Of Fees For Technical Services To Vivek: TDS is to be deducted @ 2% u/s 194J since the amount of fees for technical services paid to Vivek exceeds ₹ 30,000. Amount of TDS would be ₹ 700 (2% of ₹ 35,000).

Answer 52

- The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 would not be exempt u/s 10(10D) in the hands of Ms Varsha. However, tax deduction provisions u/s 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.



- ii. Since the sale consideration of house property is less than ₹ 50 lakhs, Mr Karan is not required to deduct tax at source u/s 194IA, irrespective of the fact that the Stamp Duty Value is more than the sale consideration as well as the threshold limit of ₹ 50 lakhs.
- iii. The threshold limit of ₹ 30,000 specified u/s 194J is separately for fees for professional services and royalty. Therefore, XYZ Private Limited is not required to deduct tax at source u/s 194J either on fee of ₹ 22,000 for professional services or on royalty of ₹ 18,000 paid to Mr Narayan, since the payment under each category does not exceed the independent threshold ₹ 30,000 specified thereunder.
- iv. As per Section 194C, the definition of 'work' does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer. Therefore, M/s ABC Limited is not required to deduct tax at source in respect of payment of ₹ 1,75,000 to Mr Vaibhav, for purchase of calendar according to its specifications, since it did not supply the material for such calendar. Hence, the contract is a contract for 'sale' and not a works contract.
- v. Talent Private Limited is required to deduct tax at Source @ 10% on sifting fees of ₹ 12,000 paid to its director; since the threshold limit of ₹ 30,000 u/s 194J is not applicable in respect of fees paid to a director of a company.
- vi. Since Radha Limited is engaged only in the business of operation of call centre, Shyam Limited is required to deduct tax at source @ 2% on the amount of ₹ 70,000 u/s 194J on 18.3.2025, ie at the time of credit of call centre service charges to the account of Radha Limited, since the said date is earlier than the payment date [ie, 28.3.2025].

Answer 53

- i. No tax is deductible u/s 192A even though the employee, Mr Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health.
- ii. Since the interest on recurring deposit credited to the account of Mr Hasan, a senior citizen, does not exceed ₹ 50,000 during PY 2024-25, no tax is deductible at source u/s 194A.
- iii. Tax is deductible @ 30% u/s 194B by M/s Maximus Retail Ltd. from the prize money of ₹ 21,000 payable to the customer, since the winnings exceed ₹ 10,000.
- iv. Service fees paid to bank for processing the loan application is covered within the scope of the phrase 'interest'. No tax is deductible at source u/s 194A, since the service fees is being paid to a banking company, ie Finance Bank Ltd.



- v. Mr Ashok, a salaried individual, is liable to deduct tax at source @ 2% u/s 194IB on ₹ 1,56,000 [being rent for 3 months from December 2024 to February 2025] from the rent of ₹ 52,000 payable on 1st February 2025, since the monthly rent exceeds ₹ 50,000.

Answer 54

- i. Mr Kale, being a pensioner, would not be liable to deduct tax at source u/s 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes, ie for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹ 50,00,000. TDS u/s 194M = ₹ 52,50,000 x 5% = ₹ 2,62,500.
- ii. Mr Rahul is required to deduct tax at source u/s 194C, since his turnover from business in FY 2023-24 exceeds ₹ 1 crore. TDS rate shall be @ 1% as the payment is made to an individual. TDS u/s 194C = ₹ 50L x 1% = ₹ 50,000.
- iii. Mr Golu is not required to deduct tax at source u/s 194H on commission paid to Mr Vinay in PY 2024-25 since his turnover from his business does not exceed ₹ 1 crore during PY 2023-24. Further, Mr Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr Vinay since the commission paid does not exceed ₹ 50 lakhs during PY 2024-25.
- iv. Since XYZ Urban Co-Operative Bank is responsible for paying a sum exceeding ₹ 1 crore (₹ 1.2 crore, in this case) in cash to ABC & Co, a partnership firm, during FY 2024-25, the bank is required deduct tax at source @ 2% of such sum. TDS u/s 194N = ₹ 20,00,000 x 2% = ₹ 40,000.

Answer 55

- i. The arrangement between Mr Mahesh, the customer, and M/s Fresh Cold Storage Pvt Ltd. the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of Section 194C will be applicable to the amount of ₹ 6 lakhs paid by Mr Mahesh to the cold storage company. TDS u/s 194C = 2% of ₹ 6 lakhs = ₹ 12,000.
- ii. Mr Ramu, being a salaried individual, has to deduct TDS @ 2% u/s 194IB on the annual rent paid by him from the last month's rent (rent of March 2025), since the rent paid by him exceeds ₹ 50,000 p.m. Since his landlord (Mr Shiv Kumar) has not furnished his PAN to Mr Ramu, tax has to be deducted @ 20% instead of 2%, however the same cannot exceed ₹ 60,000, being rent for March 2025. TDS u/s 194IB = ₹ 5,40,000 (₹ 60,000 x 9) x 20% = ₹ 1,08,000, but restricted to ₹ 60,000, being rent for March 2025.



Answer 56

- i. Since ABC Ltd. being the producer of the natural gas, sells as well as transports the gas to M/s Deep Co, the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a contract for sale' and not a 'works contract' as envisaged in section 194C. Therefore, in such circumstances, the TDS provisions would not be attracted on ₹ 1,70,000, being the component of gas transportation charges paid by M/s Deep Co to ABC Ltd.
- ii. In this case, the individual contract payments {through the bills dated 30.4.2024, 30.6.2024 and 30.9.2024} made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during PY 2024-25 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2024, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions u/s 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 30.12.2024. Hence, TDS u/s 194C = ₹ 2,240.

Answer 57

- i. Tax @ 10% has to be deducted by S and Co Ltd u/s 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. TDS Amount - ₹ 25,000 x 10% = ₹ 2,500
- ii. There is no liability to deduct tax at source u/s 194LA, since the payment to Mr Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed the threshold limit of ₹ 2,50,000.
- iii. Since Mr Purushotham's turnover for PY 2023-24 exceeds ₹ 10 crores, and value of goods purchased from Mr Agarwal, a resident seller, exceeds ₹ 50 lakhs in PY 2024-25, 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 10.6.2024 = Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2024 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs)
 - On 20.8.2024 = 0.1% of ₹ 2 lakhs (amount exceeding ₹ 50 lakhs) = ₹ 200
 - On 12.10.2024 = 0.1% of ₹ 28 lakhs = ₹ 2,800



Answer 58**i. Section 194R - TDS Implications Where Product Is Given To A Social Media Influencer For Using The Product And Reviewing The Same By Making An Audio/Video About The Same:**

> In case of benefit or perquisite being a product like car, mobile, outfit, cosmetics, etc and 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.

> However, if the product is retained then it would be in the nature of benefit/perquisite and tax is required to be deducted accordingly u/s 194R.

In the present case. Miss Tara uses the car for 7 months for her personal purposes, records a video reviewing the car and then returns the car to the company. It may be assumed that the usage of the car by Miss Tara for 7 months is essential for reviewing the car's performance and without such usage, it won't be possible for Miss Tara to record the video about the car's performance. Basis the above assumption, no TDS obligations would arise u/s 194R.

ii. The arrangement entered between Ms Aruna and Mr Suresh is a contract for supply of labour. Section 194C is not applicable in case of payments made by Ms Aruna to Mr Suresh since Ms Aruna is a salaried employee and not carrying on business/profession. Since payments made by Ms Aruna exceeds ₹ 50,00,000, Ms Aruna is required to deduct TDS @ 5% u/s 194M on the total amount of ₹ 55,00,000. TDS Amount = ₹ 2,75,000.

If Ms Aruna is a business-woman and her books are not audited in immediately preceding financial year, Section 194C would still not be applicable even through the payment has been made for business purposes. Section 194M shall continue to apply in such cases.

iii. The arrangement entered between Ms ABC Pvt Ltd and the Nationalized Bank is a catering contract and thus it would qualify as 'work' as per Section 194C. Payments made to Ms ABC Pvt Ltd would be subject to deduction of 2% TDS u/s 194C. TDS Amount = ₹ 60,000 x 2% = ₹ 1,200 p.m.**Answer 59**

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



> On 1.4.2024 - No TDS as the payment amount doesn't exceed ₹ 50L.

> On 2.7.2024 - TDS @ 0.1% on ₹ 10L, ie ₹ 1,000 [Total payment till date is ₹ 60L and TDS needs to be deducted on the amount in excess of ₹ 50L].

> On 4.8.2022 - TDS @ 0.1% on ₹ 12L, ie ₹ 1,200.

If the gross turnover of XYZ during FY 2023-24 includes ₹ 4 crore towards supply of material for charitable purposes, the amount of turnover of XYZ would not exceed ₹ 10 crores in FY 2023-24 since ₹ 4 crores towards supply of material for charitable purposes, being a non-business activity, would not be considered for the purpose of turnover. Accordingly, XYZ is not required to deduct tax at source u/s 194Q.

Part (ii): ABZ Pvt Ltd is required to deduct tax at source u/s 194J @ 10% on ₹ 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible u/s 192. Therefore, ₹ 24,900 [₹ 2,49,000 x 10%] is required to be deducted at source.

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

Computation Of Total Income Of Mr Kumar For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Pension [₹ 72,000 x 12 months]	8,64,000	
Less: Standard Deduction of ₹ 50,000 u/s 16[ia]	[50,000]	
Income from Salary		8,14,000
Income u/h Other Sources:		
• Interest on fixed deposit [₹ 10,00,000 x 7% x 9/12]	52,500	
• Interest on savings account with SBI	15,000	67,500
Gross Total Income		8,81,500
Less: Deduction u/s 80C [Investment in five-year time deposit]		[1,50,000]
Less: Deduction u/s 80TTB [Interest on fixed deposit as well as interest on savings account]		[50,000]
Total Income		6,81,500



Computation Of Tax Liability Of Mr Sharma For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 6,81,500 as per slab rates (Slab of ₹ 5L is applicable)	36,300
Add: Health & Education Cess @ 4%	1,452
Tax Liability	37,752
Tax Liability (Rounded-off u/s 288B)	37,750

Accordingly, Bank of Baroda is required to deduct tax at source of ₹ 68,950 for PY 2024-25. Further, Mr Kumar is not required to file his return of income for AY 2025-26.

Answer 60

Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year. Therefore, no TCS shall be collected on sale of car costing ₹ 4,00,000 and TCS of ₹ 12,000 needs to be collected on sale of car costing ₹ 12,00,000.

Answer 61

- No, as per Section 206C(1F), the seller shall collect tax @ 1% from the purchaser on sale of any motor vehicle of the value exceeding ₹ 10 lakhs.
- Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.
- The term "seller" includes inter-alia, an individual whose turnover for the financial year immediately preceding the financial year in which the motor vehicle is sold exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession. Thus, an individual shall be liable for collection of tax at source on sale of motor vehicle by him provided the turnover of Such individual for the preceding financial year exceeds ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession.
- TCS on sale of motor vehicle is applicable on all transactions of retail sales only. Accordingly, it will not apply on sale of motor vehicles by manufacturers to dealers/distributors.



Answer 62

- i. Tax @ 5% is required to be collected u/s 206C by the seller of an overseas tour programme package, from Mr Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque. Accordingly, tax has to be collected @ 5% on ₹ 5 lakhs. $TCS = 5\% \times ₹ 5 \text{ lakhs} = ₹ 25,000$.
- ii. Mr Anu is required to collect tax @ 0.1% u/s 206C from Mr Ram, since his turnover in PY 2023-24 exceeds ₹ 10 crores and the sales receipts from Mr Ram in PY 2024-25 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 PY 2024-25, TCS provisions are attracted even though part of the sales may relate to the preceding previous years. $TCS = 0.1\% \text{ of } ₹ 25 \text{ lakhs} = ₹ 2,500$.

Answer 63

- Section 206C(1C) provides for collection of tax @ 2% by every person who grants a lease in any mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Govt of Madhya Pradesh is required to collect TCS of ₹ 16,00,000, being 2% on ₹ 8 Crores, being the charges for lease of coal mine.
- Under Section 206C(1), seller of coal is required to collect tax from the buyers @ 1%. However, TCS provisions shall not apply in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power. Accordingly, ABC Co Ltd is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd since Mahapower Ltd has furnished a declaration to ABC Co Ltd that the coal is to be utilized for the purpose of generation of power.
- As per Section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered u/s 206C(1). Since transaction of sale/purchase of coal is covered u/s 206C(1), such transaction will be outside the scope of Section 206C(1H).
- Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding ₹ 50L in any previous year, to deduct tax @ 0.1% of such sum exceeding ₹ 50L. The provisions of Section 194Q do not apply in respect to those transactions where tax is collectible under Section 206C {except under Section 206C(1H)}. Buyer means a person whose turnover from the business carried on by him exceeds ₹ 10 crores during the financial year preceding the financial year in which goods are purchased.
- In this case, since Mahapower Ltd's turnover for PY 2023-24 exceeds ₹ 10 crores, it is a buyer as per Section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd. the provisions of Section 194Q would apply and Mahapower Ltd is required to deduct tax of ₹ 15,000 u/s 194Q, being 0.1% of ₹ 1.5



Crores, being the sum exceeding ₹ 50L. ,

Answer 64

Refer the legal provisions given in the main book.

Answer 65

S.No.	TDS	TCS
[1]	TDS is tax deduction at source.	TCS is tax collection at source.
[2]	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods is responsible for collecting tax at source at the prescribed rate from the buyer. In certain cases, person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the
		case may be. Further, authorised dealer receiving amount for remittance out of India under the LRS of the RBI or seller of an overseas tour program package is responsible for collecting tax at source at the prescribed rate from the buyer.
[3]	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in certain cases, such as payment of salary and payment in respect of life insurance policy, tax is required to be deducted at the time of payment.	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle exceeding ₹ 10 lakhs and sale of goods exceeding ₹ 50 lakhs other than exported goods and goods mentioned in Section 206C(1), tax collection at source is required at the time of receipt of sale consideration.





CHAPTER - 7

PROVISIONS FOR FILING RETURN OF
INCOME AND SELF ASSESSMENT**ILLUSTRATION 1** (easy)

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, interest of ₹2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

SOLUTION

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) [for A.Y. 2025-26].

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

Particulars	
Income from other sources	
Interest earned from Non-resident (External) Account ₹2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30000
Interest on savings bank account	3000
Gross Total Income	33000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-



Total Income	33000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2025-26, before giving effect to the deductions under Chapter VI-A, is less than basic exemption limit in both regimes, he is not required to file return of income for A.Y. 2025-26.

Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident [External] account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under Chapter VI-A, would be ₹3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y.2025-26.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

ILLUSTRATION 2. [average]

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- Belated return filed under section 139(4).
- Return already revised once under section 139(5).
- Return of loss filed under section 139(3).

SOLUTION

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier.

Accordingly,

- A belated return filed under section 139(4) can be revised.
- A return revised earlier can be revised again as the first revised return replaces the original return.



Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.

- iii. A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

ILLUSTRATION 3. [average]

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2025 audited under section 44AB. Her total income for the A.Y. 2025-26 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2025-26 through a tax return preparer. Can she do so?

SOLUTION

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2025-26 through a Tax Return Preparer.



TEST YOUR KNOWLEDGE

4. State with reasons whether you agree or disagree with the following statements:
- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
 - (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2025 whether or not declaring presumptive income under section 44AD, is 31st October, 2025. **[average]**
5. Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2025 for A.Y. 2025-26 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2025, he realized that he had not claimed deduction under section



80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2026? **(average)**

6. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(a) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.

(b) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

(average)

7. Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? **(easy)**

8. Mr. Aakash has undertaken certain transactions during the FY.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents- **(average)**

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the FY.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.



ANSWERS

4.

(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:-

- where for any unavoidable reason such designated partner is not able to verify the return, or,
- where there is no designated partner.

(b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2025.

5. Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2025-26 under section 139(1), in his case, is 31st July, 2025. Since Mr. Vineet had submitted his return only on 12.9.2025, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2025, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2025.

However, he cannot revise return had he discovered this omission only on 21-03-2026, since it is beyond 31.12.2025.

6.

- i. **True:** Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.



- ii. **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

7. A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

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

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

8.

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the FY.2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the FY.2024-25
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.



4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

ILLUSTRATION 9. (easy)

Every person is required to file a return of income on or before due date in the prescribed form and manner as per Section 139(1). What is the meaning of due date of filing Income Tax Returns for different categories of assessee as per Section 139(1) of the Income Tax Act 1961?

ILLUSTRATION 10 (easy)

Mr Atal, a super senior citizen, has reported a GTI of ₹ 5,60,000 and the deductions eligible under Chapter VI-A amounting to ₹ 70,000 for PY 2024-25. Is he liable to file his return of income u/s 139(1) for AY 2025-26? If so, why?

ILLUSTRATION 11 (average)

State the conditions when a person is required to furnish Income Tax return in the prescribed form & manner on or before the due date even if such person (other than a company or a firm) is not otherwise required to furnish a return u/s 139(1).

-OR-

A person other than a company or a firm who is otherwise not required to furnish the return of income, needs to furnish return of income provided they fulfil certain conditions prescribed. Enumerate.

-OR-

CBDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

ILLUSTRATION 12 (difficult)



State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for AY 2025-26:

- I. Mr Aneesh aged 31 years, who opted for default tax regime u/s 115 BAC(1A) had a total income of ₹ 2,90,000 for PY 2024-25.
- II. Smt Patel, aged 65 years, has a TDS credit of ₹ 55,000 during PY 2024-25.
- III. The gross receipts of Mr Ajit, an architect aged 45 years, for PY 2024-25 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income.

ILLUSTRATION 13 (difficult)

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

- i. Manish & Sons (HUF) sold a residential house on which there arose a long-term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- ii. Mrs Archana was born in Germany and married in India. Her residential status 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.
- iii. Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

ILLUSTRATION 14 (difficult)

Mr Hari, aged 57 years, is a resident of India. He provides you the following details of his incomes pertaining to FY 2024-25:

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

He seeks your advice on his liability to file return of income as per Income Tax Act, 1961 for AY 2025-26.

What will be your answer, if he has incurred 7.4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada?



ILLUSTRATION 15 (easy)

Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date.

ILLUSTRATION 16 (difficult)

Mr Prakash furnishes you the following details in respect of FY 2024-25 computed as per the relevant provisions of the Income Tax Act, 1961:

- > Loss from the business carried on by him as a proprietor - ₹ 11,20,000
- > Unabsorbed Depreciation - ₹ 4,80,000
- > Loss from House Property - ₹ 2,50,000

The due date for filing the return for Mr Prakash was 31st July 2025 u/s 139(1). However, he filed the return on 29.9.2025. Discuss with reference to the relevant provisions of Income Tax Act, 1961 if the losses could be carried forward/claimed by Mr Prakash.

ILLUSTRATION 17 (average)

Mr Subramaniam, due to inadvertent reasons, failed to file his income-tax return for AY 2025-26.

- a) Can he file the above return in AY 2025-26? If yes, when is the last date to file the above return?
- b) What are the consequences of non-filing the return within the due date u/s 139(1)?

ILLUSTRATION 18 (average)

Mr Kailash, a ROR in India, could not file his return of income for AY 2025-26 before the due date prescribed u/s 139(1). Advise Mr Kailash as a tax consultant as to what are the consequences for non-filing of return of income within the due date u/s 139(1)?

ILLUSTRATION 19 (average)

Explain with brief reasons whether the return of income can be revised u/s 139(5) of the Income Tax Act, 1961 in the following cases:

- a) Belated return filed u/s 139(4):



- b) Return already revised once u/s 139(5): and
- c) Return of loss filed u/s 139(3):

ILLUSTRATION 20 (difficult)

Mr Mukesh born on 1.4.1965 furnished his original return for AY 2025-26 on 30.07.2025. He has shown salary income of ₹ 7.30 lakhs [computed] and interest from his savings bank of ₹ 12,700 and from his fixed deposits of ₹ 43,000. He also claimed deduction u/s 80C of ₹ 1.50 lakhs. He had claimed deduction u/s 80D of ₹ 25,000. He also claimed deduction u/s 80TTA of ₹ 10,000. His employer had deducted TDS of ₹ 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of ₹ 38,000 by account payee cheque for self and wife. He paid ₹ 1,500 in cash for his health check-up and ₹ 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of ₹ 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy.

He seeks your advice about possibility of revising his return and if possible, file his revised return. Analyse the above narrated facts as per applicable provisions of the Income Tax Act, 1961. Does he need to revise his return and for what reasons? Please advise him suitably and if needed, re-compute his income and tax payable or refund due for the AY 2025-26.

ILLUSTRATION 21. (average)

Briefly explain the provisions of Section 139A of the Income Tax Act, 1961 with regard to the persons who are required to apply for Permanent Account Number.

ILLUSTRATION 22 (average)

Pertaining to the following transactions, what is the minimum amount above which quoting of PAN is mandatory?

- a) Sale or purchase of car
- b) Payment to a hotel or restaurant against a bill or bills at any one time
- c) Payment in connection with travel to any foreign country
- d) Payment to the Reserve Bank of India for acquiring bonds issued by it
- e) A Time Deposit with a Post Office



- f) Payment of life insurance premium to an insurer
- g) Sale or purchase of shares of a company not listed in a recognized stock exchange
- h) Sale or purchase of any immovable property

ILLUSTRATION 23 (difficult)

State whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income Tax Act, 1961 for AY 2025-26:

- a) Mr A makes cash payment to a hotel Radisson Blu, Ahmedabad of ₹ 50,000 against the bill raised by the hotel.
- b) Mr Abhishek, in a single transaction, makes contract of ₹ 1,20,000 for sale/purchase of securities (other than shares) as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- c) Payment to Mutual Funds of ₹ 70,000 for purchase of its units. Your answers must be supported with reasons.

ILLUSTRATION 24 (average)

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

ILLUSTRATION 25 (difficult)

Mr X would like to furnish his updated return for AY 2023-24. 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 31.3.2025
- (ii) as on 28.2.2026
- (iii) as on 31.5.2026

If yes, compute the amount of additional income-tax payable by Mr X at the time of filing his updated return.

ILLUSTRATION 26 (average)

Elaborate the conditions, non-fulfilment of which would render a return of income filed by an assessee not maintaining regular books of accounts, defective.



ILLUSTRATION 27 [average]

Due to some inconsistent information provided in the return of income furnished under Section 139(1), the Assessing Officer considers it defective under Section 139(9) of the Income Tax Act, 1961.

- (i) How the Assessing Officer would deal with the issue?
- (ii) What are the consequences if defect is not rectified within the time allowed?
- (iii) Specify the remedies available if not rectified within time allowed by the Assessing Officer?

ILLUSTRATION 28 [average]

Briefly mention the provisions of Income Tax Act, 1961 with regard to quoting Aadhar Number u/s 139AA.

ILLUSTRATION 29. [difficult]

Mr A employed with B Pvt Ltd residing in Chennai, filed his return of income on 30th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- (i) What is the last date for linking Aadhar with PAN?
- (ii) What is the consequence for him if he has linked the Aadhar with PAN on 31st August 2022?
- (iii) Are there any exceptions provided under Section 139AA from quoting of Aadhar number?

ILLUSTRATION 30 [average]

Enumerate the circumstances in which an individual assessee is empowered to verify his return of income u/s 139 by himself or otherwise by any authorized person.

-OR-

Who are the persons authorized to verify return of income in case of individual u/s 139 of the Income Tax Act?

ILLUSTRATION 31 [average]

In the context of Tax Return Preparer Scheme, 2006, explain the following:

- a) Eligible Persons
- b) Educational Qualifications of Tax Return Preparer
- c) Persons not entitled to act as return preparer



SOLUTIONS

Answer 9

Refer the relevant theory portion given in the income tax book part - I

Answer 10

Section 139(1) provides that an individual is compulsorily required to file ROI if his total income before giving effect to deductions u/s 80C-80U and exemptions u/s 54/54B/54D/54EC/54F exceeds the exemption limit. In the present case, Mr Atal's total income before giving effect to deductions u/s 80C-80U is ₹ 5,60,000 (ie greater than applicable exemption limit of ₹ 5,00,000). Therefore, Mr Atal is required to file ROI u/s 139(1).

Answer 11

Refer the relevant theory portion given in the income tax book part - I

Answer 12

- a) An individual is required to file a return of income on or before the due date u/s 139(1) if his total income exceeds the basic exemption limit. Where an individual pays tax under default tax regime prescribed u/s U5BAC, the applicable basic exemption limit is ₹ 3,00,000. In the present case, since the total income of Mr Aneesh opting to pay tax under default tax regime (ie, ₹ 2,90,000) doesn't exceed the basic exemption limit of ₹ 3,00,000, Mr Aneesh is not required to file his return of income for AY 2025-26.
- b) An individual is required to file a return of income on or before the due date u/s 139(1) if the aggregate of TDS and TCS in his case during the relevant previous year is ₹ 25,000 or more. In case of a senior citizen, the limit of ₹ 25,000 shall be increased to ₹ 50,000. In the present case, Smt Patel is a senior citizen (as her age is 65 years) and she has a TDS credit of ₹ 55,000 for PY 2024-25. Therefore, she is required to file her return of income for AY 2025-26.
- c) An individual is required to file a return of income on or before the due date u/s 139(1) if the gross receipts of profession carried on by him during the current year exceeds ₹ 10 lakhs. In the present case, Mr Ajit is an architect aged 45 years and his gross receipts from such profession for PY 2024-25 is ₹ 12,00,000. Therefore, he is required to file his return of income for AY 2025-26 irrespective of his level of professional income.



Answer 13

- a) A HUF whose total income without giving effect to, inter alia, Section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date u/s 139(1). In this case, since the total income without giving effect to exemption u/s 54EC [ie, ₹ 12 lakhs] exceeds the basic exemption limit, the HUF is required to file its return of income for AY 2025-26 on or before the due date u/s 139(1).
- b) Any person, being a resident and ordinarily resident in India, would be required to file a return of income for the previous year on or before the due date irrespective of his level of total income if such person, at any time during the previous year, inter alia, holds any asset located outside India. In the present case, Mrs Archana, being a ROR, owns a car in Germany. Therefore, Mrs Archana is required to file her return of income for AY 2025-26.
- c) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr Sudhakar has incurred expenditure of ₹ 1,20,000 in PY 2024-25 towards consumption of electricity, he has to file his return of income for AY 2025-26 on or before the due date u/s 139(1).

Answer 14

An individual is required to furnish a return of income if his total income, before giving effect to deductions under Chapter VI-A or exemption u/s 54/54B/54D/54EC/54F, exceeds the maximum amount not chargeable to tax, ie ₹ 2,50,000.

Computation Of Total Income Of Mr Hari For AY 2025-26:

Particulars	(₹)
Income From Other Sources	
Interest earned from Non-Resident (External) Account (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 AY 2025-26, before giving effect to deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for AY 2025-26.

However, if he has incurred expenditure exceeding ₹ 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of ₹ 4 lakhs on foreign travel of his newly married son and daughter in law in FY 2024-25, he has to mandatorily file his return of income for AY 2025-26 on or before the due date u/s 139(1).

Return Of Loss - Section 139(3)

Answers 15

Refer the relevant theory portion given in the income tax book part - I

Answer 16

- Mr Prakash has furnished his return of income for AY 2025-26 on 29.9.2025 (ie, after the due date of 31st July 2025 as specified u/s 139(1)). Hence, the return is a belated return u/s 139(4).
- Section 80 read along with Section 139(3) provides that specified losses can be carried forward to future years only if the return is filed within the due date specified u/s 139(1). The specified losses include, inter alia, business loss to be carried forward u/s 72 but does not include loss from house property and unabsorbed depreciation to be carried forward u/s 71B and 32(2) respectively.
- Accordingly, business loss of ₹ 11,20,000 of Mr Prakash for AY 25-26 cannot be c/f to AY 26-27, However, the loss of ₹ 2,50,000 from house property and unabsorbed depreciation of ₹ 4,80,000 pertaining to AY 25-26 can be c/f to AY 26-27 for set-off even though Mr Prakash has filed the return of loss for AY 25-26 belatedly.

Answer 17

- Where any person fails to furnish a return within the time allowed to him u/s 139(1), he may furnish the belated return at any time before three months from the end of the relevant assessment year or completion of assessment, whichever is earlier. Therefore, the last date for filing return of income for AY 2025-26 is 31st December 2025.
- The following shall be the consequences of non-filing of return of income within the due date specified u/s 139(1):



- **Carry Forward ½ Set-Off Of Certain Losses:** Business loss, speculation business loss, loss from specified business, loss under the head "Capital Gains" and loss from the activity of owning and maintaining race horses would not be allowed to be c/f.
- **Interest Under Section 234A:** Interest u/s 234A @ 1% per month or part of the month for the period commencing from the date immediately following the due date u/s 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.
- **Late Fee Under Section 234F:** Where a person fails to furnish his return of income within the time limit prescribed u/s 139(1), he is liable to pay late filing fees of ₹ 5,000 as per the provisions of Section 234F. However, if the total income of the assessee doesn't exceed ₹ 5,00,000, the amount of late filing fee shall not exceed ₹ 1,000.

Answer 18

Refer Answer 13, Part [b]

Answer 19

Any person who has furnished a return u/s 139(1) or 139(4) can file a revised return before three months from the end of the relevant assessment year or completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier.

- A belated return filed u/s 139(4) can be revised.
- A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time (ie before three months from the end of the relevant assessment year or completion of assessment, whichever is earlier). It implies that a return of income can be revised more than once within the prescribed time.
- A return of loss filed u/s 139(3) is deemed to be a return filed u/s 139(1), and therefore a return of loss can be revised u/s 139(5).

Answer 20

- The return filed on 10.11.2025 declaring a business loss of ₹ 10 lakhs is a belated return filed u/s 139(4).
- As per Section 139(5), a belated return u/s 139(4) can be revised till the expiry of the relevant assessment year or completion of assessment, whichever is earlier. The revised return substitutes the original return



from the date the original return was filed. Therefore, it would be deemed that the assessee has filed a return declaring a business loss of ₹ 20,00,000 on 10.11.2025.

- However, as per the provisions of Section 80 read along with Section 139(3), business losses can be carried forward only if the return is filed within the due date specified u/s 139(1). In the present case, the due date for filing return of income u/s 139(1) is 31.10.2025 and the original return was filed belatedly on 10.11.2025. Consequently, the business loss of ₹ 20 lakhs shall not be allowed to be carried forward.

Answer 21

Computation Of Total Income Of Mr Mukesh For AY 2025-26 {As Per The Original Return Filed By Him}:

Particulars	(₹)	(₹)
(i) Salaries [Computed]		7,30,000
(ii) Income from Other Sources		
> Interest on savings bank account	12,700	
> Interest on fixed deposits	43,000	55,700
Gross Total Income		7,85,700
Less: Deductions Under Chapter VI-A		
> Deduction u/s 80C	1,50,000	
> Deduction u/s 80D	25,000	
> Deduction u/s 80TTA	10,000	(1,85,000)
Total Income		6,00,700

Computation Of Tax Liability Of Mr Mukesh For AY 2025-26 {As Per The Original Return Filed By Him}:

Particulars	(₹)
Tax on total income [20% of ₹ 1,00,700 [ie, ₹ 6,00,700 - ₹ 5,00,000] + ₹ 12,500]	32,640
Add: HEC @4%	1,306
Tax Payable On Total Income	33,946
Tax Payable On Total Income (Rounded Off)	33,950
Less: TDS u/s 192	(33,950)



Tax Payable	Nil

Need For Filing Revised Return: Since Mr Mukesh's 60th birthday falls on 1.4.2025, he would be treated as having completed 60 years of age in PY 2024-25, and hence, he would be eligible for the benefit of higher deduction u/s 80D, higher deduction of upto ₹ 50,000 u/s 80TTB (instead of ₹ 10,000 u/s 80TTA) while computing his total income as well as for higher basic exemption limit of ₹ 3,00,000 in PY 2024-25 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 31.12.2025 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 AY 2025-26 {As Per The Revised Return}:

Particulars	[₹]	[₹]
(i) Salaries [Computed]		7,30,000
(ii) Income from Other Sources		
> Interest on savings bank account	12,700	
> Interest on fixed deposits	43,000	55,700
Gross Total Income		7,85,700
Less: Deductions Under Chapter VI-A		
> Deduction u/s 80C		[1,50,000]
> Deduction u/s 80D		[89,500]
• Block 1 {Self, Spouse & Dependent Children}: Medical insurance premium of ₹ 38,000 for self and spouse (+) Preventive health check-up of ₹ 1,500 for self [allowable even if paid in cash] = Total ₹ 39,500; Fully allowed as it is within the overall limit of ₹ 50,000 for family	39,500	



• Block 2 {Parents}: Medical insurance premium of ₹ 33,000 for mother (+) Medical expenditure of ₹ 25,000 for father not covered under any policy (+) Preventive health check-up of ₹ 3,500 for parents (₹ 4,000, restricted to ₹ 3,500, being ₹ 5,000 - ₹ 1,500 claimed for self and spouse) - Total ₹ 61,500; Restricted to maximum ₹ 50,000 for parents	50,000	
> Deduction u/s 80TTB {Restricted to maximum of ₹ 50,000}		(50,000)
• Interest on savings bank account	12,700	
• Interest on fixed deposits	43,000	
Total	55,700	
Total Income		4,96,200

Computation Of Tax Liability Of Mr Mukesh For AY 2025-26 {As Per The Revised Return}

Particulars	(₹)
Tax on total income [5% of ₹1,96,200 (ie, ₹4,96,200 - ₹ 3,00,000 basic exemption limit)]	9,810
Less: Rebate u/s 87A [Since his total income does not exceed ₹ 5 lakhs]	(9,810)
Tax Payable On Total Income	Nil
Less: TDS 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 31.12.2025 to claim the enhanced deductions which he had not claimed in the original return and get refund of the entire income tax of ₹ 33,950 deducted at source by his employer.

Answer 22

Refer the relevant theory portion given in the income tax book part - I

Answer 23

S.No.	Transaction	Minimum Amount Above Which Quoting Of PAN Is Mandatory



(a)	Sale or purchase of car	All such transactions (There is no minimum amount)
(b)	Payment to a hotel or restaurant against a bill or bills at any one time	Payment in cash exceeding ₹ 50,000 of an amount
(c)	Payment in connection with travel to any foreign country	Payment in cash exceeding ₹ 50,000 of an amount
(d)	Payment to the Reserve Bank of India for acquiring bonds issued by it	Amount exceeding ₹ 50,000
(e)	A Time Deposit with a Post Office	Amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakhs during a FY
(f)	Payment as life insurance premium to an insurer	Amount aggregating to more than ₹ 50,000 in a FY
(g)	Sale or purchase, of shares of a company not listed in a recognised stock exchange	Amount exceeding ₹ 1 lakh per transaction
(h)	Sale or purchase of any immovable property	Either the sale/purchase value of the property exceeds ₹ 10 lakhs or its SDV exceeds ₹ 10 lakhs

Answer 24

- a) Mr A is not required to quote his PAN while making payment of ₹ 50,000 in cash to a hotel Radisson Blu, Ahmedabad, since such payment does not exceed ₹ 50,000.
- b) Mr Abhishek is required to quote his PAN while making contract of ₹ 1,20,000 for sale/purchase of securities [other than shares] as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956, since the transaction amount exceeds ₹ 1,00,000.
- c) PAN has to be mandatorily quoted while making payment of ₹ 70,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000.
- e) Quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Answer 25

Option To File Updated Return Of Income: Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable for a particular year at any time within 24 months from the end of the relevant assessment year. Updated return can be filed irrespective of whether or not the person has furnished a return u/s 139(1) or belated return u/s 139(4) or revised return u/s 139(5) for the respective year.



Circumstances In Which Updated Return Cannot Be Furnished: No updated return can be furnished by any person for the relevant assessment year, where

- > an updated return has been furnished by him u/s 139(8A) for the relevant assessment year;
- > any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case; or
- > he is such person or belongs to such class of persons, as may be notified by the CBDT,

Answer 26

> Mr X may furnish an updated return of his income for AY 2023-24 at any time within 24 months from the end of the relevant assessment year, ie by 31.3.2026. Accordingly, Mr X can furnish updated return for AY 2023-24 as on 31.3.2025 and on 28.2.2026. However, he cannot furnish such return as on 31.5.2026, since such date falls after 31.3.2026.

> 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 u/s 139(4) or 139(5), ie 31.12.2024 and before the expiry of 12 months from end of relevant AY, ie 31.03.2025.
- @ 50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year, ie 31.3.2025 and before the expiry of 24 months from end of relevant assessment year, ie 31.3.2026.

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

(i) 31.3.2025 - ₹ 71,250 {25% of ₹ 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000}

(ii) 28.2.2026 - ₹ 1,42,500 {50% of ₹ 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000}

Answer 27

Refer the relevant theory portion given in income tax book part - I

Answer 28

- I. Where the Assessing Officer considers that the return of income furnished by the assessee is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation. The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.



- II. If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee hadn't furnished his return at all.
- III. The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

Answer 29

Refer the relevant theory portion given in the income tax book part - I

Answer 30

- i. Every person who has been allotted PAN as on 1st July 2017, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before 31st March 2022.
- ii. Since, Mr A fails to link his Aadhar number with PAN on or before 31.3.2022, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2022, he would be liable to pay fee of ₹ 1,000 as per Section 234H.
- iii. Yes, the following are the exceptions- who does not possess the Aadhar number or Enrolment ID and is:
 - An individual residing in Assam, Jammu & Kashmir and Meghalaya;
 - A non-resident as per Income Tax Act, 1961;
 - A super/very senior citizen, a resident individual of the age of 80 years or more; and
 - An individual, not being a citizen of India.

Answer 31

Refer the relevant theory portion given in income tax book part - I

Answer 32

- a) Eligible Persons: Any person being an individual or a Hindu undivided family



- b) Educational Qualifications Of Tax Return Preparer: An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by
- > the Institute of Chartered Accountants of India (ICAI); or
 - > the Institute of Company Secretaries of India (ICSI); or
 - > the Institute of Cost Accountants of India (ICWAI).
- c) Person Not Entitled To Act As Return Preparer: An individual who is:
- > any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.
 - > a legal practitioner, entitled to practice in any civil court in India.
 - > an accountant.





CHAPTER - 8

SALARIES

ILLUSTRATION 1

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

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

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

SOLUTION

HRA received	₹ 1,80,000
Less: Exempt under section 10(13A) [Note]	<u>₹ 1,36,800</u>
Taxable HRA	<u>₹ 43,200</u>

Note: Exemption shall be least of the following three limits:

- the actual amount received (₹ 15,000 × 12) = ₹ 1,80,000
- excess of the actual rent paid by the assessee over 10% of his salary
 = Rent Paid (-) 10% of salary for the relevant period
 = (₹ 16,000 × 12) (-) 10% of [(₹ 40,000 + ₹ 6,000) × 12]
 = ₹ 1,92,000 - ₹ 55,200 = ₹ 1,36,800
- 40% salary as his accommodation is situated at Kanpur



$$= 40\% \text{ of } [(\text{₹ } 40,000 + \text{₹ } 6,000) \times 12]$$

$$= \text{₹ } 2,20,800$$

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

ILLUSTRATION 2

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

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

SOLUTION

Taxable allowance in the hands of Mr. Srikant is computed as under -

If Mr. Srikant exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Children Education Allowance:

Elder son $[(\text{₹ } 150 - \text{₹ } 100) \text{ p.m.} \times 12 \text{ months}]$ = ₹ 600

Younger son $[(\text{₹ } 70 - \text{₹ } 70) \text{ p.m.} \times 12 \text{ months}]$ = Nil ₹ 600

Transport allowance $(\text{₹ } 1,800 \text{ p.m.} \times 12 \text{ months})$ ₹ 21,600

Tribal area allowance $[(\text{₹ } 500 - \text{₹ } 200) \text{ p.m.} \times 12 \text{ months}]$ ₹ 3,600

Taxable allowances ₹ **25,800**

If Mr. Srikant pays tax under default tax regime under section 115BAC

Children Education Allowance $[(\text{₹ } 150 + \text{₹ } 70) \text{ p.m.} \times 12 \text{ months}]$ ₹ 2,640

Transport allowance $(\text{₹ } 1,800 \text{ p.m.} \times 12 \text{ months})$ ₹ 21,600

Tribal area allowance $(\text{₹ } 500 \text{ p.m.} \times 12 \text{ months})$ ₹ 6,000

Taxable allowances ₹ **30,240**



ILLUSTRATION 3

Mr. Sagar who retired on 1.10.2024 is receiving ₹ 5,000 p.m. as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.
- He is a private sector employee and did not receive any gratuity at the time of retirement.

SOLUTION

- a) He is a government employee

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)	₹ <u>3,00,000</u>	<u>NIL</u>
Taxable pension		₹ 24,000

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

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\frac{1}{3} \times \frac{3,00,000}{60\%} \times 100\%$	₹ 1,66,667	₹ 1,33,333
Taxable pension		₹ 1,57,333

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

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		



$$\frac{1}{2} \times \frac{3,00,000}{60\%} \times 100\%$$

₹ 2,50,000

₹ 50,000

Taxable pension

₹ 74,000

ILLUSTRATION 4

Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary : ₹ 50,000 p.m.

Dearness Allowance : ₹ 10,000 p.m. (60% of which is for retirement benefits)

Commission : 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)

Bonus : ₹ 25,000 p.a.

Compute his taxable gratuity assuming:

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

SOLUTION

a. He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement

₹ 15,00,000

Less: Exemption under section 10(10)

Least of the following:

i. Gratuity received

₹ 15,00,000

ii. Statutory limit

₹ 20,00,000

iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

$$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$$

$$\frac{15}{26} \times (50,000 + 10,000) \times 27$$

₹ 9,34,615

₹ 9,34,615

Taxable Gratuity

₹ 5,65,385



b. He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10) (Note)	₹ <u>8,58,000</u>
Taxable Gratuity	₹ <u>6,42,000</u>

Note: Exemption under section 10(10) is least of the following:

- Gratuity received ₹ 15,00,000
- Statutory limit ₹ 20,00,000
- Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

i.e. $\frac{1}{2} \times \text{Average salary} \times \text{years of service}$

$$\frac{1}{2} \times \frac{[(50,000 \times 10) + (10,000 \times 60\% \times 10) + (1\% \times 1,20,000 \times \frac{10}{12})]}{10} \times 26$$

= ₹ 8,58,000

c. He is a government employee

Gratuity received at the time of retirement	₹ 15,00,000
Less: Exemption under section 10(10)	₹ <u>15,00,000</u>
Taxable gratuity	<u>Nil</u>

ILLUSTRATION 5

Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary :	₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2024)
Dearness Allowance :	₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission :	₹ 500 p.m.
Bonus :	₹ 1,000 p.m.

Leave availed during service : 480 days

He was entitled to 30 days leave every year.



You are required to compute his taxable leave salary assuming:

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

SOLUTION

- (a) He is a government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	₹ 5,00,000
Taxable Leave salary	Nil

- (b) He is a non-government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exempt under section 10(10AA) [See Note below]	₹ 26,400
Taxable Leave Salary	₹ 4,73,600

Note: Exemption under section 10(10AA) is least of the following:

(i) Leave salary received	₹ 5,00,000
(ii) Statutory limit	₹ 25,00,000
(iii) 10 months' salary based on average salary of last 10 months	

$$\text{i.e. } 10 \times \frac{\text{Salary of last 10 months i.e. February – November}}{10 \text{ months}}$$

$$10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} = 66,000$$

- (iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)

$$\text{Leave Due} = \text{Leave allowed} - \text{Leave taken}$$

$$= [30 \text{ days per year} \times 20 \text{ years}] - 480 \text{ days} = 120 \text{ days}$$

$$\text{i.e. } \frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary per month}$$

$$\frac{120 \text{ days}}{30 \text{ days}} \times 6,600 = 26,400$$

ILLUSTRATION 6

Mr. A retires from service on December 31, 2024, after 25 years of service. Following are the particulars of his income/investments for the previous year 2024-25:



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

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2025-26?

SOLUTION

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2025-26 is computed hereunder:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

ILLUSTRATION 7

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



SOLUTION

Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

ILLUSTRATION 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2024-25. You are required to compute his gross salary from the details given below:

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

SOLUTION**Computation of Gross Salary of Mr. B for the A.Y.2025-26**

Particulars	₹	₹
Basic Salary [₹ 10,000 × 12]		1,20,000
Dearness Allowance [₹ 8,000 × 12]		96,000
Commission on turnover [0.1% × ₹ 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employers contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less: Exempt [Note 2]	20,760	3,240



Interest accrued in the RPF@13% p.a.	13,000	
Less: Exempt@9.5% p.a.	9,500	3,500
Gross Salary		2,92,740

Notes:

1. Gratuity received during service is fully taxable.
2. Employers' contribution in the RPF is exempt up to 12% of the salary i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760
3. Employee's contribution to RPF is **not** taxable. It is eligible for deduction under section 80C, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 9

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

SOLUTION

Voluntary retirement compensation received	₹ 7,00,000
Less: Exemption under section 10(10C) [See Note below]	<u>₹ 5,00,000</u>
Taxable voluntary retirement compensation	<u>₹ 2,00,000</u>

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

i. Compensation actually received	= ₹ 7,00,000
ii. Statutory limit	= ₹ 5,00,000
iii. 3 months' salary × completed years of service	
= (₹ 20,000 + ₹ 5,000) × 3 × 30 years	= ₹ 22,50,000
iv. Last drawn salary × remaining months of service left	
= (₹ 20,000 + ₹ 5,000) × 6 × 12 months	= ₹ 18,00,000



ILLUSTRATION 10

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2022. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2023, 31.3.2024 and 31.3.2025 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2024-25 and A.Y. 2025-26. Prior to 1.9.2022, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

SOLUTION

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2023-24

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600

2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable

$$\text{u/s 17(2)(vii)} = (\text{PC}/2) \times R + (\text{PC1} + \text{TP1}) \times R$$

$$= (27,600/2) \times 0.111 + 0$$

$$= ₹ 1,532$$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600

PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2022-23 and there is no employer's contribution in P.Y. 2021-22.

TP1 Nil

$$R. I / F_{\text{avg}} = 2,06,711 / 18,62,093 = 0.111$$

I. RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 2,06,711 [₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137]

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024 / 2 = [₹ 9,81,137 + ₹ 27,43,048] / 2 = ₹ 18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2024-25 –

- ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]



- interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
 $= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$

PC. ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 27,600

PC1. Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 and P.Y. 2022-23 = ₹ 27,600

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2023-24 = ₹ 1,532

R. $I/F_{avg} = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2024 / 2 = (₹ 27,43,048 + ₹ 46,48,555) / 2 = ₹ 36,95,802

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2025-26 –

- ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]
- interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23
- interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2023-24



ILLUSTRATION 11

Mr. D went on a holiday on 25.12.2024 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 12

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

SOLUTION

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = 5000$$

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

ILLUSTRATION 13

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2024-25:

Medical premium paid for insuring health of Mr. G	₹ 7,000
Treatment of Mr. G by his family doctor	₹ 5,000
Treatment of Mrs. G in a Government hospital	₹ 25,000
Treatment of Mr. G's grandfather in a private clinic	₹ 12,000



Treatment of Mr. G's mother (68 years and dependant) by family doctor	₹ 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	₹ 3,000
Treatment of Mr. G's brother (independent)	₹ 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	₹ 50,000
Expenses of staying abroad of the patient	₹ 30,000
Limit specified by RBI	₹ 75,000

SOLUTION**Computation of taxable value of perquisite in the hands of Mr. G**

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by family doctor		8,000
Treatment of Mr. G's sister (dependent) in a nursing home		3,000
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		39,000

ILLUSTRATION 14

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

Basic salary ₹ 8,500 p.m.

Dearness Allowance ₹ 2,000 p.m. (30% is for retirement benefits)



Bonus ₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2024, he occupied the same only from 1.11.2024. Calculate the taxable value of the perquisite for A.Y.2025-26.

SOLUTION

Value of the rent free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] **[See Note below]**

= 10% of ₹ 53,000 = ₹ 5,300

Note: Since, Mr. C occupies the house only from 1.11.2024, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2024 to 31.03.2025) will be considered.

ILLUSTRATION 15

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

SOLUTION

First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

In this case, 10% of salary would be ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Since 10% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation = ₹ 5,300

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Perquisite value of accommodation given at a concessional rent = ₹ 375

ILLUSTRATION 16

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



for the use of this accommodation.

SOLUTION

Here again, we have to see whether the accommodation is provided at a concessional rate.

In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). Rent paid by the employer is ₹ 5,125 (i.e. ₹ 1,025 x 5). The lower of the two is ₹ 5,125 which exceeds the rent paid by the employee i.e., ₹ 5,000 (₹ 1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation [Note]	= ₹ 5,125
Less: Rent paid by the employee (₹ 1,000 x 5)	= <u>₹ 5,000</u>
Value of accommodation given at a concessional rent =	<u>₹ 125</u>

Note: Value of the accommodation is lower of

- i. Lease rent paid by the company for relevant period = ₹ 1,025 x 5 = ₹ 5,125
- ii. 10% of salary for the relevant period (computed earlier) = ₹ 5,300

ILLUSTRATION 17

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2025. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.

SOLUTION

Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 40 lakhs, the accommodation would be deemed to have been provided at a concessional rate, if 10% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). The value of furniture of ₹ 4,625 (See Note below) is to be added to 10% of salary. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 x 5). Therefore, the



accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (computed earlier)	= ₹ 5,300
Add: Value of furniture provided by the employer [Note]	= ₹ 4,625
Value of furnished accommodation	= ₹ 9,925
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Value of furnished accommodation given at a concessional rent	= ₹ 4,925

Note: Value of the furniture provided = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

ILLUSTRATION 18

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

SOLUTION

In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

In this case, ₹ 3,500 (licence fees: ₹ 700 × 5) + ₹ 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (₹ 700 × 5)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
Value of furnished accommodation	= ₹ 8,125
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Perquisite value of furnished accommodation given at concessional rent	= ₹ 3,125

ILLUSTRATION 19

Mr. X retired from the services of M/s Y Ltd. on 31.01.2025, after completing service of 30 years and one month. He had joined the company on 1.1.1995 at the age of 30 years and received the following on his retirement:

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



- ii. Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- iii. As per the scheme of the company, he was offered a car which was purchased on 30.01.2022 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- iv. An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- v. Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- vi. His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- a) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2024 to 31.01.2025.
- b) Received pension of ₹ 5,000 per month for the period 01.02.2025 to 31.03.2025 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Gross Total Income of Mr. X for A.Y. 2025-26

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000
Commuted pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16[ia]	50,000



Taxable Salary /Gross Total Income	6,82,769

Notes:

- As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross total income would be ₹ 7,27,769.

- Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2022)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2023	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2024	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2025	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	56,000

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

3. Taxable gratuity

Particulars	₹
Gratuity received	6,00,000
Less : Exempt under section 10(10) - Least of the following:	
i. Notified limit = ₹ 20,00,000	
ii. Actual gratuity = ₹ 6,00,000	
iii. $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$	
$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
Taxable Gratuity	80,769

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

4. Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less : Exempt under section 10(10AA) - Least of the following:	
i. Notified limit ₹ 25,00,000	
ii. Actual leave salary ₹ 3,30,000	
iii. 10 months x ₹ 20,000 ₹ 2,00,000	
iv. Cash equivalent of leave to his credit ₹ 2,20,000	
$\left(\frac{330}{30} \times 20,000\right)$	2,00,000
Taxable Leave encashment	1,30,000

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be ₹ 3,00,000 [i.e. $10 \times ₹ 30,000$] and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 [₹ 3,30,000 - ₹ 3,00,000]. In such a case, the gross total income would be ₹ 6,32,769.



5. Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of $\frac{1}{3}^{\text{rd}}$ of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$	1,50,000
Taxable amount	1,50,000

6. The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

ILLUSTRATION 20

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2024-25:

- Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?
- Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2025-26.



The lending rate of State Bank of India as on 1.4.2024 for housing loan may be taken as 10%.

SOLUTION**Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala**

- i. Domestic servant was employed by the employee and the salary of such domestic servant was paid/reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

- ii. Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- iii. Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

- iv. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.



Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000

- v. Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- vi. The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920
June, 2024	5,64,000	1,880
July, 2024	5,52,000	1,840
August, 2024	5,40,000	1,800
September, 2024	5,28,000	1,760
October, 2024	5,16,000	1,720
November, 2024	5,04,000	1,680
December, 2024	4,92,000	1,640
January, 2025	4,80,000	1,600
February, 2025	4,68,000	1,560
March, 2025	4,56,000	1,520
Total value of this perquisite		20,880



Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].

ILLUSTRATION 21

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- A. What is the perquisite value of sweat equity shares allotted to Sri Chand?
- B. In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

SOLUTION

- A. As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

- B. As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). [The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter]

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

ILLUSTRATION 22

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2024-25 –

1. Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of



Mr. Y.

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

Compute the value of perquisites chargeable to tax for the A.Y.2025-26, assuming his salary for perquisite valuation to be ₹ 10 lakh.

SOLUTION

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2025-26

	Particulars	Amount in ₹		
(1)	Value of accommodation at concessional rate Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 15% of ₹ 10,00,000 Lower of the above Less: Rent paid by Mr. Y (₹ 5,000 × 12)	1,00,000	1,00,000 60,000 40,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000	76,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]			32,400
(3)	Value of gift voucher*			10,000
	Value of perquisites chargeable to tax			1,18,400

* An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.



ILLUSTRATION 23

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2025.

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

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2025-26, if Mr. Goyal is a State Government employee.

SOLUTION

Computation of salary of Mr. Goyal for the A.Y.2025-26 under default tax regime u/s 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16[ia] - Standard deduction of upto ₹ 75,000	75,000
Income from Salary	6,41,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.



Computation of salary of Mr. Goyal for the A.Y.2025-26 under the optional tax regime (normal provisions of the Act)

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16[ia] - Standard deduction of upto ₹ 50,000		50,000
under section 16[ii] - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times ₹ 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
under section 16[iii] - Professional tax paid		2,000
Income from Salary		6,59,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

ILLUSTRATION 24

In the case of Mr. Hari, who turned 72 years on 28.3.2025, you are informed that the salary [computed] for the previous year 2024-25 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary (₹)	Arrears now received (₹)
2010 – 2011	7,10,000	1,03,000
2011 – 2012	8,25,000	1,17,000



2012 – 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011-12	Upto ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2012-13	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2013-14	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.

SOLUTION

Computation of tax payable by Mr. Hari for the A.Y.2025-26

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹



Current year salary [computed]	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: Health and education cess @4%	8,780	4,640
Total payable	2,28,280	1,20,640

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears [₹]	Excl. arrears [₹]	Incl. arrears [₹]	Excl. arrears [₹]	Incl. arrears [₹]	Excl. arrears [₹]
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2025-26 on arrears:		
	Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185



Relief under section 89 - difference between tax on arrears in A.Y. 2025-26 and tax on arrears in the respective years		15,455

Tax payable for A.Y.2024-25 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	15,455
Tax payable after claiming relief	2,12,825



TEST YOUR KNOWLEDGE

25. Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2025. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the P.Y.2024-25 is as under:

April and May, 2024- Nil, as he stayed with his parents

June to October, 2024 - ₹ 6,000 p.m. for an accommodation in Ghaziabad

November, 2024 to March, 2025 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2025-26, assuming he exercises the option of shifting out of default tax regime provided under section 115BAC(1A).

26. Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2024-25:

Particulars	₹



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

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

27. Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:
- A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2024.
 - A personal loan of ₹ 5,00,000 on 1.7.2024 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding [Assume SBI rate of interest on 1.4.2024 was 12.75% p.a.]
 - His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2021. The motor cycle was finally sold to him on 1.8.2024 for ₹ 30,000.
 - Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2025-26 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

28. Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2025:



- i. Basic salary upto 31.10.2024 ₹ 50,000 p.m.
Basic salary from 01.11.2024 ₹ 60,000 p.m.
Note - Salary is due and paid on the last day of every month.
- ii. Dearness allowance @ 40% of basic salary.
- iii. Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.
- iv. Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- v. Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- vi. Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2024.
- vii. Motor car owned by the employer [cubic capacity of engine exceeds 1.60 litres] provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven by the employee.
- viii. Leave travel concession given to employee, his wife and three children [one daughter aged 7 and twin sons aged 3]. Cost of air tickets [economy class] reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

29. From the following details, find out the salary chargeable to tax for the A.Y. 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

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

- i. Facility of laptop costing ₹ 50,000.
- ii. Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is



dependent on him.

- iii. The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
- iv. A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
- v. Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
- vi. He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
- vii. He is getting telephone allowance @₹ 500 per month.

30. You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2025:

- i. He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- ii. He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- iii. On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- iv. He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- v. He is receiving ₹ 5,000 as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- vi. The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

31. Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000



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

You are required to compute the income chargeable under the head Salaries for the assessment year 2024-25 if she pays tax under default tax regime.

ANSWERS

25. Computation of gross salary of Mr. Mohit for A.Y. 2025-26

Particulars	₹
Basic salary $[(₹ 10,000 \times 10) + (₹ 11,000 \times 2)]$	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance [See Note below]	21,300
Gross Salary	2,65,300

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000



Dearness allowance [included in salary as per terms of employment] (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (6,000×5)	16,000 (8,000×2)	8,000 (8,000×1)	16,000 (8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (6,000×2)	30,000 (6,000×5)	12,000 (6,000×2)	7,000 (7,000×1)	14,000 (7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
- Actual HRA received	-	30,000	12,000	7,000	14,000
- Rent paid [–] 10% of salary	-	22,500	13,000	6,500	12,700
- 40% of salary (Residence at Ghaziabad – June to Oct, 2023)	-	30,000 (40% × 75,000)			
50% of salary (Residence at Delhi– Nov, 23 - March, 24)			15,000 (50% × 30,000)	7,500 (50% × 15,000)	16,500 (50% × 33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA [–] Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300



26. Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2025-26

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi A. The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. B. The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. C. The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in [A], [B] and [C] above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause [iii] of the first proviso to section 17[2].
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause [ii][a] of the first proviso to section 17[2], reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.
5. & 6.	As per clause [vi] of the first proviso to section 17[2], the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [₹ 1,05,000, in this case];
	(ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].
	The conditions subject to which the above expenditure would be exempt are as follows –
	i. The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;



- ii. The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

27. Computation of Income from Salary of Mr. X for the A.Y. 2025-26

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,08,900
Less : Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,56,900

Notes:

i. Value of rent-free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of [₹ 3,00,000 + ₹ 12,000 + ₹ 12,000] = ₹ 32,400



ii. **Value of perquisite for interest on personal loan**

$$= [₹ 5,00,000 \times (12.75\% - 6.75\%) \text{ for 9 months}] = ₹ 22,500$$

iii. **Depreciated value of the motor cycle**

= Original cost – Depreciation @ 10% p.a. for 3 completed years.

$$= ₹ 60,000 - [₹ 60,000 \times 10\% \text{ p.a.} \times 3 \text{ years}] = ₹ 42,000.$$

$$\text{Perquisite} = ₹ 42,000 - ₹ 30,000 = ₹ 12,000.$$

28. Computation of Taxable Salary of Mr. Balaji for A.Y. 2025-26

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) [See Note 1]	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 [See Note 2]	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) [See Note 4]	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia) ₹ 50,000	
Professional tax u/s 16(iii) [See Note 6] ₹ 2,500	52,500
Taxable Salary	9,67,500

Notes:

- Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.



- iv. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2023, therefore the perquisite value has been calculated for 5 months.
- v. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- vi. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

29. Computation of taxable salary of Mr. X for A.Y. 2025-26

Particulars	₹
Basic pay $[(₹ 20,000 \times 9) + (₹ 21,000 \times 3)] = ₹ 1,80,000 + ₹ 63,000$	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% [15%-12% = 3% of ₹ 2,67,300] [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	29,430



Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,78,749
Less: Deduction under section 16[ia] – Standard deduction	50,000
Salary income chargeable to tax	3,28,749

Notes:

- Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- Basic salary i.e., ₹ 2,43,000
- Dearness allowance i.e. ₹ 24,300
- Bonus i.e., ₹ 21,000
- Telephone allowance i.e., ₹ 6,000

Therefore, salary works out to

$$₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.$$

$$10\% \text{ of salary} = ₹ 2,94,300 \times 10/100 = ₹ 29,430$$

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430).

- Facility of use of laptop is not a taxable perquisite.
- Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.



Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.

- vi. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

30. Computation of income under the head "Salaries" of Mr. Raja for the A.Y.2025-26 under default tax regime

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired		
$375/30 \times ₹ 25,000 = ₹ 3,12,500$		
[Leave Due = Leave allowed – Leave taken]		
= 750 (30 days per year x 25 years) – 375 days (15 days x 25)		
= 375 days]		
Uncommuted Pension received $[₹ 5,000 \times 1] + [₹ 5,000 \times 2 \times 40\%]$		9,000



Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
$1/3 \times ₹ 3,00,000 / 60\% \times 100\%$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues [Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder]		Nil
Gross Salary		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less] [Allowable under default tax regime]		75,000
Net Salary		4,11,333

31. Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2025-26 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000] as per Rule 3(7)(iv)	10,000



Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	75,000
Income chargeable under the head "Salaries"	11,51,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,46,600, respectively.



Question 1

Mr Hitesh is employed in XYZ Ltd getting basic pay ₹ 50,000 p.m. but it was increased to ₹ 70,000 p.m. with effect from 1st July 2024. Compute his total income and tax liability for AY 2025-26 in the following two situations:

- (i) Salary is due on last day of the month
- (ii) Salary is due on first of next month

Question 2

Mr Ramesh is employed in ABC Ltd since 01.07.2012 in the pay scale of 11,000 - 500 - 14,500 - 1,200 - 20,500 - 1,500 - 28,000. The employer has paid dearness allowance @ 6% of his basic pay from 01.04.2024 to 30.09.2024 & thereafter dearness allowance was allowed @ 10% of basic pay. Compute employee's tax liability for AY 2025-26.

Question 3

Mr Ratan joins PQR Ltd on 1st July 2015 in the pay scale of 20,000 - 500 - 25,000 - 700 - 30,600 - 1,000 - 37,600. The company has allowed him dearness allowance @ 5% of basic pay from 01.04.2024 upto 30.06.2024 and thereafter dearness allowance was allowed @ 11% of basic pay upto 31.12.2024 and after that dearness allowance was allowed @ 18% of basic pay. Compute the tax liability of the employee for AY 2025-26.

Question 5

Mr Dinesh is employed in ABC Ltd, getting basic pay ₹ 20,000 p.m., dearness allowance ₹ 7,000 p.m. and half of the dearness allowance forms part of the salary for the purpose of retirement benefits. The employer has also paid bonus @ ₹ 500 p.m., commission @ 1% on the sales turnover of ₹ 20 lakhs. The employer paid him HRA of ₹ 6,000 p.m. Employee has paid rent of ₹ 7,000 p.m. and was posted at Agra. Compute his tax liability.

Question 6

Compute taxable amount of HRA in the following cases:

Name Of Employee	Mr P	Mr Q	Mr R	Mr S
Basic Pay	20,000 p.m.	₹ 20,000 p.m.	₹ 20,000 p.m.	₹ 20,000 p.m.
House Rent Allowance	₹ 5,000 p.m.	₹ 5,000 p.m.	₹ 5,000 p.m.	₹ 5,000 p.m.



Rent paid	₹ 1,500 p.m.	₹ 12,000 p.m.	₹ 14,000 p.m.	Nil
Place of Residence	Delhi	Delhi	Delhi	Delhi

Question 10

Mr Suyash is employed in ABC Ltd, getting basic pay ₹ 30,000 p.m. & employer has paid him the following allowances:

- 1) Servant allowance ₹ 500 p.m. but the employee has saved % 100 p.m.
- 2) Lunch allowance ₹ 300 p.m.
- 3) Cash allowance ₹ 500 p.m.
- 4) Overtime allowance ₹ 400 p.m.
- 5) Outstation allowance ₹ 700 p.m.
- 6) Transport allowance ₹ 1,700 p.m.
- 7) Conveyance allowance (personal use) ₹ 200 p.m.

Compute employee's gross salary and tax liability for AY 2025-26.

Question 12

Mr Deepesh is employed in Central Govt, getting basic pay ₹ 14,000 p.m. & DA ₹ 5,000 p.m.. He was also paid HRA of ₹ 4,000 p.m. wef 01.07.2024. However, employee is residing in the house of his parents. Employer has paid cash allowance ₹ 300 p.m., medical allowance ₹ 250 p.m., and entertainment allowance ₹ 400 p.m. Employer has paid professional tax of ₹ 75 p.m. on behalf of the employee. Employee has saved % 35 p.m. out of entertainment allowance. Compute employee's income u/h salary and his tax liability for AY 2025-26.

Question 16

Compute the perquisite value of accommodation in the following cases:

Name of Employee	Mr P	Mr Q	Mr R	Mr S
Basic Pay	25,000 p.m.	25,000 p.m.	25,000 p.m.	25,000 p.m.
Accommodation (Owned/Hired)	Owned	Owned	Owned	Hired
Rent paid by the employer	N.A.	N.A.	N.A.	4,000 p.m.
Population of the place	15 lakhs	40 lakhs	50 lakhs	15 lakhs



Rent recovered from employee	500 p.m.	500 p.m.	500 p.m.	500 p.m.

Question 18

Mr Vijay is a Central Government employee receiving basic pay of ₹ 73,000 p.m. The employer has provided him rent-free accommodation and the license fees determined as per the Government Rules is ₹ 6,000 p.m. The employer has provided him furniture whose WDV is ₹ 65,000 but actual cost was ₹ 1,00,000. The employer has also provided one AC for the months of April 2024 & May 2024 for which a rent of ₹ 1,000 p.m. is paid by the employer. Compute the tax liability of Mr Vijay for AY 2025-26.

Question 20

Mr Ratan is employed in Micromax India Ltd and is getting basic pay of ₹ 22,000 p.m. and the employee has paid professional tax of ₹ 200 p.m. The employer has provided him a motor car along with a chauffeur for official as well as personal use and its engine capacity is 1.1 litres. All expenses in relation to this motor car are met by the employer himself. Compute tax liability of Mr Ratan for AY 2025-26.

Question 21

Mr Lovish is employed with Parle India Ltd, receiving basic pay of ₹ 22,000 p.m. The employer has paid professional tax of ₹ 75 p.m. on behalf of the employee and the employee has himself paid professional tax of ₹ 25 p.m. The employer has also provided him rent free accommodation which is owned by the employer himself at a place with a population of 5,00,000.

The employer has provided him 3 motor cars for official as well as personal purposes. All expenses of the motor car are borne by the employer himself. The particulars of these motor cars have been provided below:

Particulars	Motor Car I	Motor Car II	Motor Car III
Actual Cost (₹)	4,00,000	3,00,000	2,50,000
Engine Capacity	1.8 litres	1.6 litres	1.4 litres
Petrol Expenses (₹)	3,000	10,000	15,000
Repairs (₹)	5,000	4,000	3,000
Driver's Salary (₹)	4,000 p.m.	3,000 p.m.	No driver

Mr Lovish has also earned casual income of ₹ 11,000 from gambling activities and LTCG of ₹ 5,000 [occurring before July 23, 2024]. Compute his tax liability for AY 2025-26.



Question 23

Mr Raj is employed in Batra Ltd and is a specified employee. Compute perquisite value of educational facilities in the following situations:

- The employer has deputed him on one-day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹ 3,000.
- The employer has made arrangements for the education of his three children in his own school & has incurred ₹ 1,500 p.m. per child and has recovered ₹ 300 p.m. per child from the employee.
- If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed ₹ 1,500 per month per child.

Question 25

Compute the taxable value of perquisites for AY 2025-26 in the following cases:

Asset	Furniture	Microwave Oven	Motor Car	Washing Machine	Computer
Original cost	₹ 75,000	₹ 25,000	₹ 2,40,000	₹ 20,000	₹ 55,000
Date of purchase by the employer	07.03.2020	01.06.2022	10.07.2021	01.10.2014	01.01.2022
Date of putting to use	31.03.2020	01.06.2022	11.07.2021	01.11.2014	10.01.2022
Date of sale of asset to employee	01.07.2024	01.04.2024	01.07.2024	31.12.2024	09.01.2025
Amount recovered from employee	₹ 25,000	Gift to the employee	₹ 95,000	₹ 1,000	₹ 30,000

Question 26

The following benefits have been granted by Ved Software Ltd to one of its employees Mr Badri:

- Housing loan @ 6% p.a. Amount outstanding on 01.04.2024 is ₹ 6,00,000. Mr Badri pays ₹ 12,000 p.m. towards principal on 5th of each month.
- Air-conditioners purchased 4 years back for ₹ 2,00,000 have been given to Mr Badri for ₹ 90,000.

Compute the chargeable perquisite in the hands of Mr Badri for AY 2025-26. The lending rate of State Bank of India as on 01.04.2024 for housing loan may be taken as 10%.



Question 30

Compute the taxable value of perquisite in the case of the following four employees employed by XYZ Ltd:

Particulars	Mr A (₹)	Mr B (₹)	Mr C (₹)	Mr D (₹)
Medical Allowance	2,000	3,000	4,000	1,000
Reimbursement of medical expenditure in a private hospital for treatment of self	5,000	4,000	7,000	14,000
Expenditure incurred by the employer on medical treatment:	Treatment of Son	Treatment of Mother (Not Dependent)	Treatment of Son-in-Law	Treatment of Dependent Brother
• through a private doctor	7,000	20,000	11,000	2,000
• in a government hospital	20,000	11,000	9,000	6,000

Question 34

Mr Bhanu went to Srinagar on a holiday on 15.11.2024 with his wife and three children (one son - age 6 years; twin daughters - age 3 years). They went by aeroplane (economy class) and the total cost of tickets by his employer was ₹ 58,000 (₹ 43,000 for adults and ₹ 15,000 for the three minor children).

Case 1: Compute the amount of exemption available.

Case 2: Will there be any difference if the twins were 6 years old and the son 3 was years old?

Question 35

From the following particulars of investments and payments made by Mr A (an employee of ABC Ltd) during PV 24-25, compute the deduction available to Mr A under Chapter VI-A for AY 2025-26.

- deposited ₹ 1,20,000 in public provident fund.
- Deposited ₹ 30,000 in a five year term deposit with bank.
- Paid life insurance premium of ₹ 15,000 on a policy taken on 01.05.2020 for self (Sum assured - ₹ 1,20,000).
- Contributed ₹ 1,80,000, being 15% of his salary, to the NPS of the Central Government. A matching contribution was made by ABC Ltd.

Would your answer be different, if Mr A contributed ₹ 1,20,000 (being 10% of his salary) towards NPS of the Central Government?



Question 40

Mr Atok, a Government employee, retired from service on 31-7-2024 after rendering services for 25 years and 7 months. He received gratuity of ₹ 7,00,000. His salary at the time of retirement was as under:

Basic salary ₹ 16,000 p.m.; Dearness Allowance ₹ 8,000 p.m. [eligible for retirement benefits]

- Compute the taxable portion of gratuity.
- If Mr Alok is not a Government employee but covered by the Payment of Gratuity Act, 1972 determine the taxable and exempt portion of gratuity.

Question 44

Ms Neelima, a resident of Delhi, was employed by LMN Ltd upto 15 March, 1992. At the time of leaving LMN Ltd, she was paid ₹ 3,50,000 as leave salary out of which ₹ 59,000 was exempted from tax u/s 10(10 A).

Thereafter, she joined CD (P) Ltd, and received ₹ 4,14,000 as leave salary at the time of retirement on December 31, 2024. In addition, she received a gratuity of ₹ 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2024

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

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

You are required to compute her total income for AY 2025-26, clearly showing all workings. [Ignore Section 115BAC provisions].

Question 48

Mr Khanna, an employee of IOL, New Delhi a private sector company, received the following for FY 2024-25:

Particulars	Amount (₹)
Basic Pay	1,20,000
House Rent Allowance	1,00,000
Special Allowance	30,000

- Mr Khanna was residing at New Delhi and was paying a rent of ₹ 10,000 a month. Compute the eligible exemption u/s 10(13A) of the Income Tax Act, 1961, in respect of house rent allowance received.
- If Mr Khanna opts for rent free accommodation whereby IOL would be paying a rent of ₹ 10,000 per month to the landlord and recovers a sum of ₹ 2,500 per month from Mr Khanna which was in excess of his entitlement, what will be the perquisite value in respect of such rent free accommodation?
- Which of the above would be beneficial to Mr Khanna ie, house rent allowance or rent free accommodation?

Question 49

Mrs Deepali (aged 40 years), working with M/s Good Company Ltd, a manufacturer of tyres based at Mumbai, has received the following payments during FY 2024-25 from her employer-

Basic Salary	₹ 60,000 per month
Dearness Allowance	40% of basic salary

Her employer has taken on rent her own house on a monthly rent of ₹ 15,000 and the same has been provided for residence of Mrs Deepali. Company is recovering ₹ 2,000 per month as rent of house.

Compute taxable income and tax liability of Mrs Deepali for AY 2025-26 using the following additional details:

- She has paid professional tax of ₹ 6,000 during FY 2024-25.
- She is owning only one house and payment of interest of ₹ 1,75,000 and principal of ₹ 100,000 was made for housing loan taken for purchase of house.
- She has also taken a loan of ₹ 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered ₹ 10,000 as interest from her salary for such loan during the year.



Question 50

Mr Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent-free accommodation. Following details (annual) are furnished in respect of two house properties for FY 2024-25:

	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

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2. determine the taxable income of Mr Madhvan for AY 2025-26. AH workings should form part of your answer.

Question 51

Mr Harish, aged 52 years, is the Production Manager of XYZ Ltd. From the following details, compute his taxable income for AY 2025-26.

Particulars	Amount (₹)
Basic Salary	50,000 p.m.
Dearness Allowance	40% of basic salary
Transport Allowance (for commuting between place of residence and office)	3,000 p.m.
Motor car running and maintenance charges fully paid by employer (The motor car is owned by the company and driven by employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee)	60,000
Expenditure on accommodation in hotels while touring on official duties met by the employer	80,000



Loan from recognised provident fund (maintained by the employer)	60,000
Cost of the lunch provided by the employer during office hours	24,000
Computer (cost ₹ 35,000) kept by the employer in the residence of Mr Harish from 1.06.2024	
Mr Harish made the following medical insurance premium payments:	
• Paid in cash	4,800
• Paid by account payee crossed cheque	25,700

Question 55

Mr Nanda, an employee of XYZ Co Ltd at Mumbai and covered by the Payment of Gratuity Act, 1972 retires at the age of 64 years on 31.12.2024 after completing 33 years and 7 months of service. At the time of his retirement, his employer paid ₹ 20,51,640 as gratuity and ₹ 6,00,000 as accumulated balance of RPF. He is also entitled for monthly pension of ₹ 8,000. He gets 75% of pension commuted for ₹ 4,50,000 on 01.02.2025.

Determine the salary chargeable to tax for Mr Nanda for AY 2025-26 with the help of following information. Rent paid by Mr Nanda is ₹ 10,000 p.m.

Particulars	Amount (₹)
Basic Salary (₹ 80,000 x 9)	7,20,000
Bonus	36,000
House Rent Allowance (₹ 15,000 x 9)	1,35,000
Employer's contribution towards Recognised Provident Fund	1,10,000
Professional tax paid by Mr Nanda	2,000

Note: Salary and Pension falls due on the last day of each month.

Question 57

Mr Swaraj has provided the following particulars for the year ended 31-03-2025:

- He retired on 31-12-2024 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Delhi.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.



- iii. On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- iv. He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- v. The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

You are requested to compute his income from salary for AY 2025-26.

Question 58

Mr Rohan retired from M/s QRST Ltd a private sector company, on 31st March, 2025 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

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

He drew a basic salary of ₹ 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefit) for the period from 1st April, 2024 to 31st March, 2025.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr Rohan himself. The car was purchased by the employer on 1st April, 2023 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr Rohan for AY 2025-26 assuming that he neither claims any relief under Section 89 nor does he opt to pay tax u/s 115BAC.

Question 59

Mr X, an employee of the Central Government is posted at New Delhi. Details of his income for PY 2024-25 are as follows:

- (i) Basic salary: ₹ 3,80,000
- (ii) Dearness allowance: ₹ 1,20,000 (40% forms part of pay for retirement benefits)



- (iii) Both Mr X and Government contribute 20% of basic salary to the pension scheme referred to u/s 80CCb.
- (iv) Gift received by X's minor son on his birthday from friend: ₹ 70,000. [No other gift is received by him during PY 2024-25]
- (v) during the year 2016-17, Mr X gifted a sum of ₹ 6,00,000 to Mrs X. She started a business by introducing such amount as her capital. On 1st April 2024, her total investments in business was ₹ 10,00,000. during PY 2024-25, she has loss from such business ₹ 1,30,000.
- (vi) Mr X deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2025. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.
- (vii) He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid ₹ 15,000 as interest on such loan which includes ₹ 5,000 for FY 2024-25.

Determine the total income of Mr X for AY 2025-26.

SOLUTIONS

Answer 1

(i) **Salary Is Due On The Last Day Of The Month:** Salary shall be taxable from April 2024 to March 2025.

Particulars	Amount (₹)
Income u/h Salary:	
• April 2024 to June 2024 (₹ 50,000 x 3 months)	1,50,000
• July 2024 to March 2025 (₹ 70,000 x 9 months)	6,30,000
Gross Salary Income	7,80,000
Net Salary Income {After Allowing Standard Deduction u/s 16[ia]}	7,30,000
Computation of Tax Liability	
Tax on ₹ 7,30,000 at slab rates	58,500
Add: Health & Education Cess @ 4%	2,340
Tax Liability	60,840



(ii) Salary Is Due On First Of Next Month: Salary shall be taxable from March 2024 to February 2025.

Particulars	Amount (₹)
Income u/h Salary:	
• March 2024 to June 2024 (₹ 50,000 x 4 months)	2,00,000
• July 2024 to February 2025 (₹ 70,000 x 8 months)	5,60,000
Gross Salary Income	7,60,000
Net Salary Income {After Allowing Standard Deduction u/s 16(ia)}	7,10,000
Computation of Tax Liability	
Tax on ₹ 7,10,000 at slab rates	54,500
Add: Health & Education Cess @ 4%	2,180
Tax Liability	56,680

Answer 2

Computation Of Total Income Of Mr Ramesh For AY 2025-26:

Particulars	Amount (₹)
• Basic Pay {(₹ 19,300 x 3 months) + (₹ 20,500 x 9 months) [Note 1]}	2,42,400
• Dearness Allowance [Note 2]	19,464
Gross Salary Income	2,61,864
Net Salary Income {After Allowing Standard Deduction u/s 16(ia)}	2,11,864
Total Income [Rounded off u/s 288A]	2,11,860

Computation Of Tax Liability Of Mr Ramesh For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 2,11,860 at slab rates	Nil
Tax Liability	Nil

Note 1 - Calculation Of Basic Pay:



Particulars	Amount (₹)
01.07.2012 - 30.06.2013	11,000 p.m.
01.07.2013 - 30.06.2014	11,500 p.m.
01.07.2014 - 30.06.2015	12,000 p.m.
01.07.2015 - 30.06.2016	12,500 p.m.
01.07.2016 - 30.06.2017	13,000 p.m.
01.07.2017 - 30.06.2018	13,500 p.m.
01.07.2018 - 30.06.2019	14,000 p.m.
01.07.2019 - 30.06.2020	14,500 p.m.
01.07.2020 - 30.06.2021	15,700 p.m.
01.07.2021 - 30.06.2022	16,900 p.m.
01.07.2022 - 30.06.2023	18,100 p.m.
01.07.2023 - 30.06.2024	19,300 p.m.
01.07.2024 - 30.06.2025	20,500 p.m.

Note 2 - Calculation Of Dearness Allowance:

Particulars	Amount (₹)
From April To September: [6% of {(₹ 19,300 x 3) + 20,500 x 3}]	7,164
From October To March: [10% of (₹ 20,500 x 6)]	12,300
Total	19,464

Answer 3**Computation Of Total Income Of Mr Ratan For AY 2025-26:**

Particulars	Amount (₹)
• Basic Pay [(₹ 24,000 x 3 months) + 24,500 x 9 months] [Note 1]	2,92,500
• Dearness Allowance [Note 2]	33,000
Gross Salary Income	3,25,500
Net Salary Income [After Allowing Standard Deduction u/s 16(ia)]	2,75,500



Computation Of Tax Liability Of Mr Ratan For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 2,75,500 at slab rates	1,275
Less: Rebate u/s 87A	(1,275)
Tax Liability	Nil

Note 1 - Calculation Of Basic Pay:

Particulars	Amount (₹)
01.07.2015 - 30.06.2016	20,000 p.m.
01.07.2016 - 30.06.2017	20,500 p.m.
01.07.2017 - 30.06.2018	21,000 p.m.
01.07.2018 - 30.06.2019	21,500 p.m.
01.07.2019 - 30.06.2020	22,000 p.m.
01.07.2020 - 30.06.2021	22,500 p.m.
01.07.2021 - 30.06.2022	23,000 p.m.
01.07.2022 - 30.06.2023	23,500 p.m.
01.07.2023 - 30.06.2024	24,000 p.m.
01.07.2024 - 30.06.2025	24,500 p.m.

Note 2 - Dearness Allowance:

Particulars	Amount (₹)
From April To June: (₹ 24,000 x 3 months x 5%)	3,600
From July To December: (₹ 24,500 x 6 months x 11%)	16,170
From Jan To March: (₹ 24,500 x 3 months x 18%)	13,230
Total	33,000



Answer 5**Computation Of Total Income Of Mr Dinesh For AY 2025-26:**

Particulars	Amount (₹)
• Basic Pay 20,000 x 12 months]	2,40,000
• Dearness Allowance (₹ 7,000 x 12 months]	84,000
• Bonus (₹ 500 x 12 months]	6,000
• Commission (1% of ₹ 20,00,000]	20,000
• House Rent Allowance (₹ 72,000 - ₹ 53,800]	18,200
Least of the following is exempt: • HRA Received: ₹ 72,000 • Rent paid over 10% of RBS: ₹ 84,000 - ₹ 30,200 = ₹ 53,800 • 40% of retirement benefit salary = ₹ 1,20,800 {RBS = BP [2,40,000] + DA [42,000] + Commission [20,000] = ₹ 3,02,000}	
Less: Standard Deduction of ₹ 50,000 u/s 16[ia]	(50,000)
Total Income	3,18,200

Computation Of Tax Liability Of Mr Dinesh For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 3,18,200 at slab rates	3,410
Less: Rebate u/s 87A	(3,410)
Tax Liability	Nil

Answer 6**Computation Of House Rent Allowance:**

Particulars	Mr P (₹)	Mr Q (₹)	Mr R (₹)	Mr S (₹)
• HRA received (₹ 5,000 x 12 months]	60,000	60,000	60,000	60,000
• Rent paid over 10% of RBS	Nil	1,20,000	1,44,000	Nil
• 50% of Retirement Benefit (RBS = ₹ 2,40,000]	1,20,000	1,20,000	1,20,000	1,20,000



Exemption u/s 10(13A) [Least of the above 3 figures]	Nil	60,000	60,000	Nil
Taxable HRA [Received - Exempt]	60,000	Nil	Nil	60,000

Answer 9

Particulars	Amount (₹)
Children Education Allowance:	
• Elder son [(₹ 150 - ₹ 100) p.m. x 12 months]	600
• Younger son [(₹ 70 - ₹ 70) p.m. x 12 months]	Nil
Transport Allowance: [₹ 1,800 p.m. x 12 months]	21,600
Tribal Area Allowance: [(₹ 500 - ₹ 200) p.m. x 12 months]	3,600
Taxable Allowances	25,800

Answer 10**Computation Of Gross Salary & Total Income Of Mr Suyash For AY 2025-26:**

Particulars	Amount (₹)
• Basic Salary [₹ 30,000 x 12 months]	3,60,000
• Servant Allowance [₹ 500 x 12 months]	6,000
• Lunch Allowance [₹ 300 x 12 months]	3,600
• Cash Allowance [₹ 500 x 12 months]	6,000
• Overtime Allowance [₹ 400 x 12 months]	4,800
• Outstation Allowance [₹ 700 x 12 months]	8,400
• Transport Allowance [₹ 1,700 x 12 months]	20,400
• Conveyance Allowance [₹ 200 x 12 months]	2,400
Gross Salary Income	4,11,600
Net Salary Income [After Allowing Standard Deduction u/s 16(ia)]	3,61,600



Computation Of Tax Liability Of Mr Suyash For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 3,61,600 at slab rates	5,580
Less: Rebate u/s 87A	[5,580]
Tax Liability	Nil

Note: It has been assumed that Mr Suyash is not working in a transport system and therefore, no exemption shall be available to Mr Suyash in respect of outstation allowance and the entire outstation allowance shall be taxable in his hands.

Answer 12**Computation Of Salary Income Of Mr Deepesh For AY 2025-26:**

Particulars	Amount (₹)
• Basic Pay (₹ 14,000 x 12 months)	1,68,000
• Dearness Allowance (₹ 5,000 x 12 months)	60,000
• House Rent Allowance (Since the employee resides in the house of his parents and no rent is paid by him, the entire HRA shall be taxable) (₹ 4,000 x 9 months)	36,000
• Cash Allowance (₹ 300 x 12 months)	3,600
• Medical Allowance (₹ 250 x 12 months)	3,000
• Entertainment Allowance (₹ 400 x 12 months)	4,800
• Professional tax paid by employer (₹ 75 x 12 months)	900
Gross Salary	2,76,300
Less: Deduction u/s 16(ia) (Standard deduction of ₹ 50,000)	[50,000]
Less: Deduction u/s 16 (ii): Entertainment Allowance (Lower of the following three figures)	[4,800]
[a] Allowance received, ie ₹ 4,800	
[b] One fifth of basic salary $[1/5 \times 1,68,000]$, ie ₹ 33,600	
[c] Statutory amount, ie ₹ 5,000	
Less: Deduction u/s 16(iii): Professional tax paid (whether paid by employer or employee)	[900]



Net Salary Income (ie Total Income)	2,20,600

Computation Of Tax Liability Of Mr Deepesh For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 2,20,600 at slab rates	Nil
Tax Liability	Nil

Answer 16

- a) **Situation 1** (Mr P): Since the accommodation is owned by the employer and population of the area is 15 lakhs, value of unfurnished house shall be taken as 5% of RFA Salary (ie ₹ 25,000 x 5% x 12 months) = ₹ 15,000. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 9,000 {₹ 15,000 - 500 x 12 months}.
- b) **Situation 2** (Mr Q): Since the accommodation is owned by the employer and population of the area is 40 lakhs, value of unfurnished house shall be taken as 7.5% of RFA Salary (ie ₹ 25,000 x 7.5% x 12 months) = ₹ 22,500. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 16,500 {₹ 22,500 - 500 x 12 months}.
- c) **Situation 3** (Mr R): Since the accommodation is owned by the employer and population of the area is 50 lakhs, value of unfurnished house shall be taken as 10% of RFA Salary (ie ₹ 25,000 x 10% x 12 months) = ₹ 30,000. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 24,000 {₹ 30,000 - (₹ 500 x 12 months)}.
- d) **Situation 4** (Mr S): Since the accommodation has been taken on rent by the employer, value of unfurnished RFA shall be lower of:

> 10% of RFA Salary = ₹ 25,000 x 10% x 12 months = ₹ 30,000

> Rent Paid = ₹ 4,000 x 12 months = ₹ 48,000

Therefore, the value of unfurnished house shall be taken as ₹ 30,000. Population of the area is irrelevant if the accommodation has been taken on rent by the employer. An amount of ₹ 500 per month is recovered as rent from the employee. Therefore, perquisite value of accommodation at concessional rent shall come out to ₹ 24,000 {₹ 30,000 - 500 x 12 months}.



Answer 18**Computation Of Total Income Of Mr Vijav For AY 2025-26:**

Particulars	Amount (₹)
• Basic Salary (₹ 73,000 x 12)	8,76,000
• Perquisite value of furnished house	84,000
Perquisite value of unfurnished house (₹ 6,000 x 12 months)	72,000
Add: 10% of cost of furniture (₹ 1,00,000 x 10%)	10,000
Add: Rent of air-conditioner (₹ 1,000 x 2 months)	2,000
Less: Standard Deduction of ₹ 50,000 u/s 16(ia)	(50,000)
Total Income	9,10,000

Computation Of Tax Liability Of Mr Vijay For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 9,10,000 at slab rates	94,500
Add: Health & Education Cess @ 4%	3,780
Tax Liability	98,280

Answer 20**Computation Of Total Income Of Mr Ratan For AY 2025-26:**

Particulars	Amount (₹)
Basic Pay (₹ 22,000 x 12 months)	2,64,000
Motor Car {Sec 17(2)(iii) Rule 3(2)} [(₹ 1,800 + ₹ 900) x 12 months]	32,400
Gross Salary Income	2,96,400
Net Salary Income 2,96,400 - ₹ 50,000 (Std ded) - ₹ 2,400 (Professional Tax)}	2,44,000



Computation Of Tax Liability Of Mr Raton For AY 2025-26'.

Particulars	Amount (₹)
Tax on ₹ 2,44,000 at slab rates	Nil
Tax Liability	Nil

Answer 21

Computation Of Total Income Of Mr Lovish For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
• Basic Pay 22,000 x 12 months]	2,64,000	
• Professional Tax paid by employer 75 x 12 months]	900	
• Rent free accommodation {Sec 17(2)(i)} [5% of RFA Salary of R 2,64,000]	13,200	
• Motor Car {Sec 17(2)(iii)} [Note 1]	1,62,600	
Gross Salary		4,40,700
Less: Deduction u/s 16(ia) [Standard Deduction of ₹ 50,000]		[50,000]
Less: Deduction u/s 16(iii) [Professional Tax]		[1,200]
Income u/h Salary		3,89,500
Income under the head Capital Gains [LTCG]		5,000
Income under the head Other Sources [Gambling activities]		11,000
Gross Total Income/Total Income		4,05,500

Computation Of Tax Liability Of Mr Lovish For AY 2025-26:

Particulars	Amount (₹)
Tax on LTCG of ₹ 5,000 @ 20% u/s 112	1,000
Tax on casual income of ₹ 11,000 @ 30% u/s 115BB	3,300
Tax on normal income of ₹ 3,89,500 at slab rates	6,975
Tax before Health & Education Cess	11,275



Less: Rebate u/s 87A	[11,275]
Tax Liability	Nil

Note 1 - Perquisite Value Of Motor Car Facility [Section 17(2Viii)]:

Perquisite Value	Car Used Only for Personal Purposes	Car Used for Official & Personal Purposes
Car I	10% of Cost + All Expenses - ₹ 40,000 + ₹ 3,000 + ₹ 5,000 + ₹ 48,000 = ₹ 96,000	(₹ 2,400 + ₹ 900) x 12 months = ₹ 39,600
Car II	10% of Cost + All Expenses = ₹ 30,000 + ₹ 10,000 + ₹ 4,000 + ₹ 36,000 = ₹ 80,000	(₹ 1,800 + ₹ 900) x 12 months = ₹ 32,400
Car III	10% of Cost + All Expenses = ₹ 25,000 + ₹ 15,000 + ₹ 3,000 = ₹ 43,000	₹ 1,800 x 12 months = ₹ 21,600

Selection Of Best Possible Option:

Options	Perquisite Value
Option 1	Presuming Car I is for official and personal purposes and Cars II & III for personal purposes: Car I - ₹ 39,600; Car II - ₹ 80,000; Car III - ₹ 43,000 = ₹ 1,62,600
Option 2	Presuming Car II is for official and personal purposes and Cars I & III for personal purposes: Car I - ₹ 96,000; Car II - ₹ 32,400; Car III - ₹ 43,000 = ₹ 1,71,400
Option 3	Presuming Car III is for official and personal purposes and Cars I & II for personal purposes: Car I - ₹ 96,000; Car II - ₹ 80,000; Car III - ₹ 21,600 = ₹ 1,97,600
Conclusion: Option 1 is best.	

Answer 25

• Computation Of Perquisite Value Of Furniture:

Particulars	Amount (₹)
Cost of the furniture	75,000
Less: Depreciation on SLM basis @ 10% from 31.03.2020 to 30.03.2021	[7,500]



Less: Depreciation on SLM Basis @ 10% from 31.03.2021 to 30.03.2022	[7,500]
Less: Depreciation on SLM Basis @ 10% from 31.03.2022 to 30.03.2023	[7,500]
Less: Depreciation on SLM Basis @ 10% from 31.03.2023 to 30.03.2024	[7,500]
Written Down Value	45,000
Less: Amount paid by the assessee	[25,000]
Perquisite Value of Furniture	20,000

• **Computation Of Perquisite Value Of Microwave Oven'-**

Particulars	Amount (₹)
Cost of Microwave oven	25,000
Less: Depreciation on SLM Basis @ 10% from 01.06.2022 to 31.05.2023	[2,500]
Written Down Value	22,500
Less: Sift to the employee exempt upto ₹ 5,000	[5,000]
Perquisite Value of Microwave Oven	17,500

• **Computation Of Perquisite Value Of Motor Car:**

Particulars	Amount (₹)
Cost of the motor car	2,40,000
Less: Depreciation on WDV Basis @ 20% from 11.07.2021 to 10.07.2022	[48,000]
Written Down Value	1,92,000
Less: Depreciation on WDV Basis @ 20% from 11.07.2022 to 10.07.2023	[38,400]
Written Down Value	1,53,600
Less: Amount paid by the assessee	[95,000]
Perquisite Value of Motor Car	58,600

• **Computation Of Perquisite Value Of Washing Machine:**



Particulars	Amount (₹)
Cost of the washing machine	20,000
Less: Depreciation on SLM Basis @ 10% from 01.11.2014 to 31.10.2024 (10 years)	[20,000]
Written Down Value	Nil
Less: Amount paid by the assessee	[1,000]
Perquisite Value of Washing Machine	Nil

Computation Of Perquisite Value Of Computer:

Particulars	Amount (₹)
Cost of the Computer	55,000
Less: Depreciation on WDV Basis @ 50% from 10.01.2022 to 09.01.2023	[27,500]
Written Down Value	27,500
Less: Depreciation on WDV Basis @ 50% from 10.01.2023 to 09.01.2024	[13,750]
Written Down Value	13,750
Less: Depreciation on WDV Basis @ 50% from 10.01.2024 to 09.01.2025	[6,875]
Written Down Value	6,875
Less: Amount paid by the assessee	[30,000]
Perquisite Value of Computer	Nil

Answer 26

• Perquisite Value Of Housing Loan:

Month	Maximum Outstanding Balance (End of Month) (₹)	Perquisite Value @ 4% (₹)
April 2024	5,88,000	$5,88,000 \times 4\% \times 1/12 = 1,960$
May 2024	5,76,000	$5,76,000 \times 4\% \times 1/12 = 1,920$
June 2024	5,64,000	$5,64,000 \times 4\% \times 1/12 = 1,880$
July 2024	5,52,000	$5,52,000 \times 4\% \times 1/12 = 1,840$
August 2024	5,40,000	$5,40,000 \times 4\% \times 1/12 = 1,800$



September 2024	5,28,000	$5,28,000 \times 4\% \times 1/12 = 1,760$
October 2024	5,16,000	$5,16,000 \times 4\% \times 1/12 = 1,720$
November 2024	5,04,000	$5,04,000 \times 4\% \times 1/12 = 1,680$
December 2024	4,92,000	$4,92,000 \times 4\% \times 1/12 = 1,640$
January 2025	4,80,000	$4,80,000 \times 4\% \times 1/12 = 1,600$
February 2025	4,68,000	$4,68,000 \times 4\% \times 1/12 = 1,560$
March 2025	4,56,000	$4,56,000 \times 4\% \times 1/12 = 1,520$
Total		20,880

• **Perquisite Value Of Air-Conditioners:**

Particulars	Amount (₹)
Original Cost	2,00,000
Less: Depreciation on SLM Basis for 4 years @ 10% (₹ 2,00,000 x 10% x 4 years)	(80,000)
Written Down Value	1,20,000
Less: Amount recovered from employee	(90,000)
Perquisite Value	30,000

• Chargeable perquisite in the hands of Mr Badri = ₹ 20,880 + ₹ 30,000 = ₹ 50,880

Answer 30

Computation Of Taxable Part In Case Of Mr A:

Particulars	Amount (₹)
Medical allowance	2,000
Expenditure on treatment through a private doctor of son	7,000
Expenditure in government hospital of son	Nil
Reimbursement of medical expenditure for treatment of self	5,000
Taxable Value	14,000



Computation Of Taxable Part In Case Of Mr B:

Particulars	Amount (₹)
Medical allowance	3,000
Expenditure on treatment through a private doctor of mother	20,000
Expenditure in government hospital of mother	11,000
Reimbursement of medical expenditure for treatment of self	4,000
Taxable Value	38,000

Note: Since mother is not dependent on assessee hence expenditure incurred on treatment through a private doctor and expenditure in government hospital are taxable.

Computation Of Taxable Part In Case Of Mr C:

Particulars	Amount (₹)
Medical allowance	4,000
Expenditure on treatment through a private doctor of son-in-law	11,000
Expenditure in government hospital son-in-law	9,000
Reimbursement of medical expenditure for treatment of self	7,000
Taxable Value	31,000

Computation Of Taxable Part In Case Of Mr D:

Particulars	Amount (₹)
Medical allowance	1,000
Expenditure on treatment through a private doctor of dependent brother	2,000
Expenditure in government hospital of dependent brother	Nil
Reimbursement of medical expenditure for treatment of self	14,000
Taxable Value	17,000



Answer 34

- **Case 1:** Since the son's age is more than the twin daughters, Mr Bhanu can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.
- **Case 2:** Since the twins' age is more than the son, Mr Bhanu cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable LTC = ₹ 15,000 x 1/3 = ₹ 5,000. LTC exempt is only ₹ 53,000 (ie ₹ 58,000 - ₹ 5,000).

Answer 35**(i) Deduction Available To Mr A Under Chapter VI-A For AY 2025-26:**

Section	Particulars	Amount (₹)	Amount (₹)
80C	• Deposit in public provident fund	1,20,000	1,62,000
	• Five-year term deposit with bank	30,000	
	• Life insurance premium paid ₹ 15,000 (Since policy has been taken after 31.3.2012, maximum deduction is 10% of sum assured of ₹ 1.2L)	12,000	
80CCD(1)	Employees' contribution to NPS of the Central Government		1,20,000
	[Restricted to 10% of salary] (₹ 1,80,000/15% * 10%) [Note]		
	Total		2,82,000
80CCE	Aggregate deduction u/s 80C and 80CCD(1) is restricted to 1,50,000		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction iro contribution to NPS of the Central Govt		50,000
80CCD(2)	Employer's contribution to NPS, restricted to 10% of salary [Note]		1,20,000
	Deduction under Chapter VI-A (1,50,000 + 50,000 + 1,20,000)		3,20,000

Note: Deduction u/s 80CCD(1B) would not be subject to an overall limit of ₹ 1,50,000 u/s 80CCE. Since deduction could not be claimed in respect of employee's contribution u/s 80CCD(1), an additional deduction of maximum ₹ 50,000 is available u/s 80CCD(1B). Further, the entire employer's contribution to notified pension scheme has to be first included as income u/h salary and thereafter, deduction u/s 80CCD(2) would be allowed subject to a maximum of 10% of salary.



- (ii) If the contribution towards NPS is ₹ 1,20,000, it is beneficial for Mr A to first claim deduction of ₹ 50,000 u/s 80CCD(1B) and the balance ₹ 70,000 can be claimed u/s 80CCD(1). However, aggregate deduction u/s 80C & 80CCD(1) cannot exceed the overall limit of ₹ 1,50,000 as per Section 80CCE. Total deduction under Chapter VI-A would remain the same (ie ₹ 3,20,000).

Answer 40

- i. As per Section 10(10), gratuity received by a Government employee on retirement is fully exempt from tax. Since Mr Alok is a government employee, gratuity amounting to ₹ 7,00,000 received would be fully exempt. The taxable portion of gratuity shall be Nil.
- ii. If Mr Alok is not a Government employee but covered by the Payment of Gratuity Act, 1972, then, gratuity received by him would be exempt upto least of the following:
 - Statutory limit (₹ 20,00,000)
 - Actual gratuity received (₹ 7,00,000)
 - $15/26 \times \text{last drawn salary} \times \text{years of service (including part of the year in excess of 6 months)} = 15/26 \times ₹ 24,000 \times 26 \text{ years} = ₹ 3,60,000$

Therefore, ₹ 3,60,000 is exempt u/s 10(10). Taxable portion of gratuity = ₹ 7L - ₹ 3.6L = ₹ 3.4L

Note: Salary means basic salary plus DA, ie ₹ 24,000 (₹ 16,000 + ₹ 8,000).

Answer 44**Computation Of Total Income Of Ms Neelima For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Basic Salary (April To July (₹ 22,600 x 4M) + August To December (₹ 22,900 x 5M))	2,04,900	
• Taxable portion of leave encashment (₹ 4,14,000 - ₹ 2,27,500)	•1,86,500	
Least of the following is exempt u/s 10(10AA):		
> Statutory limit (₹ 25L) - Exemption claimed earlier (₹ 59,000) = ₹ 24,41,000		
> Leave salary actually received = ₹ 4,14,000		
> 10 times x Average RBS of last 10 months (10 x ₹ 22,750) = 2,27,500		



> Leave at the credit x Average RBS of last 10 months $(11M \times ₹ 22,750) = ₹ 2,50,250$		
• Taxable portion of gratuity $(₹ 12,00,000 - ₹ 1,59,040)$	10,40,960	
Least of the following is exempt u/s 10(10):		
> Gratuity received $(₹ 12L)$		
> Statutory limit $(₹ 20L)$		
> j month's average salary for 14 years of service $(1/2 \times ₹ 22,720 \times 14) = ₹ 1,59,040$		
• Withdrawals from URPF [ie, Unrecognised Provident Fund]		
> Employer's share in the payment received from the URPF	2,10,000	
> Interest on employer's share	50,000	
Less: Standard deduction of ₹ 50,000 u/s 16(ia)	(50,000)	
Income u/h Salary		16,42,360
Income u/h Other Sources:		
Interest on employee's share out of withdrawals from URPF	60,000	
Income u/s Other Sources		60,000
Total Income		17,02,360

Note 1: Average salary for the purposes of computing exemption for leave salary u/s 10(10AA) = Average salary of last 10 months preceding the date of retirement for each completed year of service, ie from March to December 2024. Average salary shall be ₹ 22,750 {Sum Of $22,600 \times 5M$ & $22,900 \times 5M$ } Divided By 10 Months}.

Note 2: Leave at the credit = 30 days leave for 14 completed years of services as reduced by 90 days of leave availed during service $(420 \text{ days} - 90 \text{ days})$. Therefore, leave at the credit shall be 330 days [ie, 11 Months].

Note 3: Average salary for the purposes of computing exemption for gratuity u/s 10(10) = Average salary of last 10 months preceding the month of retirement for each completed year of service, ie from February to November 2024. Average salary shall be ₹ 22,720 {Sum Of $(₹ 22,600 \times 6M)$ & $(₹ 22,900 \times 4M)$ Divided By 10 Months}.

Answer 48

(i) The eligible exemption u/s 10(13A) in respect of HRA received would be least of the following:

- Actual amount received = ₹ 1,00,000



- Rent paid [-] 10% of salary for the relevant period = (₹ 10,000 * 12 months) - 10% of ₹ 1,20,000 = ₹ 1,08,000
- 50% of retirement benefit salary - 50% x ₹ 1,20,000 = ₹ 60,000

The HRA received by Mr Khanna would be exempt to the extent of ₹ 60,000 u/s 10(13A). The balance of ₹ 40,000 is includible in his total income.

(ii) Perquisite Value In Respect Of Concessional Accommodation: The actual amount of lease rental paid or payable by the employer or 10% of salary, whichever is lower, as reduced by the rent, if any, actually paid by the employee is the value of the perquisite.

- Actual rent paid by the employer = ₹ 10,000 x 12 months = ₹ 1,20,000
- 10% of salary = 10% of basic pay plus special allowance = 10% of ₹ 1,50,000 = ₹ 15,000'

Lower of the above is ₹ 15,000, which should be reduced by the rent of ₹ 30,000 paid by the employee (ie, ₹ 2,500 x 12 months = ₹ 30,000). The perquisite value is, therefore, nil.

(iii) We have to see the cash flow from both the options to find out which is more beneficial.

Particulars	Amount (₹)	Amount (₹)
Option 1: HRA		
Cash inflows [Basic Pay + HRA + Special Allowance]		2,50,000
Less: Cash outflows:		
• Rent paid	1,20,000	
• Tax [Note 1]	Nil	(1,20,000)
Net Cash Flow		1,30,000
Option 2: Concessional Accommodation:		
Cash inflows [Basic Pay + Special Allowance]		1,50,000
Less: Cash outflows:		
• Rent recovery	30,000	
• Tax [Note 1]	Nil	(30,000)
Net Cash Flow		1,20,000

Since the net cash flow is higher in Option 1, Mr Khanna should opt for HRA as it is more beneficial to him.



Note 1 - Computation Of Tax Liability Under Both The Options'-

Particulars	Option 1 - HRA (₹)	Option 2 - Concessional Accommodation (₹)
Basic Pay	1,20,000	1,20,000
Special Allowance	30,000	30,000
Taxable Portion of HRA	40,000	N.A.
Concessional Accommodation	N.A.	Nil
Less: Standard Deduction	(50,000)	(50,000)
Taxable Salary Income	1,40,000	1,00,000
Tax on Total Income	Nil	Nil

Answer 49**Computation Of Total Income And Tax Liability Of Mrs Deepali For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Basic Salary (₹ 60,000 x 12 months)	7,20,000	
• Dearness Allowance (40% of Basic Salary)	2,88,000	
• Accommodation at concessional rent [Sec 17(2)(ii) Rule 3(1)]	48,000	
• Perquisite value of interest on loan [Sec 17(2)(viii) Rule 3(7)(i)]	10,000	
Gross Salary	10,66,000	
Less: Standard Deduction of ₹ 50,000 u/s 16(ia)	(50,000)	
Less: Professional Tax u/s 16(iii)	(6,000)	
Income under the head salary		10,10,000
Income u/h House Property:		
Gross Annual Value (₹ 15,000 x 12)	1,80,000	
Less: Municipal Tax	Nil	
Net Annual Value	1,80,000	



Less: 30% of NAV u/s 24(a)	(54,000)	
Less: Interest on capital borrowed u/s 24(b)	(1,75,000)	
Loss under the head House Property		(49,000)
Gross Total Income		9,61,000
Less: Deduction u/s 80C (Repayment of Housing Loan)		(1,00,000)
Total Income		8,61,000
Calculation Of Tax Liability		
Particulars		Amount (₹)
Tax on ₹ 8,61,000 at slab rates		84,700
Add: Health & Education Cess @ 4%		3,388
Tax Liability		88,088
Tax Liability (Rounded off u/s 288B)		88,090

Note 1 - Perquisite Value Of Accommodation At Concessional Rent:

Particulars	Amount (₹)
10% of rent free accommodation salary or rent paid whichever is less	
> 10% of RFA Salary = 10% of ₹ 7,20,000 = ₹ 72,000	
> Rent Charges = ₹ 15,000 x 12 months = ₹ 1,80,000	
[It has been assumed that dearness allowance does not form part of pay for retirement benefits]	
Value of Unfurnished House	72,000
Less: Amount recovered from the employee 2000 x 12 months]	(24,000)
Perquisite Value Of Accommodation At Concessional Rent	48,000

Note 2: Mrs Deepali cannot claim benefit of self-occupation [ie, taking the annual value as nil and claiming a higher loss of ₹ 2,00,000] in respect of the house property owned and occupied by her, since the same has been given on rent to her employer, who has allotted the same as residence to Mrs Deepali.

Answer 50

9643036663 (only WhatsApp)

Computation Of Taxable Income Of Mr Madhvan For AY 2025-26:

Particulars	[₹]		
Salaries:			
• Basic Salary 30,000 x 12]	3,60,000		
• Rent-free accommodation {Lower of lease rental paid or payable by the employer or 10% of salary, ie lower of ₹ 65,000 or 10% of ₹ 3,60,000}	36,000		
Gross Salary	3,96,000		
Less: Standard deduction u/s 16[ia]	[50,000]		
Net Salary	3,46,000		
Income From House Property:	House 1 [₹]	House 2 [₹]	
• Municipal Value [A]	74,000	1,90,000	
• Fair Rent [B]	75,000	1,95,000	
• Expected Rent {Higher Of [A] & [B]}	75,000	1,95,000	
• Actual Rent Received	65,000	2,85,000	
Gross Annual Value {Higher Of Expected Rent & Actual Rent}	75,000	2,85,000	
Less: Municipal tax paid	[18,000]	[70,000]	
Net Annual Value [NAV]	57,000	2,15,000	
Less: Deduction u/s 24[a] {30% of NAV}	[17,100]	[64,500]	
Less: Deduction u/s 24[b] {Interest on loan	Nil	[17,000]	
Income From House Property [₹ 39,900 + ₹ 1,33,500]	39,900	1,33,500	1,73,400
Income From Other Sources:	Nil		
Purchase of rural agricultural land for a consideration less than SDV {Not taxable u/s 56(2)(x), since rural agricultural land is not a capital asset}			
Total Income	5,19,400		

Note: Expenditure on repairs, insurance premium on building and ground rent are not allowable u/h "House Property."



Answer 51**Computation Of Taxable Salary Income Of Mr Harish For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
• Basic Salary (₹ 50,000 x 12 months)		6,00,000
• Dearness Allowance @ 40% of Basic Salary		2,40,000
• Transport Allowance (₹ 3,000 x 12 months)		36,000
• Motor car owned by the employer but used by the employee for official as well as personal purposes. Maintenance expenses borne by the employer (₹ 2,400 x 12 months)		28,800
• Expenditure on accommodation while on official duty not a perquisite and hence not chargeable to tax		Nil
• Loan from recognized provident fund (not chargeable to tax)		Nil
• Value of lunch provided during working hours	24,000	
Less: Exempt under Rule 3(7)(iii) [₹ 50 x 300 days] (Note 1)	(15,000)	9,000
• Computer provided in the residence of employee {Exempt perquisite as per Rule 3(7)(vii)}		Nil
Less: Standard Deduction of ₹ 50,000 u/s 16(ia)		(50,000)
Gross Total Income		8,63,800
Less: Deduction u/s 80D in respect of medical insurance premium paid by cheque amounting to = ₹ 25,700 but restricted to ₹ 25,000 (Note 2)		(25,000)
Total Income		8,38,800

Note 1: Lunch provided by the employer during office hours is not considered as perquisite upto ₹ 50 per meal. Since, the number of working days is not given in the question, the number of working days has been assumed to be 300 days during FY 2024-25. Therefore, ₹ 15,000 [ie 300 x ₹ 50] would be exempt and balance ₹ 9,000 [ie ₹ 24,000 - ₹ 15,000] would be taxable.

Note 2: Medical insurance premium paid in cash of ₹ 4,800 is not allowable as deduction u/s 80D. Further, deduction for medical insurance premium paid through cheque is restricted to ₹ 25,000, which is the maximum deduction allowable.



Answer 55**Computation Of Salary Of Mr Nanda For AY 2025-26:**

Particulars	Amount (₹)
• Basic Salary [₹ 80,000 x 9 months]	7,20,000
• Bonus	36,000
• House Rent Allowance [Sec 10(13A), Rule 2A] [Note 1]	1,17,000
• Employer's Contribution to RPF [₹ 1,10,000 - 12% of ₹ 7,20,000]	23,600
• Gratuity [Sec 10(10)] [Note 2]	4,82,409
• Uncommuted Pension [Sec 17(1)] [₹ 8,000 + (₹ 8,000 * 25% * 2 Months)]	12,000
• Commuted Pension [Sec 10(10A)] [₹ 4,50,000 - (₹ 4,50,000/75% * 1/3)]	2,50,000
Gross Salary	16,41,009
Less: Deduction u/s 16(ia) [Standard Deduction of ₹ 50,000]	[50,000]
Less: Deduction u/s 16(iii) [Professional Tax]	[2,000]
Income u/h Salary	15,89,009

Note 1 - Taxable HRA (Section 10(13A)):

Particulars	Amount (₹)
Least of the following is exempt:	
• Actual amount received = ₹ 1,35,000	
• Rent paid [-] 10% of salary for the relevant period = ₹ 90,000 - ₹ 72,000 = ₹ 18,000	
• 50% of retirement benefit salary = 50% x ₹ 7,20,000 = ₹ 3,60,000	
HRA received	1,35,000
Less: Exempt u/s 10(13A)	[18,000]
Taxable HRA	1,17,000

Note 2 - Taxable Gratuity (Section 10(10)):

Particulars	Amount (₹)



Least of the following is exempt:	
• Gratuity received = ₹ 20,51,640	
• ₹ 20,00,000	
• $15/26 \times ₹ 80,000 \times 34 = ₹ 15,69,230.77$	
Gratuity actually received	20,51,640
Less: Exempt u/s 10(10)	(15,69,231)
Taxable Gratuity	4,82,409

Note 3: ₹ 6,00,000 accumulated balance of RPF received from employer is exempt as Mr Nanda has rendered continuous service of more than 5 years with the employer.

Answer 57

Computation Of Income u/h "Salaries" Of Mr Swaraj For AY 2025-26:

Particulars	(₹)	(₹)
Basic Salary [₹ 25,000 x 9 months]		2,25,000
House Rent Allowance [₹ 6,000 x 9 months]	54,000	18,000
Less: Least of the following exempt u/s 10(13A):	(36,000)	
• House rent allowance actually received (₹ 6,000 x 9-₹ 54,000)		
• Rent paid [-] 10% of salary for the relevant period {₹ 6,500 x 9} [-] (10% of ₹ 2,25,000) = ₹ 36,000		
• 50% of salary for the relevant period (50% of ₹ 2,25,000 - ₹ 1,12,500)		
Gratuity	3,50,000	Nil
Less: Least of the following exempt u/s 10(10):	(3,50,000)	
• Actual gratuity received (₹ 3,50,000)		
• 15 days salary for every year of completed service {(15/26 x ₹ 25,000 x 26) = ₹ 3,75,000}		
• Notified limit (₹ 20,00,000)		
Leave encashment	3,15,000	65,000
Less: Least of the following exempt u/s 10(10AA)	(2,50,000)	
• ₹ 25,00,000		



• Leave salary actually received R 3,15,000]		
• 2,50,000 (₹ 25,000 x 10 months]		
• Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months for every year of actual service rendered for the employer from whose service he has retired $\{(375/30 \times ₹ 25,000) = ₹ 3,12,500\}$; [Leave due = 15 days per year x 25 year = 375 days]		
Gift Voucher {As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt}		Exempt
Mobile phone received as gift from colleagues {Neither taxable u/h "Salaries" nor "Income from other sources", since taxability provisions u/s 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder}		Nil
Gross Salary		3,08,000
Less: Standard deduction u/s 16(ia)		(50,000)
Net Salary		2,68,000

Answer 58**Computation Of Total Income Of Mr Rohan For AY 2025-26:**

Particulars	Amount (₹)
Income u/h Salary:	
• Basic Salary (₹ 25,000 x 12 months]	3,00,000
• Dearness Allowance [50% of Basic Pay]	1,50,000
• Perquisite Value In Respect Of Motor Car [Section 17(2)(iii) & Rule 3(2)]	2,00,000
[Since the monetary income u/h salary of Mr Rohan exceeds ₹ 50,000, Mr Rohan qualifies as a specified employee and therefore, Section 17(2)(iii) is applicable in his case. Since the car is used by the employee for personal purposes only, 10% p.a. of actual cost of motor car and driver's salary paid by the employer shall be taxable in the hands of the employee] $\{10\% \text{ of } ₹ 8,00,000 (+) ₹ 10,000 \times 12 \text{ Months}\}$	
• Crockery Set Received As Sift From Employer On Farewell Party	Exempt



[Gifts received in kind from employer are exempt upto ₹ 5,000 as per Section 17(2)(viii) & Rule 3(7)(iv)]	
• Gratuity (₹ 7,50,000 - ₹ 6,05,769)	1,44,231
Least of the following is exempt u/s 10(10):	
> Gratuity received (ie ₹ 7,50,000)	
> ₹ 20,00,000	
> $15/26 \times \text{Last-Drawn BP A Full DA } [37,500] \times \text{No Of Completed Years Of Service Or Part Thereof}$	
Excess Of 6 Months (28) = ₹ 6,05,769	
• Leave Encashment (₹ 3,25,000 - ₹ 1,75,000)	1,50,000
Least of the following is exempt u/s 10(10AA):	
> Statutory limit = ₹ 25,00,000	
> Leave at the credit x Average RBS of last 10 months = $210 \text{ days}/30 \text{ days} \times ₹ 25,000 = ₹ 1,75,000$	
> 10 Times x Average RBS of last 10 months ($10 \times ₹ 25,000$) = ₹ 2,50,000	
> Actual amount received = ₹ 3,25,000	
Less: Standard Deduction of ₹ 50,000 u/s 160a)	[50,000]
Income u/h Salary	8,94,231

Answer 59**Computation Of Total Income Of Mr X For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Salaries:		
• Basic Salary	3,80,000	
• Dearness Allowance	1,20,000	
• Employer contribution to NPS = 20% of ₹ 3,80,000	76,000	
Gross Salary	5,76,000	
Less: Standard deduction u/s 16(ia)	[50,000]	
Net Salary		5,26,000



Profits And Gains Of Business Or Profession:		
Where the amount gifted by Mr X (₹ 6 lakhs, in this case) is invested by Mrs X in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2024 to the total investment in the business (ie, ₹ 10 lakhs) would be included in the income of Mr X (Loss of ₹ 1,30,000 x 6/10)	(78,000)	Nil
Income From Other Sources:		Nil
All income of the minor son would be included in the income of the parent Mr X, since his income is higher than the income of Mrs X (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being the amount of gift received by minor son during PY 2024-25, would be included in the income of Mr X as the amount of gift exceeds ₹ 50,000.	70,000	
Less: Exemption in respect of income of minor child included in Mr X's income	(1,500)	
	68,500	
Less: Business loss of ₹ 78,000 set-off to the extent of ₹ 68,500 (Balance business loss of ₹ 9,500 to be c/f to the next year, since the same cannot be set-off against salary income)	(68,500)	
Gross Total Income		5,26,000
Less: Deduction u/s 80C {Deposit in Sukanya Samridhi Account}	70,000	
Less: Deduction u/s 80CCC {Contribution to LIC Annuity Plan}	40,000	
Less: Deduction u/s 80CCD(1) {Employee's contribution to NPS. subject to ₹ 42,800. being 10% of salary (₹ 3,80,000 + ₹ 48,000). However, since ₹ 1,10,000 has been already claimed as deduction u/s 80C & 80CCC only ₹ 40,000 deduction would be available u/s 80CCD(1)}	40,000	
Less: Deduction u/s 80CCD(1B) 76,000 - ₹ 40,000 already allowed u/s 80CCD(1)}	36,000	
Less: Deduction u/s 80CCD(2) {Employer's contribution to NPS restricted to 14% of basic salary A DA forming part of pay, since employer is CG - 14% x 3,80,000 + ₹ 48,000}	59,920	
Less: Deduction u/s 80E {Interest paid on loan taken for higher education}	15,000	(2,60,920)
Total Income		2,65,080





CHAPTER - 9

INCOME FROM HOUSE PROPERTY

ILLUSTRATION 1

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I [Rs.]	House II [Rs.]	House III [Rs.]	House IV [Rs.]	House V [Rs.]
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000

SOLUTION

As per section 23(1), Gross Annual Value [GAV] is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

	Particulars	House I [Rs.]	House II [Rs.]	House III [Rs.]	House IV [Rs.]	House V [Rs.]
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000



ILLUSTRATION 2

Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2024-25. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2024-25. The value of one £ in Indian rupee to be taken at ₹ 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2025-26.

SOLUTION

For the P.Y.2024-25, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for A.Y.2025-26

Particulars	Rs.
Gross Annual Value [$£ 10,000 \times 12 \times 95$]	1,14,00,000
Less: Municipal taxes paid [$£ 8,000 \times 95$]	7,60,000
Net Annual Value (NAV)	1,06,40,000

ILLUSTRATION 3

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2023. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2023 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2025-26 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house. He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2024-25

Particulars	Rs.
I. Interest on loan taken for acquisition of residential house property at Bombay $30,00,000 \times 10\% = ₹ 3,00,000$ Restricted to ₹ 2,00,000	2,00,000
II. Interest on loan taken for repair of residential house property at Delhi $₹ 5,00,000 \times 11\% = ₹ 55,000$ Restricted to ₹ 30,000	<u>30,000</u>
Total interest	<u>2,30,000</u>
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

ILLUSTRATION 4

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for A.Y.2025-26.

SOLUTION**Computation of Income from house property of Mr. Anirudh for A.Y.2025-26**

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER		
ER = Higher of MV of ₹ 1,30,000 p.a. and FR of ₹ 1,10,000 p.a. but restricted to SR of ₹ 1,20,000 p.a.	1,20,000	
Step 2 Compute actual rent received/receivable		
Actual rent received/receivable less unrealized rent as per Rule 4 = ₹ 1,32,000 - ₹ 11,000	1,21,000	
Step 3 Compare ER of ₹ 1,20,000 and Actual rent received/receivable of ₹ 1,21,000		



Step 4 GAV is the higher of ER and Actual rent received / receivable	1,21,000	
Gross Annual Value (GAV)		1,21,000
Less: Municipal taxes [paid by the owner during the previous year] = 10% of ₹ 1,30,000		13,000
Net Annual Value (NAV)		1,08,000
Less: Deductions under section 24		
(a) 30% of NAV	32,400	
(b) Interest on borrowed capital [actual without any ceiling limit]	40,000	72,400
Income from house property		35,600

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

ILLUSTRATION 5

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2025. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2025-26.

SOLUTION

Computation of income from house property of Ganesh for A.Y.2025-26

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER		
	2,10,000	



Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.		
Step 2 Compute Actual rent received/receivable Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = ₹ 2,00,000 – ₹ 20,000	1,80,000	
Step 3 Compare ER & Actual rent received/receivable	1,80,000	
Step 4 In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2023). Therefore, actual rent is the GAV.		1,80,000
Gross Annual Value (GAV)		20,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		1,60,000
Net Annual Value (NAV)	48,000	
Less: Deductions under section 24	65,000	1,13,000
a) 30% of NAV = 30% of ₹ 1,60,000		
b) Interest on borrowed capital (actual without any ceiling limit)		47,000
Income from house property		

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

ILLUSTRATION 6

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a. Municipal taxes paid is ₹ 8,000. The house construction began in April 2018 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2018. The construction was completed on 30.11.2020. The accumulated interest up to 31.3.2020 is ₹ 3,60,000. On 31.3.2025, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property



for A.Y. 2025-26 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION**Computation of income from house property of Smt. Poorna for A.Y.2025-26**

Particulars	Amount (Rs.)
Annual Value of house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24	
Interest on borrowed capital	
Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹ 2,00,000 [including apportioned pre-construction interest] will be allowed as deduction. In this case the total interest is ₹ 1,80,000 + ₹ 72,000 [Being 1/5th of ₹ 3,60,000] = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000. 2,00,000	
	2,00,000
Loss from house property	[2,00,000]

ILLUSTRATION 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2024. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2024 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2025-26.

SOLUTION**Computation of income from house property of Smt. Rajalakshmi for A.Y.2025-26**

Particulars	Amount in ₹
Computation of GAV	
Step 1 Compute ER for the whole year	
ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000	4,80,000



Step 2 Compute Actual rent received/receivable		
Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = $(₹ 50,000 \times 9) - (₹ 50,000 \times 2) = ₹ 4,50,000 - ₹ 1,00,000$	3,50,000	
Step 3 Compare ER for the whole year with the actual rent received/receivable for the let out period i.e. ₹ 4,80,000 and ₹ 3,50,000		
Step 4 GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)		4,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 5,00,000		60,000
Net Annual Value (NAV)		4,20,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 4,20,000	1,26,000	
(b) Interest on borrowed capital	25,000	1,51,000
Income from house property		2,69,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV then, GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000. Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.

ILLUSTRATION 8

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the PY.2024-25 are as under:

Particulars	House I	House II	House III



Municipal valuation p.a.	Rs. 3,00,000	Rs. 3,60,000	Rs. 3,30,000
Fair rent p.a.	Rs. 3,75,000	Rs. 2,75,000	Rs. 3,80,000
Standard rent p.a.	Rs. 3,50,000	Rs. 3,70,000	Rs. 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year		Rs. 55,000	
Interest for current year on money borrowed in April, 2017 for purchase of property			Rs. 1,75,000

Compute Ganesh's income from house property for A.Y.2025-26 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

SOLUTION

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation of income from house property of Ganesh for the A.Y. 2025-26

Particulars	Amount in ₹		
	House I	House II	House III
Gross Annual Value (GAV) ER is the GAV of house property ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied.



Under default tax regime under section 115BAC**OPTION 1 (House I and II – self-occupied and House III – deemed to be let out)**

If House I and II are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I [Self-occupied]	Nil
House II [Self-occupied] (No interest deduction)	Nil
House III [Deemed to be let-out]	73,640
Income from house property	73,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I [Self-occupied]	Nil
House II [Deemed to be let-out]	1,76,840
House III [Self-occupied] (No interest deduction)	Nil
Income from house property	1,76,840

OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I [Deemed to be let-out]	2,19,800
House II [Self-occupied] (No interest deduction)	-
House III [Self-occupied] (No interest deduction)	-
Income from house property	2,19,800

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the A.Y. 2024-25 under default tax regime under section 115BAC.



If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

OPTION 1 (House I and II – self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Self-occupied) (Interest deduction restricted to ₹30,000)	(30,000)
House III (Deemed to be let-out)	73,640
Income from house property	43,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in Rs.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied)	(1,75,000)
Income from house property	1,840

OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

Particulars	Amount in ₹
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (Interest deduction restricted to ₹ 30,000)	(30,000)
House III (Self-occupied) (No interest deduction)	(1,75,000)
(Total interest deduction restricted to ₹ 2,00,000)	(2,00,000)
Income from house property	19,800



Since Option 2 is most beneficial in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be ₹ 1,840 for the A.Y. 2024-25 under the optional tax regime i.e., the normal provisions of the Act.

I. HOUSE PROPERTY, A PORTION LET OUT AND A PORTION SELF OCCUPIED

ILLUSTRATION 9

Prem owns a house in Madras. During the previous year 2024-25, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2020 for acquiring the property. Interest on loan paid during the previous year 2024-25 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be Prem's income from house property under the default tax regime?

SOLUTION

There are two units of the house. Unit I with 2/3rd area is used by Prem for self occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2025-26 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	Amount in ₹	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 2/3rd of ₹ 1,20,000		80,000
Income from Unit I [self-occupied]		[80,000]
Unit II (1/3rd area – let out)		
Computation of GAV		
Step I Compute ER		
ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹ 1,10,000 [1/3rd of ₹ 3,30,000] is more than the higher of MV of ₹ 1,00,000 [1/3rd of ₹ 3,00,000] and FR of ₹ 90,000 [1/3rd of ₹ 2,70,000]. Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	



Step 2 Compute actual rent received/ receivable ₹ 8,000 × 12 = ₹ 96,000	96,000	
Step 3 Compare ER and Actual rent received/receivable		
Step 4 GAV is the higher of ER and actual rent received /receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	1,00,000
Gross Annual Value(GAV)		10,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of [10% of ₹ 3,00,000] = ₹ 30,000/3 = ₹ 10,000		
Net Annual Value (NAV)		90,000
Less: Deductions under section 24		
a) 30% of NAV = 30% of ₹ 90,000	27,000	
b) Interest paid on borrowed capital [relating to let out portion] 1/3rd of ₹ 1,20,000	40,000	67,000
Income from Unit II [let-out]		23,000
Loss under the head "Income from house property" = [₹ 80,000] + ₹ 23,000 = [₹ 57,000]		

Under the default tax regime, Prem would not be entitled to interest deduction of ₹ 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be ₹ 23,000, being income from Unit II, which is let out.

ILLUSTRATION 10

Mr. Anand sold his residential house property in March, 2024.

In June, 2024, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2018 to March 2020. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2020-21.

Further, he had let out his property from April, 2020 to February, 2024 to Mr. Satish. In April, 2022, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2024, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2022 to February, 2024.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?



SOLUTION

Since the unrealised rent was recovered in the P.Y.2024-25, the same would be taxable in the A.Y.2025-26 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2024-25, and hence the same would be taxable in the A.Y.2025-26 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2025-26.

Computation of income from house property of Mr. Anand for A.Y.2025-26

Particulars	Rs.
Unrealised rent recovered	10,000
Arrears of rent received	69,000
	79,000
Less: Deduction@30%	23,700
Income from house property	55,300

ILLUSTRATION 11

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2023 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2023 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2025-26, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION**Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2025-26**

Particulars	Rs.
I. Interest on loan taken for acquisition of residential house property at Calcutta $\text{₹ } 50,00,000 \times 10\% = \text{₹ } 5,00,000$ Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
II. Interest on loan taken for repair of flat at Pune $\text{₹ } 3,00,000 \times 12\% = \text{₹ } 36,000$	



Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y.2024-25

Particulars	Rs.
Interest on loan taken for acquisition of residential house property at Calcutta	
₹ 50,00,000 x 10% = ₹ 5,00,000	
Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	2,00,000



TEST YOUR KNOWLEDGE

12. Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	Rs.
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2025-26.



13. Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2024-25 are as under:

Standard rent	Rs. 1,62,000 p.a.
Municipal valuation	Rs. 1,90,000 p.a.
Fair rent	Rs. 1,85,000 p.a.
Municipal tax (Paid by Mr. X)	5 % of municipal valuation
Light and water charges	Rs. 500 p.m.
Interest on borrowed capital	Rs. 1,500 p.m.
Lease money	Rs. 1,200 p.a.
Insurance charges	Rs. 3,000 p.a.
Repairs	Rs. 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

14. Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 [per annum], respectively. During the F.Y. 2024-25, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2017 and was completed on 31-5-2020. Vikas took a loan of ₹ 1,00,000 on 1-7-2017 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

15. Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2024-25. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2024, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2025. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:



Property Tax	Rs. 16,200
Sewerage Tax	Rs. 1,800

She had taken a loan from Standard Chartered Bank in June, 2022 for purchasing this flat. Interest on loan was as under:

Particulars	Rs.
Period prior to 1.4.2024	49,200
1.4.2024 to 30.6.2024	50,800
1.7.2024 to 31.3.2025	1,31,300

She had a house property in Bangalore, which was sold in March, 2021. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2025. This amount has not been charged to tax earlier. Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2025-26 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Would your answer change if she pays tax under the default tax regime under section 115BAC?

16. Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2016-17. The property consists of eight identical units and is situated at Cochin.

During the financial year 2024-25, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

Particulars	Rs.
Repairs	40,000
Insurance premium (paid)	15,000
Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2024-25.



Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2025-26 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWERS

12. Computation of income from house property of Mr. Raman for A.Y. 2025-26

Particulars	₹	₹
Gross Annual Value [See Note 1 below]		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan [See Note 2 below]		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman [See Note 3 below]		48,000

Notes:

I. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	Rs.	Rs.	Rs.	Rs.
Municipal value	1,60,000			
Fair rent	1,50,000			



Higher of (a) and (b)		1,60,000		
Standard rent		1,70,000		
Expected rent [lower of (c) and (d)]			1,60,000	
Actual rent [₹ 15,000 x 12]			1,80,000	
Gross Annual Value [higher of (e) and (f)]				1,80,000

- I. Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
- II. Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

13. Computation of Income from house property for A.Y. 2025-26

Particulars	₹	₹
a) Rented unit (50% of total area – See Note below)		
Step I – Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II – Actual Rent		
Rent received/receivable for the let out period (₹ 8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	



Gross Annual Value		80,000
Less: Municipal taxes (5% of ₹ 95,000)		4,750
Net Annual value		75,250
Less : Deductions under section 24 -		
I. 30% of net annual value	22,575	
II. Interest on borrowed capital (₹ 750 x 12)	9,000	31,575
Taxable income from let out portion		43,675
b) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction under section 24 - Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self occupied portion		[9,000]
Income from house property		34,675

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

14. Computation of income from house property of Mr. Vikas for the A.Y. 2025-26

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan [See Note below] (₹ 18,600 x 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self occupied property		[12,400]
II. Let-out portion (One third)		
Gross Annual Value		
a) Actual rent received (₹ 5,000 x 12)	₹ 60,000	
b) Expected rent	₹ 36,000	



[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 x 1/3		
Higher of (a) or (b)	60,000	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)	3,520	
Net Annual Value	56,480	
Less: Deductions under section 24		
a) 30% of NAV	16,944	
b) Interest on loan (See Note below) (₹ 18,600 x 1/3)	6,200	33,336
Income from house property		20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2016 to 31.3.2019) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from FY. 2019-20 till FY. 2023-24.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

15.

- i. Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2025-26 will be calculated as under:

Particulars	₹	₹



I. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		Nil
II. Self-occupied house property at Chennai		
Annual value		Nil
Less: Deduction under section 24 Interest on borrowed capital [See Note below]		1,91,940
		[1,91,940]
III. Arrears in respect of Bangalore property (Section 25A)		
Arrears of rent received	60,000	
Less: Deduction @ 30% u/s 25A[2]	18,000	42,000
Loss under the head "Income from house property"		[1,49,940]

Note: Interest on borrowed capital

Particulars	Rs.
Interest for the current year [₹ 50,800 + ₹ 1,31,300]	1,82,100
Add: 1/5th of pre-construction interest [₹ 49,200 x 1/5]	9,840
Interest deduction allowable under section 24	1,91,940

Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- ii. Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

16.

- i. If Arun and Bimal pay tax under the default tax regime under section 115BAC

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

Particulars	Arun (Rs.)	Bimal (Rs.)
Income from house property		



I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self occupied property	Nil	Nil
II. Let-out portion (75%) – See Working Note below		
	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	4,15,850	3,05,850

Working Note – Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent $[(₹ 12,000 \times 6 \times 12) - (₹ 12,000 \times 1 \times 4)]$	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house (75% of ₹ 3 lakh)	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

- ii. If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



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

Particulars	Arun (Rs.)	Bimal (Rs.)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b) Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self occupied property	(37,500)	(37,500)
II. Let-out portion (75%) – See Working Note above	1,25,850	1,25,850
Income from house property	88,350	88,350
Other Income	2,90,000	1,80,000
Total Income	3,78,350	2,63,350

ILLUSTRATION 17

Enumerate the head of income under which the following incomes would be taxable:

- Income earned by Mr Bhushan from letting out house property.
- Income earned by Mr Bhushan from selling one house property.
- Income earned by ABC Ltd from letting out an open land.
- Income earned by ABC Ltd from letting out 500 flats (such flats are stock-in-trade for ABC Ltd).
- ABC Ltd has constructed flats within its premises for letting out to the employees.
- ABC Ltd is engaged in the business of providing paying guest accommodation in its own building.
- Mr X is engaged in the business of warehousing.
- Income earned by Mr X from sub-letting of house 23onafide.



ILLUSTRATION 18

Mr Vaibhav own five houses at Cochin, all of which are let out. Compute the gross annual value of each house from the information given below:

Particulars	House-I	House-II	House-III	House-IV	House-V
Municipal Value (₹)	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair Rent (₹)	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard Rent (₹)	1,08,000	NA	1,44,000	NA	78,000
Actual Rent Received/Receivable (₹)	1,80,000	2,10,000	1,20,000	1,08,000	72,000

ILLUSTRATION 19

Assessee is owner of a building. It was let out for ₹ 18,000 p.m. Municipal value of the building is ₹ 20,000 p.m. and FRV of the building is ₹16,000 p.m. Following are the expenses of the building: municipal taxes paid ₹ 2,000 p.m, repairs are ₹4,000 p.m, insurance premium ₹12,000 p.m. Interest on loan taken for house property ₹80,000 p.a. Compute income u/h house property.

ILLUSTRATION 20

Assessee is owner of a building. It was let out for ₹ 15,000 p.m. Municipal value of the building is ₹10,000 p.m. and FRV of the building is also ₹10,000 p.m. Following are the expenses of the building: municipal taxes paid by the owner ₹ 15,000 p.m, repairs ₹ 21,000 p.m, insurance premium ₹ 2,000 p.m. Interest on loan taken for property ₹ 5,000 p.m. Compute income u/h house property.

ILLUSTRATION 21

Assessee is owner of a building. It was let out for ₹ 20,000 p.m. but it remained vacant for 2 months. MV of the building is ₹18,000 p.m. and FRV of the building is ₹16,000 p.m. Compute GAV of the house property.

ILLUSTRATION 22

Assessee is owner of a building. It was let out for ₹ 65,000 p.m. but it remained vacant for 5 months. MV of the building is ₹45,000 p.m. and FRV of the building is ₹40,000 p.m. Compute GAV of the house property.



ILLUSTRATION 23

Assessee is owner of a building. It was let out for ₹70,000 p.m. But it remained vacant for 3 months. MV of the building is ₹ 50,000 p.m. and FRV of the building is ₹40,000 p.m. Compute GAV of the house property.

ILLUSTRATION 24

X owns 3 House Properties situated in Delhi. The particulars of the houses are as under:

	Particulars	House 1	House 2	House 3
[1]	Municipal Value (₹)	1,00,000	1,50,000	2,00,000
[2]	Fair Rent (₹)	1,40,000	1,80,000	2,40,000
[3]	Standard Rent (₹)	1,20,000	2,00,000	-
[4]	Actual Rent p.m. (₹)	12,000	17,500	21,000
[5]	Period of vacancy	Nil	1 month	6 months
[6]	Municipal taxes payable for the entire year (₹)	20% of MV	40,000	50,000
[7]	Municipal taxes paid during the year (₹)	20,000	80,000	30,000

Compute the income u/h house property of all the 3 properties.

ILLUSTRATION 25

Mr X constructed a building in Dehradun. It was occupied by the assessee for his own residence. Rent collected from a similar property in Dehradun is ₹25,000 p.m. Municipal taxes paid for the house property amounted to ₹15,000. Compute net annual value of the house property.

ILLUSTRATION 26

Assessee purchased a building and it was self-occupied by the assessee for his own residence for 5 months. After 5 months, assessee had let out the same at a rent of ₹ 75,000 p.m. Municipal valuation of the building is ₹ 65,000 p.m. Assessee paid municipal taxes of ₹1,00,000 which were outstanding from last 3 years in relation to the building purchased. Compute income u/h house property.



ILLUSTRATION 27

Assessee purchased a building and it was self-occupied by the assessee for his own residence for 8 months. After 8 months, assessee had let out the same for 4 months at a rent of ₹ 1,00,000 p.m. Water taxes paid by the owner to the central government are ₹ 15,000. Municipal valuation of the building is ₹65,000 p.m. Compute income u/h house property.

ILLUSTRATION 28

Mrs X took ownership & possession of a flat in Chennai, which is used for self-occupation. During PY 2024-25, the flat was used by her for 5 months only. For the remaining 7 months, it was let out at a rent of ₹ 75,000 p.m. Municipal valuation is ₹32,000 p.m. & the fair rent is ₹4,20,000 p.a. Compute income u/h house property.

ILLUSTRATION 29

Assessee is owner of two buildings, both buildings are self-occupied. Municipal value of building B is ₹ 18,000 p.m. and its FRV is ₹16,000 p.m. Compute income u/h house property. Following are the expenses of the buildings:

- Building A: Municipal taxes ₹ 2,000; repairs ₹ 4,000; interest on loan taken for repair ₹ 80,000 ; insurance premium ₹ 12,000.
- Building B: Municipal taxes ₹2,000; repairs ₹ 4,000 ; interest on loan taken for repair ₹ 80,000 ; insurance premium ₹ 12,000.

ILLUSTRATION 30

Mr V has two self-occupied houses. One in Delhi and other in Bangalore. He has sought your advice as to the tax treatment of these two houses.

- Delhi House: FRV is ₹ 1,00,000; MV is ₹ 2,00,000; municipal taxes paid ₹ 20,000; interest on loan taken for construction of house is ₹ 50,000 ; repairs ₹ 30,000.
- Bangalore House: FRV is ₹5,00,000; municipal taxes paid ₹2,00,000; interest on loan taken for construction of house is ₹ 2,70,000; land revenue paid ₹ 50,000.

ILLUSTRATION 31

Mr Jai Jain started the construction of the house on 01.04.2019 with borrowed capital of ₹.22,00,000 @ 10% p.a. He completed the house on 01.04.2020. During PY 24-25, the house was let out for ₹ 20,000 p.m. Municipal taxes paid were ₹ 30,000. Loan is still outstanding. Calculate income of PY 24-25.



ILLUSTRATION 32

What will be your answer in Question 27 if the house occupied is a self-occupied house?

ILLUSTRATION 33

Arvind had taken a loan of ₹ 5,00,000 for construction of property on 1.10.2023. Interest was payable @ 10% p.a. The construction was completed on 30.6.2024. No principal repayment has been made up to 31.3.2025. Compute the interest allowable as deduction u/s. 24 for AY 2025-26.

ILLUSTRATION 34

An owner of a building has given it on a rent of ₹ 20,000 p.m. But he could not realize rent for 2 months. Municipal value of building is ₹18,000 p.m. and FRV of the building is ₹ 16,000 p.m. Municipal taxes ₹ 2,000 ; repairs ₹ 4,000 ; interest on loan taken for repair ₹ 80,000 ; insurance premium ₹ 12,000. Compute income u/h HP.

ILLUSTRATION 35

y furnishes the following particulars in respect of a house property owned by him in Delhi.

Municipal Value	₹2,00,000
Fair Rent	₹2,40,000
Actual Rent (per month)	₹21,000
Municipal tax paid during the year	₹20,000

The tenant vacated the property on 31.10.2024 and thereafter the property was let out for ₹25,000 p.m. Y could not realize the rent for the month of Sept 2024 and Oct 2024 due to the death of the earlier tenant.

(a) Compute income u/h house property for AY 2025-26.

(b) What will be your answer if the unrealized rent is for one month instead of two months?

ILLUSTRATION 36

Mrs Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. Municipal Value of the property is ₹7,50,000, Fair Rent of the property is ₹6,30,000 and Standard Rent is ₹7,20,000 per annum. The property was let out for ₹ 75,000 p.m. for the period from April 2024 to December 2024.



Thereafter, the tenant vacated the property and Mrs Disha Khanna used the house for self-occupation. Rent for the months of November and December 2024 could not be realized from the tenant. The tenancy was 28onafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 35,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from “House Property” for AY 2025-26.

ILLUSTRATION 37

Mr Ramesh constructed a big house [construction completed in PY 2008-09] with 3 independent units. Unit-1 [50% of floor area] is let out for residential purpose at monthly rent of ₹ 15,000. A sum of ₹ 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr Ramesh is occupied by the tenant. Unit-1 remains vacant for 2 months when it is not put to any use. Unit-2 [25% of the floor area] is used by Mr Ramesh for the purpose of his business, while Unit-3 [the remaining 25%] is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation	₹1,88,000
Fair rent	₹ 2,48,000
Standard rent under the Rent Control Act	₹ 2,28,000
Municipal taxes	₹20,000
Repairs	₹5,000

Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent ₹6,000 and fire insurance premium paid - ₹ 60,000.

Income of Ramesh from the business is ₹ 1,40,000 [without debiting house rent and other incidental expenditure].

Determine the taxable income of Mr Ramesh for AY 2025-26 if he does not opt to be taxed u/s 115BAC.

ILLUSTRATION 38

P&Q are the two equal co-owners of the property situated in Delhi, which has 2 units of identical size. Both the units are let out to one tenant at a combined rent of ₹ 50,000 p.m. The house remained vacant for 1 month. The municipal valuation of the house is ₹40,000 p.m. The other particulars of the house property are as under:



- Municipal taxes paid - ₹ 80,000 p.a.
- Insurance premium paid - ₹ 10,000 p.a.
- Interest on money borrowed (for construction of the house) - ₹ 6,00,000 p.a.

Compute the income u/h house property for each co-owner.

ILLUSTRATION 39

R, S and T are 3 equal co-owners of the property situated in Delhi, which has 3 units of identical size. All 3 units are let out to one tenant at a combined rent of ₹ 1,20,000 p.m. The house remained vacant for 3 months. The municipal valuation of the house is ₹1,00,000 p.m. The other particulars of the house property are as under:

Particulars	Amount (₹)
Municipal taxes paid by tenant	1,20,000 p.a.
Rent collection charges	6,000 p.m.
Interest on money borrowed (for repair of the house)	6,00,000 p.a.

Compute the income u/h house property for each co-owner.

ILLUSTRATION 40

Mr Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹27,00,000 and standard rent of ₹29,80,000. Market rent of similar property is ₹30,00,000. Annual rent was ₹40,00,000 which includes ₹10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is ₹ 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

- Municipal taxes of ₹ 4,00,000 for FY 2024-25 (10% rebate obtained for payment before due date). Arrears of municipal tax of FY 2023-24 paid during the year of ₹ 1,40,000 which includes interest on arrears of ₹ 25,000.
- Lift maintenance expenses of ₹2,40,000 which includes a payment of ₹30,000 which is made in cash.
- Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.

Compute the total income of Mr Ravi for AY 2025-26 assuming that Mr Ravi has not opted for the provisions u/s 115BAC.



SOLUTIONS

Chargeability u/s 22:

Answer 17

- (i) House Property
- (ii) Capital Gains
- (iii) Other Sources
- (iv) House Property
- (v) Business/Profession
- (vi) Business/Profession
- (vii) Business/Profession
- (viii) Other Sources

Answer 18

Computation Of GAV Of Each House Owned By Mr Vaibhav [Figures In ₹]:

	Particulars	House-I	House-II	House-III	House-IV	House-V
(i)	Municipal Value	1,20,000	2,40,000	1,10,000	90,000	75,000
(ii)	Fair Rent	1,50,000	2,40,000	1,14,000	84,000	80,000
(iii)	Higher of (i) & (ii)	1,50,000	2,40,000	1,14,000	90,000	80,000
(iv)	Standard Rent	1,08,000	NA	1,44,000	NA	78,000
(v)	Expected Rent [Lower of (iii) & (iv)]	1,08,000	2,40,000	1,14,000	90,000	78,000
(vi)	Actual Rent Received/Receivable	1,80,000	2,10,000	1,20,000	1,08,000	72,000
	GAV [Higher of (v) & (vi)]	1,80,000	2,40,000	1,20,000	1,08,000	78,000

Answer 19

Computation Of Income From House Property For AY 2025-26:



Particulars	Amount (₹)
Gross Annual Value (GAV)	2,40,000
• Step 1: Compute Expected Rent ('ER'). ER = Higher of MV of ₹ 2,40,000 p.a. and FR of ₹ 1,92,000 p.a.; ER = ₹ 2,40,000	
• Step 2: Compute actual rent received/receivable = ₹ 18,000 × 12 = ₹ 2,16,000	
• Step 3: GAV is higher of ER and actual rent received/receivable. GAV = ₹ 2,40,000	
Less: Municipal taxes paid by the owner during the PY {2,000 × 12}	(24,000)
Net Annual Value (NAV)	2,16,000
Less: Deduction u/s 24(a) {30% of NAV}	(64,800)
Less: Deduction u/s 24(b) {Interest on Loan}	(80,000)
Income from House Property	71,200

Answer 20**Computation Of Income From House Property For AY 2025-26:**

Particulars	Amount (₹)
Gross Annual Value (GAV)	1,80,000
• Step 1: Compute Expected Rent ('ER'). ER = Higher of MV of ₹ 1,20,000 p.a. and FR of ₹ 1,20,000 p.a.; ER = ₹ 1,20,000	
• Step 2: Compute actual rent received/receivable = ₹ 15,000 × 12 = ₹ 1,80,000	
• Step 3: GAV is higher of ER and actual rent received/receivable. GAV = ₹ 1,80,000	
Less: Municipal taxes paid by the owner during the PY {₹ 15,000 × 12}	(1,80,000)
Net Annual Value (NAV)	NIL
Less: Deduction u/s 24(a) {30% of NAV}	{0}
Less: Deduction u/s 24(b) {Interest on Loan}	(60,000)
Income from House Property	(60,000)

House Property Partly Let Out & Partly Vacant – Computation of Income [Sec 23(1)]

Answer 21

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
Step I – Computation of Expected Rent:	
• Municipal Valuation $[18,000 \times 12]$	2,16,000
• Fair Rent $[₹16,000 \times 12]$	1,92,000
Expected Rent is higher of municipal valuation and fair rent	2,16,000
Step II – Computation of Gross Rent R/R & Effective Rent R/R:	
• Gross Rent R/R: Actual Rent R/R for the whole year without vacancy $[₹ 20,000 \times 12] = ₹ 2,40,000$	
• Effective Rent R/R: Actual Rent R/R after considering vacancy $[20,000 \times 10] = ₹ 2,00,000$	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value [GAV]	2,00,000

Answer 22

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
Step I – Computation of Expected Rent:	5,40,000
Step II – Computation of Gross Rent R/R & Effective Rent R/R:	
• Gross Rent R/R: Actual Rent R/R for the whole year without vacancy $[65,000 \times 12] = ₹ 7,80,000$	
• Effective Rent R/R: Actual Rent R/R after considering vacancy $[₹65,000 \times 7] = ₹ 4,55,000$	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV	
Gross Annual Value [GAV]	4,55,000

Answer 23

Computation Of Income From House Property For AY 2025-26:



Particulars	Amount (₹)
Step I – Computation of Expected Rent:	
Expected Rent = Higher of FRV of ₹ 4,80,000 & Municipal Valuation of ₹ 6,00,000; ER = ₹ 6,00,000	
Step II – Computation of Gross Rent R/R & Effective Rent R/R:	
- Gross Rent R/R: Actual Rent R/R for the whole year without vacancy $[770,000 \times 12] = ₹ 8,40,000$ - Effective Rent R/R: Actual Rent R/R after considering vacancy $[₹ 70,000 \times 9] = ₹ 6,30,000$	
If the house was let out for full 12 months, Gross Rent R/R would have been more than expected rent. Therefore, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value [GAV]	6,30,000

Answer 24

Computation of Income From House Property:

Particulars	House 1	House 2	House 3
Step I – Computation of Expected Rent			
ER is higher of MV and FRV but restricted to standard rent	1,20,000	1,80,000	2,40,000
Step II – Computation of Gross Rent R/R & Effective Rent R/R:			
• Gross Rent R/R: Actual Rent R/R for the whole year without vacancy	1,44,000	2,10,000	2,52,000
• Effective Rent R/R: Actual Rent R/R after considering vacancy	1,44,000	1,92,500	1,26,000
In all the cases, Gross Rent R/R is higher than Expected Rent. Therefore, the assesses will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.			
GAV	1,44,000	1,92,500	1,26,000
Less: Municipal taxes paid during the year	[20,000]	[80,000]	[30,000]
Net Annual Value	1,24,000	1,12,500	96,000
Less: Deduction u/s 24(a) {30% of NAV}	[37,200]	[33,750]	[28,800]
Income u/h House Property	86,800	78,750	67,200



Answer 25

As per Section 23(2), NAV of a self-occupied house property shall be Nil.

Answer 26

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Step I – Computation of Expected Rent: Municipal Valuation (₹ 65,000 × 12]	7,80,000	
Step II – Actual Rent R/R: (₹ 75,000 × 7]	5,25,000	
Gross Annual Value [GAV] {Higher of Expected Rent and Actual Rent Received/Receivable}		7,80,000
Less: Municipal taxes		(1,00,000]
Net Annual Value [NAV]		6,80,000
Less: Deduction u/s 24(a) {30% of NAV}		(2,04,000]
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL
Income from House Property		4,76,000

Answer 27

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Step I – Computation of Expected Rent: Municipal valuation (₹ 65,000 × 12]	7,80,000	
Step II – Actual Rent R/R: (₹ 1,00,000 × 4]	4,00,000	
Gross Annual Value [GAV] {Higher of Expected Rent and Actual Rent Received/Receivable }		7,80,000
Less: Municipal taxes		NIL
Net Annual Value [NAV]		7,80,000
Less: Deduction u/s 24(a) {30% of NAV}		(2,34,000]
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL



Income from House Property	5,46,000

Answer 28

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Step I – Computation of Expected Rent:		
Higher of Municipal Valuation of ₹ 3,84,000 and Fair Rent of ₹ 4,20,000	4,20,000	
Step II – Actual Rent R/R: (₹ 75,000 × 7)	5,25,000	
Gross Annual Value (GAV) (Higher of Expected Rent and		5,25,000
Less: Municipal taxes		NIL
Net Annual Value (NAV)		5,25,000
Less: Deduction u/s 24(a) {30% of NAV}		(1,57,500)
Less: Deduction u/s 24(b) {Interest on borrowed capital}		NIL
Income from House Property		3,67,500

Answer 29

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
BUILDING A (1 st) SELF-OCCUPIED UNIT	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital}	(30,000)
Income/(Loss) From 'Building A'	(30,000)
BUILDING B (2 nd) SELF-OCCUPIED UNIT	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil



Less: Deduction u/s 24(b) {Interest on borrowed capital} {No deduction would be available because loan has been taken for repair purposes in respect of both the houses, which implies that a maximum deduction of ₹ 30,000 can be claimed u/s 24(b) for both the houses}	Nil
Income/[Loss] From 'Building B'	Nil
Net Loss From Both Buildings	[30,000]

Answer 30

Particulars	Amount (₹)
DELHI HOUSE (1st SELF-OCCUPIED UNIT)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital} {Deduction available for ₹ 50,000 assuming that all other conditions are fulfilled}	[50,000]
Income/[Loss] From 'Delhi House'	[50,000]
BANGALORE HOUSE (2nd SELF-OCCUPIED UNIT)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Interest on borrowed capital} {Since the loan has been taken for construction purposes in respect of both the houses, maximum deduction of ₹ 2,00,000 can be claimed u/s 24(b) for both the houses assuming that all other conditions are fulfilled}	[1,50,000]
Income/[Loss] From 'Bangalore House'	[1,50,000]
Income/[Loss] From Both Houses	[2,00,000]

Answer 31

Computation Of Income From House Property For AY 2025-26:



Particulars	Amount (₹)
Gross Annual Value [GAV] {Actual rent assumed to be GAV in the absence of any other information}	2,40,000
Less: Municipal taxes	[30,000]
Net Annual Value [NAV]	2,10,000
Less: Deduction u/s 24(a) {30% of NAV}	(63,000)
Less: Deduction u/s 24(b) {Refer Working Note}	(2,64,000)
Income from House Property	(1,17,000)

Working Note (Interest On Borrowed Capital):

• Interest for the current year [10% of ₹ 22 lakhs]	₹ 2,20,000
• $1/5^{\text{th}}$ of pre-construction interest [Interest for the period from 1.4.2019 to 31.3.2020, ie 1 year] $\{1/5^{\text{th}}$ of $\{₹22,00,000 \times 10\%\}$	₹ 44,000
Interest Deduction Allowable u/s 24	₹ 2,64,000

Answer 32

Particulars	Amount (₹)
Annual value of one house used for self-occupation u/s 23(2)	Nil
Less: Deduction u/s 24(b) – Interest on borrowed capital	2,00,000
• Interest on loan was taken for construction of house on or after 01.04.1999 and same was completed within 5 years, therefore maximum deduction permissible u/s 24(b) is ₹2,00,000.	
• In this case, the total interest is ₹ 2,20,000 + ₹44,000 [Being $1/5^{\text{th}}$ of ₹2,20,000] = ₹2,64,000. However, the interest deduction is restricted to ₹ 2,00,000.	
Loss from House Property	[2,00,000]

Answer 33

- Interest for the year [1.4.2024 to 31.3.2025] = 10% of ₹5,00,000 = ₹50,000



- Pre-construction interest = 10% of ₹ 5,00,000 for 6 months [from 1.10.2023 to 31.3.2024] = ₹25,000. Pre-construction interest to be allowed in 5 equal annual instalments of ₹5,000 each from the year of completion of construction [ie, py 2024-25 in the present case].
- Therefore, total interest deduction u/s24 [b] for PY 2024 – 25 = ₹(50,000 + 5,000) = ₹55,000.

Answer 34

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
Gross Annual Value [GAV]	2,16,000
• Step 1: Compute Expected Rent ['ER']. ER = Higher of MV of ₹ 2,16,000 p.a. and FR of ₹ 1,92,000 p.a., ER = ₹2,16,000	
• Step 2: Compute Actual Rent R/R (20,000 × 10 = ₹2,00,000)	
• Step 3: GAV is higher of ER and Actual Rent R/R. GAV = ₹2,16,000	
Less: Municipal taxes paid by the owner during the PY	(2,000)
Net Annual Value [NAV]	2,14,000
Less: Deduction u/s 24(a) {30% of NAV}	(64,200)
Less: Deduction u/s 24(b) {Interest on loan taken for repair}	(80,000)
Income from House Property	69,800

Answer 35

[a] Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
Gross Annual Value [GAV]	2,40,000
• Step 1: Compute Expected Rent ['ER']. ER = Higher of MV of ₹ 2,00,000 p.a. and FR of ₹ 2,40,000 p.a., ER = ₹2,40,000	
• Step 2: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable less unrealized rent as per Rule 4 = ₹2,72,000 - ₹ 42,000 = ₹ 2,30,000	
• Step 3: GAV is higher of Step 1 & Step 2. GAV = ₹ 2,40,000	
Less: Municipal taxes paid by the owner	(20,000)



Net Annual Value	2,20,000
Less: Deduction u/s 24(a) {30% of NAV}	(66,000)
Less: Deduction u/s 24(b)	Nil
Income from House Property	1,54,000

[b] Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
Gross Annual Value [GAV]	2,51,000
- Step 1: Compute Expected Rent ['ER']. ER = Higher of MV of ₹ 2,00,000 p.a. and FR of ₹ 2,40,000 p.a., ER = ₹ 2,40,000 - Step 2: Compute Actual Rent Received/Receivable. Actual Rent Received/Receivable less unrealized rent as per Rule 4 = ₹ 2,72,000 - ₹ 21,000 = ₹ 2,51,000 - Step 3: GAV is higher of higher of Step 1 & Step 2. GAV - ₹ 2,51,000	
Less: Municipal taxes paid by the owner	[20,000]
Net Annual Value	2,31,000
Less: Deduction u/s 24(a) {30% of NAV}	[69,300]
Less: Deduction u/s 24(b)	Nil
Income from House Property	1,61,700

Answer 36

Computation Of Income From House Property Of Mrs Disha Khanna For AY 2025-26:

Particulars	Amount (₹)
Gross Annual Value {Refer Working Note 1}	7,20,000
Less: Municipal taxes paid during by Mrs Disha Khanna during the year {12% of ₹7.5 L}	(90,000)
Net Annual Value [NAV]	6,30,000
Less: Deduction u/s 24(a) {Standard Deduction equivalent to 30% of NAV}	(1,89,000)



Less: Deduction u/s 24(b) {Interest on loan borrowed towards repairs of the property}	(35,000)
Income From House Property	4,06,000

Working Note 1 – Computation Of GAV:

- In the present case, the house is partly self-occupied and partly let-out. GAV shall be computed as per the provisions of Section 23(3) and accordingly, higher of expected rent [full 12 months] & actual rent R/R shall be taken as GAV.

- Computation of Expected Rent:

Step 1: Higher of Fair Rent [6,30,000] & Municipal Rent [₹7,50,000] = ₹7,50,000

> Step 2: Expected Rent = Lower of Step 1 [₹ 7,50,000] & Standard Rent [₹7,20,000] = ₹ 7,20,000

- Computation of Actual Rent R/R: Deduction of unrealised rent would be available only when all the following four conditions given under Rule 4 of the Income Tax Rules are satisfied:

> the tenancy is a bona fide tenancy:

> the defaulting tenant is not in occupation of any other property of the assessee:

the defaulting tenant has vacated, or steps have been taken by the assessee to compel the tenant to vacate the property; and

> the assessee has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.

In the present case, the defaulting tenant continues to occupy another property of the assessee. Therefore, unrealised rent of 2 months cannot be deducted from the actual rent R/R. Actual Rent R/R = ₹75,000 × 9 months = ₹6,75,000

- GAV = Higher of ER [₹7,20,000] and Actual Rent R/R [₹6,75,000] = ₹7,20,000

Answer 37

Computation Of Taxable Income Of Mr Ramesh For AY 2025-26:

Particulars	Amount [₹]	Amount [₹]
Income From House Property:		



A. Unit-1 {50% Of Floor Area-Let Out}:		
Gross Annual Value {Higher of the following two figures}	1,47,000	
• Expected Rent ₹ 1,14,000 {Higher of Municipal Value of ₹ 94,000 p.a. and Fair Rent of ₹ 1,24,000 p.a., but restricted to Standard Rent of ₹ 1,14,000 p.a.}		
• Actual rent ₹ 1,47,000 {{₹ 15,000 x 10} less unrealized rent of ₹ 3,000 since the conditions laid down under Rule 4 of Income Tax Rules, 1962, are satisfied}		
Less: Municipal taxes {50% of ₹20,000}	(10,000)	
Net Annual Value	1,37,000	
Less: Deduction u/s 24(a) {30% of Net Annual Value}	. (41,100)	
Less: Deduction u/s 24(b) {Interest on loan, ie 50% of ₹ 60,000}	(30,000)	
Income From Unit 1		65,900
B. Unit-3 {25% Of Floor Area – Self Occupied}:		
Net Annual Value	-	
Less: Deduction u/s 24(b) {Interest on loan, ie 20% of ₹ 60,000}	(15,000)	
Income From Unit 3		(15,000)
Profits And Gains From Business Or Profession:		
Business Income {Before deducting expenditure on Unit-2, ie 25% floor area used for business purposes}	1,40,000	
Less: Expenditure in respect of Unit-2		
• Municipal taxes {25% of ₹ 20,000}	(5,000)	
• Repairs {25% of ₹ 5,000}	(1,250)	
• Interest on loan {25% of ₹ 60,000}	(15,000)	
• Ground rent {25% of ₹ 6,000}	(1,500)	
• Fire Insurance premium {25% of ₹ 60,000}	(15,000)	
Net P&BP Income		1,02,250
Taxable Income		1,53,150

Answer 38

Computation Of Income From House Property For AY 2025-26:



9643036663 (only WhatsApp)

Particulars	Amount (₹)
Step I – Computation of Expected Rent: Expected Rent – Municipal Valuation = ₹ 4,80,000	
Step II – Computation of Gross Rent R/R < 5% Effective Rent R/R:	
• Gross Rent R/R: Actual Rent R/R for the whole year without vacancy (₹ 50,000 x 12) = ₹ 6,00,000	
• Effective Rent R/R: Actual Rent R/R after considering vacancy (₹ 50,000 x 11) = ₹ 5,50,000	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	5,50,000
Less: Municipal taxes paid by the owner during the PY	(80,000)
Net Annual Value (NAV)	4,70,000
Less: Deduction u/s 24(a) {30% of NAV}	(1,41,000)
Less: Deduction u/s 24(b) {Interest on Loan}	(6,00,000)
Loss from House Property	(2,71,000)

Total loss from the house property comes out to ₹ 2,71,000 which would be divided equally between P & Q (P's share – Loss of ₹ 1,35,500; Q's share – Loss of ₹ 1,35,500)

Answer 39

Computation Of Income From House Property For AY 2025-26:

Particulars	Amount (₹)
Step I – Computation of Expected Rent: Expected Rent = Municipal Valuation = ₹ 12,00,000	
Step II – Computation of Gross Rent R/R A Effective Rent R/R:	
• Gross Rent R/R: Actual Rent R/R for the whole year without vacancy (₹ 1,20,000 x 12) = ₹ 14,40,000	
• Effective Rent R/R: Actual Rent R/R after considering vacancy (₹ 1,20,000 x 9) = ₹ 10,80,000	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	10,80,000
Less: Municipal taxes paid by the owner during the PY	NIL



Net Annual Value (NAV)	10,80,000
Less: Deduction u/s 24(a) {30% of NAV}	[3,24,000]
Less: Deduction u/s 24(b) {Interest on Loan}	[6,00,000]
Income from House Property	1,56,000

Total income from the house property comes out to ₹ 1,56,000 which would be divided equally amongst R, S & T [R's share - ₹ 52,000; S's share - ₹ 52,000; T's share - ₹ 52,000]

Answer 40

Computation Of Total Income Of Mr Ravi For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income From House Property:		
Gross Annual Value	29,40,000	
• Expected Rent ₹ 29,80,000 {Higher of Municipal Value of ₹ 27,00,000 p.a. and Fair Rent of ₹ 30,00,000 p.a., but restricted to Standard Rent of ₹ 29,80,000 p.a.}		
• Gross Rent R/R ₹ 30,00,000		
• Effective Rent R/R ₹ 29,40,000 {₹ 30,00,000, being annual rent for house property less rent of ₹ 60,000 [₹ 2,40,000 x 4/12 x 3/4] due to vacancy}		
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of ₹ 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent.		
Less: Municipal taxes actually paid during the year {₹3,60,000 [4,00,000 - rebate of 40,000]}	[4,75,000]	
(+) ₹ 1,15,000 [1,40,000 arrears - 25,000 interest]}		
Net Annual Value	24,65,000	
Less: Deduction u/s 24(a) {30% of Net Annual Value}	[7,39,500]	
Less: Deduction u/s 24(b)	Nil	
Income From House Property		17,25,500



Income From Other Sources/Profits And Gains From Business Or Profession:		
Rent for amenities	10,00,000	
Less: Loss due to vacancy [$\text{₹ } 2,40,000 \times 4/12 \times 1/4$]	[20,000]	
Actual Rent Received For Amenities	9,80,000	
Less: Lift maintenance expenses excluding cash payment of ₹ 30,000 [$\text{₹ } 2,40,000 - \text{₹ } 30,000$]	[2,10,000]	
Less: Salary to staff [$\text{₹ } 88,000 \times 1/4$, being the proportion pertaining to amenities]	[22,000]	
Net Income		7,48,000
Total Income		24,73,500





CHAPTER - 10

PROFITS AND GAINS OF BUSINESS OR PROFESSION

ILLUSTRATION 1 (easy)

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	
(1)	Opening balance of plant and machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2023-24)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2024	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2024	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2025	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2025-26, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

SOLUTION

Computation of depreciation and additional depreciation for A.Y. 2025-26

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@15% on ₹ 50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@7.5% [50% of 15%, since put to use for less than 180 days] on ₹ 8,00,000	60,000	-
@20% [50% of 40%, since put to use for less than 180 days] on ₹ 3,00,000	-	60,000
Additional Depreciation		



@20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total depreciation	12,90,000	60,000

Working Notes:**1. Computation of written down value of Plant & Machinery**

Particulars	Plant & Machinery (₹)	Computer (₹)
Opening balance as on 1.4.2024	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2024	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2024	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2025	58,00,000	3,00,000

2. Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2024)]	50,00,000	
Plant and machinery put to use for < 180 days	8,00,000	-
Computers put to use for < 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.



Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2024 and computer acquired and installed on 02.01.2025, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

2. As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2026-27.
3. As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

4. Actual Cost [Section 43(1)]

The expression “actual cost” means the actual cost of the asset to the assessee as reduced by that portion of the cost thereof, if any, as has been met directly or indirectly by any other person or authority.

However, where an assessee incurs any expenditure for acquisition of any asset or part thereof in respect of which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic mode, exceeds ₹ 10,000, such expenditure shall not form part of actual cost of such asset [Second proviso to section 43(1)].

The prescribed electronic modes include credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay [CBDT Notification No. 8/2020 dated 29.01.2020].

ILLUSTRATION 2 (easy)

A car purchased by Dr. Soman on 10.08.2021 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2024 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the A.Y. 2025-26 assuming the rate of depreciation to be 15%.



SOLUTION

As per section 43(1), the expression “actual cost” would mean the actual cost of asset to the assessee. The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the A.Y.2025-26 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

ILLUSTRATION 3 (average)

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2024-25 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2025-26. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books [other than annual publications are of ₹ 12,000]	1 Apr., 24	1 Apr., 24	13,000
5.	Office furniture [Acquired from a practicing C.A.]	1 Apr., 24	1 Apr., 24	3,00,000
6.	Laptop	26 Sep., 24	8 Oct., 24	43,000

SOLUTION

Computation of depreciation allowable for A.Y.2025-26

Asset	Rate	Depreciation (₹)
Block 1 Furniture [See working note below]	10%	30,000



Block 2 Plant [Computer including computer software, Computer UPS, Laptop, Printers and Books] [See working note below]	40%	34,500
Total depreciation allowable		64,500

Working Note:**Computation of depreciation**

Block of Assets	₹
Block 1: Furniture – [Rate of depreciation - 10%]	
Put to use for more than 180 days [₹ 3,00,000@10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	
a) Computer including computer software [put to use for more than 180 days] [₹ 35,000 @ 40%]	14,000
b) Computer UPS [put to use for less than 180 days] [₹ 8,500 @20%] [See note below]	1,700
c) Computer Printer [put to use for more than 180 days] [₹ 12,500 @40%]	5,000
d) Laptop [put to use for less than 180 days] [₹ 43,000 @20%] [See note below]	8,600
e) Books [being annual publications or other than annual publications] [Put to use for more than 180 days] [₹ 13,000 @40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2024-25 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

ILLUSTRATION 4 (average)

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2024. The manufacturing unit was set up on 1.5.2024. He commenced his manufacturing operations on 1.6.2024. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.



Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2025-26. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of depreciation allowable for the A.Y. 2025-26 in the hands of Mr. Gamma

Particulars		₹ in crore	
Total cost of plant and machinery		120.00	15.75
Less: Used for Scientific Research (Note 1)		15.00	
		105.00	
Normal Depreciation at 15% on ₹ 105 crore			15.75
Additional Depreciation:			
Cost of plant and machinery		120.00	17.00
Less: Second-hand plant and machinery (Note 2)	20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	35.00	
Additional Depreciation at 20%		85.00	17.00
Depreciation allowable for A.Y.2025-26			32.75

Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee’s business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, –



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- I. any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- II. any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of

- I. Second hand plant and machinery;
- II. New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

ILLUSTRATION 5 (easy)

Mr. A, furnishes the following particulars for the P.Y.2024-25. Compute the deduction allowable under section 35 for A.Y.2025-26, while computing his income under the head "Profits and gains of business or profession", if,

- I. he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
	a. Revenue expenditure on scientific research	3,00,000
	b. Capital expenditure [including cost of acquisition of land ₹ 5,00,000] on scientific research	7,50,000

SOLUTION

1. If Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Computation of deduction under section 35 for the A.Y.2025-26



Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(ia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of Acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable under section 35				13,00,000

ILLUSTRATION 6 (average)

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2024. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2024 to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2024-25, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2025-26 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2025-26 is ₹ 16 lakhs, ₹ 14 lakhs



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and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

SOLUTION

Computation of profits and gains of business or profession for A.Y.2025-26

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

Particulars		Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)			
	Less: Deduction under section 35AD	16	14	30
(B)	Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
	Capital expenditure incurred during the P.Y. 2024-25	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD 100% of capital expenditure (food grains/ sugar)	50	35	85
		50	35	85



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(F)	Total deduction u/s 35AD for A.Y.2025-26			
	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	[34]	[21]	[55]

Notes:

- I. Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- II. However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- III. Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2024-25.
- IV. Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

ILLUSTRATION 7 (average)

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2024. He incurred capital expenditure of ₹ 50 lakh during the period January, 2024 to March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2025-26, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the



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A.Y.2025-26 is ₹ 25 lakhs. Assume that he also has another xisting business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y. 2025-26. Also, assume that payments for capital expenditure were made by net banking.

SOLUTION

Computation of profits and gains of business or profession for A.Y. 2025-26

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2024-25 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024	50 lakh
Total deduction under section 35AD for A.Y.2025-26	100 lakh
Loss from the specified business of new hotel in Madurai	[75 lakh]
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

8. Other conditions contained under section 35AD

	Particulars	Condition
1.	Audit of accounts	The deduction shall be allowed to the assessee only if the accounts of the assessee for the relevant P.Y. have been audited by a chartered accountant and the assessee furnishes the audit report in the prescribed form, duly signed and verified by such accountant.



2.	Asset to be used for specified business for eight years	Section 35AD(7A) provides that any asset in respect of which a deduction is claimed and allowed u/s 35AD shall be used only for the specified business for a period of eight years beginning with the previous year in which such asset is acquired or constructed.
3.	Asset demolished, destroyed, discarded or transferred for which a deduction has been allowed	If any asset on which a deduction u/s 35AD has been claimed and allowed, is demolished, destroyed, discarded or transferred, the sum received or receivable for the same is chargeable to tax u/s 28(vii). This does not take into account a case where asset on which deduction u/s 35AD has been claimed is used for any purpose other than the specified business by way of a mode other than that specified above.
4.	Asset used for any other business other than specified business during 8 years	As per section 35AD(7B), if asset is used for any purpose other than the specified business during 8 years beginning with the previous year in which such asset is acquired, the total amount of deduction so claimed and allowed in any previous year(s) in respect of such asset, as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction had been allowed u/s 35AD, shall be deemed to be income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which the asset is so used. In such a case, as per the proviso to Explanation 13 to Section 43(1), the actual cost of such asset for the assessee shall be the actual cost as reduced by amount of depreciation would have been allowable had the asset been used for the purpose of business since the date of its acquisition.

ILLUSTRATION 8. (average)

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2023 and it claimed deduction of ₹ 100 lakhs incurred on purchase of two buildings for ₹ 50 lakhs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2024-25. However, in February, 2025, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

SOLUTION

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Since the capital asset, in respect of which deduction of ₹ 50 lakhs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2024-25, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2025-26

Particulars	
Deduction allowed u/s 35AD for A.Y.2024-25	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of ₹ 50 lakhs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation u/s 32 on the building in Unit B for A.Y.2025-26. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of ₹ 50 lakhs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

ILLUSTRATION 9 (easy)

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2025 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2024-25, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Amount in ₹
Salary to its employee, Mr. X [credited and paid in March, 2025]	12,00,000
Directors' remuneration [credited in March, 2025 and paid in April, 2025]	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2025 at the time of payment and remitted the same in July, 2025?

SOLUTION

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).



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Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2024-25, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2025-26 is as follows –

Particulars		Amount paid in ₹	Disallowance u/s 40(a)(ia) @30%
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2025-26 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2026-27.

ILLUSTRATION 10 (average)

During the financial year 2024-25, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual [whose turnover during the year ended 31.3.2024 was ₹ 99 lakhs]:

- I. Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- II. ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- III. Commission of ₹ 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2024 without deduction of tax at source

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

SOLUTION

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.



- i. The obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding P.Y., i.e., P.Y.2023-24 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.
- ii. The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

- iii. The obligation to deduct tax at source under section 194H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2023-24 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

ILLUSTRATION 11 (easy)

A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2024-25, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakhs. What is the remuneration allowable as deduction?

SOLUTION

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000
On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of ₹ 70,000 [i.e., ₹ 8,50,000 – ₹ 7,80,000] would be disallowed as per section 40(b)(v).



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ILLUSTRATION 12 (average)

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

- 1. Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- 2. Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000
- 3. Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

- 1. Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- 2. Allowable working partner salary for the A.Y. 2025-26 as per section 40(b).

SOLUTION

i. As per Explanation 3 to section 40(b), “book profit” shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.
In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		17,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 ×12%)	60,000	2,10,000
Book Profit		14,90,000

ii. Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 9,60,000.
As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –



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On the first ₹ 6,00,000 of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 14,90,000 - ₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the A.Y.2025-26 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

ILLUSTRATION 13 (average)

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

SOLUTION

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution [20% of basic salary i.e., 20% of ₹ 10 lakh]	2,00,000
Less: Permissible deduction under section 36(1)(iva) [14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,96,000]	1,96,000
Excess contribution disallowed under section 40A(9)	4,000



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ILLUSTRATION 14 [difficult]

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

[i]	Andhra Pradesh State Financial Corporation (P.Y. 2023-24 & 2024-25)	15,00,000
[ii]	Indian Bank (P.Y. 2024-25)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2024-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2025, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

SOLUTION

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2025-26 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable [₹]



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APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

ILLUSTRATION 15 (easy)

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	
Financial year 2021-22	1,15,000
Financial year 2022-23	1,80,000
Financial year 2023-24	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2025-26 under section 44AA of Income-tax Act, 1961?

SOLUTION

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette [in addition to the professions already specified therein], to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- i. if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or
- ii. if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2021-22, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.



ILLUSTRATION 16 (average)

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2025. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D “Profits and gains from business or Profession” of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- i. Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?
- ii. If so, determine his income from retail trade as per the applicable presumptive provision.
- iii. In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- iv. What is the due date for filing his return of income under both the options?

SOLUTION

- i. Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover $(14,00,000/2,98,50,000 \times 100)$ and his total turnover for the F.Y.2024-25 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- ii. His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- iii. Mr. Praveen had declared profit for the previous year 2023-24 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2024-25 relevant to A.Y.2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- iv. In case he declares presumptive income under section 44AD, the due date would be 31st July, 2025. In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2025.



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ILLUSTRATION 17 {average}

Mr. X commenced the business of operating goods vehicles on 1.4.2024. He purchased the following vehicles during the PY.2024-25. Compute his income under section 44AE for A.Y.2025-26.

	Gross Vehicle Weight [in kilograms]	Number	Date of purchase
[1]	7,000	2	10.04.2024
[2]	6,500	1	15.03.2025
[3]	10,000	3	16.07.2024
[4]	11,000	1	02.01.2025
[5]	15,000	2	29.08.2024
[6]	15,000	1	23.02.2025

Would your answer change if the goods vehicles purchased in April, 2024 were put to use only in July, 2024?

SOLUTION

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2024-25, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [[1] × [3]]
For Heavy goods vehicle			
2	29.08.2024	8	16
1	23.02.2025	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27



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1	02.1.2025	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2025-26 would be –
₹ 6,82,500, i.e., 55 × ₹ 7,500, being for other than heavy goods vehicle + 18 × ₹ 1,000 × 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2024, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

ILLUSTRATION 18 (average)

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations [relating to plantations and estates owned by her] during the year ended 31-3-2025:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2025-26.

SOLUTION

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2025-26

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000



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(iii)	Sale of coffee grown, cured, roasted and grounded outside India. [See Note 1 below]	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India [See Note 2 below]	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

1. Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
2. Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).



TEST YOUR KNOWLEDGE

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

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

Additional information:



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- ✓ All assets were purchased by A/c payee cheque
- ✓ All assets were put to use immediately.
- ✓ New machinery purchased on 1-12-2024 and computer have been installed in the office.
- ✓ During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- ✓ Depreciation rate for machinery may be taken as 15%.
- ✓ The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31- 3-2025 if –

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

20. Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2025-26, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lakhs)
(i)	WDV of block as on 31.3.2024 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2023-24	7.50
(iii)	New machinery purchased on 12-10-2024	10.00
(iv)	Machinery imported from Colombo on 12-4-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2024	2.00

All assets were purchased by A/c payee cheque. (average)

21. Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) –



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- i. Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000
- ii. Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- iii. Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2023-24 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- iv. Commodities transaction tax paid ₹ 20,000 on sale of bullion

(average)

22. Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- i. For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- ii. Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- iii. It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
- iv. The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2024 is a deductible expenditure under section 36.
- v. Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- vi. An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

(average)

23. Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2025-26:

- i. Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.



- ii. Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- iii. Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- iv. Payment of ₹ 50,000 by using credit card for fire insurance.
- v. Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- vi. Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

(difficult)

24. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- a) Payment made in respect of a business expenditure incurred on 16th February, 2025 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).
- b)
 - i. It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
 - ii. Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a nonresident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

(average)

25. Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2025:

Trading and Profit and Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400



To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- i. It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	9,000
Closing stock	18,000

- i. Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000
- ii. The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.
- iii. The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
- The opening balance of plant and machinery (i.e., the written down value as on 31.3.2024 minus depreciation for P.Y. 2023-24) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for ₹ 70,000. Two old plants were sold on 1.10.2024 for ₹ 50,000.
- iv. Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2025.
- v. Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

(average)

26. Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2024, he owns 10 trucks [out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each]. On 2nd May, 2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2024. This new vehicle could, however, be put to use only on 15th June, 2024.

Compute the total income of Mr. Sukhvinder for the A.Y. 2025-26, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000
		(average)

27. Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000



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To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

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

- i. Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- ii. The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- iii. A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- iv. Bank term loan interest actually paid upto 31.03.2025 was ₹ 20,000 and the balance was paid in November 2025.
- v. Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- vi. Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	
WDV as on 31.03.2024 minus Depreciation for P.Y. 2023-24	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2025-26 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income. **(difficult)**



28. Mr. Tenzingh is engaged in composite business of growing and curing [further processing] coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2025 are given below:

Particulars	₹
Opening balance of car [only asset in the block] as on 1.4.2024	3,00,000
[i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24]	
Opening balance of machinery as on 1.4.2024 [i.e., WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24]	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2025-26 (difficult)

ANSWERS

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

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
Written down value [as on 31.3.2024]	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-



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New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 31.12.2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	43.25	4.00

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
i.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	▪ WDV of plant and machinery (₹ 25.25 lakhs x 15%)	3.79	-
	▪ New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 15%)	1.50	-
	(A)	5.29	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (₹ 10 lakhs x 20% x 50%)	1.00	-
		3.00	



II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any <u>Normal Depreciation</u> New machinery purchased on 1.12.2024 [₹ 8 lakhs x 7.5% (i.e., 50% of 15%)] Computer purchased on 31.12.2024 [₹ 4 lakhs x 20% (50% of 40%)] Total Depreciation (A+B+C)	(B)	
		0.60	-
		-	0.80
		0.60	0.80
		8.89	0.80
		(C)	

Notes:

1. As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia,–

- any office appliances or road transport vehicles;
- any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

- Machinery purchased on 1.12.2024, installed in office and
- Computer purchased on 31.12.2024, installed in office.

2. Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2023-24 and put to use for less than 180 days in that year can be claimed in P.Y. 2024-25 being immediately succeeding previous year.



VC SIR

If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		-
	▪ WDV of plant and machinery (₹ 25.25 lakhs x 15%)	3.79	-
	▪ New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 15%)	1.50	
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [₹ 8 lakhs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 31.12.2023 [₹ 4 lakhs x 20% (50% of 40%)]	-	0.80
		0.60	0.80
	(C)	5.89	0.80
	Total Depreciation [A+B+C]		

20. Computation of depreciation under section 32 for A.Y.2025-26

Particulars	₹	₹



Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2024 of ₹ 50,00,000 – Depreciation for P.Y. 2023-24 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	
Depreciation @ 40% on computers purchased ₹ 2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2024]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	1,40,000
		10,67,500
Depreciation on Plant and Machinery		

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2024, it was put to use for less than 180 days during the previous year, and hence, only 10% [i.e., 50% of 20%] is allowable as additional depreciation in the A.Y.2025-26. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.



21. Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

i. Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction under section 37.

ii. Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2024-25, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

iii. Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2023-24 exceeds ₹ 100 lakhs. Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

iv. Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".



Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

22.

- a. **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- b. **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- c. **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- d. **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- e. **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- f. **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(ia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

23.



- i. **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
 - a. where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
 - b. where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

- ii. **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000. Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

- iii. **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

- iv. **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

- v. **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.

- vi. **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

24.



- a. **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3)
- b.
 - i. **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
 - ii. **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

25. Computation of business income of Mr. Sivam for the A.Y. 2025-26

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation [considered separately]	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		
Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head “Income from Other Sources”]	2,400	11,400



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Business income before depreciation		1,96,900
Less: Depreciation [See Note 1]		66,000
		1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:

a) Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2024 [i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24]	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2025	4,40,000
Depreciation@15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

b) Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

26. Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of



month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder’s business income calculated applying the provisions of section 44AE is ₹ 13,72,500 [See Notes 1 & 2 below] and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

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

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 [15,000/1,000]	30,000
5 goods carriage held throughout the year	12	1,000	15 [15,000/1,000]	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500



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4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500

27. **Computation of total income of Mr. Raju for the A.Y. 2025-26**

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
State GST penalty paid disallowed [See Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	2,55,000
		7,55,000
Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	
Income from agriculture [Exempt under section 10(1)]	1,80,000	
Salary paid to staff not recorded in the books [Assumed it was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession] [See Note 1 below]	48,000	
Depreciation under the Income-tax Act, 1961 [As per working note]	2,23,500	4,66,500
		2,88,500
Income from house property		



Annual value of self-occupied property	Nil	
Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		3,03,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
Total Income		3,03,500

Working Note:**Computation of depreciation under the Income-tax Act, 1961**

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs [WDV as on 31.3.2024 less depreciation for P.Y. 2023-24 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh]	2,08,500
Depreciation @7.5% on ₹ 2 lakh [Assets used for < 180 days]	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE. In such a case, no deduction allowable in respect of such expenditure.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.



Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,94,500

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

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

Particulars	₹	₹
Sale value of cured coffee		22,00,000
Less: Expenses for growing coffee	3,10,000	
Car expenses (80% of ₹ 50,000)	40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]	36,000	
Total cost of agricultural operations	3,86,000	
Expenditure on coffee curing operations	3,00,000	
Add: Depreciation on machinery (15% of ₹ 15,00,000) [See Computation below]	2,25,000	
Total cost of the curing operations	5,25,000	
Total cost of composite operations		9,11,000
Total profits from composite activities		12,89,000
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of depreciation for P.Y. 2024-25



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Particulars	₹	₹
Car		
Opening balance as on 1.4.2024 [i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24]		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2024 [i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24]		15,00,000
Depreciation @ 15% for P.Y. 2024-25		2,25,000

Explanation 7 to section 43(6) provides that in cases of ‘composite income’, for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head “Profits and gains of business or profession”. The depreciation so computed shall be deemed to have been “actually allowed” to the assessee.

ILLUSTRATION 29 (average)

Gopichand Industries furnishes you the following information:

Block I	WDV of P&M [consisting of 10 looms] - Depreciation Rate of 15%	₹5,00,000
Block II	WDV of Buildings [consisting of 3 buildings] - Depreciation Rate of 10%	₹12,50,000

- Acquired 5 looms for ₹ 4,00,000 on 05.07.2024
- Sold 15 looms for ₹ 10,00,000 on 07.12.2024
- Acquired 2 looms for ₹ 3,00,000 on 10.01.2025

Compute the amount of depreciation eligible for deduction u/s 32 for AY 2025-26.

ILLUSTRATION 30 (average)

M/s Dollar Ltd, a manufacturing concern, furnishes the following particulars:

Particulars	Amount (₹)
Opening WDV of plant and machinery [15% block] as on 01.04.2024	5,00,000



Purchase of plant and machinery [put to use before 01.10.2024]	2,00,000
Sale proceeds of plant and machinery which became obsolete - the plant and machinery was purchased on 01.04.2023 for ₹5,00,000.	5,000

Further, out of purchase of plant and machinery of ₹ 2,00,000 :

- Plant and machinery of ₹ 20,000 has been installed in office.
- Plant and machinery of ₹20,000 was used previously for the purpose of business by the seller. Compute depreciation and additional depreciation for AY 2025-26.

ILLUSTRATION 31 (average)

Mr Z has the following assets which are eligible for depreciation at 15% on WDV basis:

Date	Particulars	Amount (₹)
01.04.2021	WDV of Plant ' X ' and Plant ' Y '	2,00,000
10.12.2024	Acquired a new Plant 'Z' for	2,00,000
22.01.2025	Sold Plant 'Y' for	4,00,000
Expenditure incurred in connection with transfer		10,000

Compute eligible depreciation claim/chargeable capital gain, if any, for AY 2025-26.

ILLUSTRATION 32 (average)

Mr Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-07-2024, for the purpose of his business as per following details:

Particulars	Amount (₹)
Cost of car [excluding GST]	12,00,000
Add: Central GST [CGST] at 14%	1,68,000
Add: Delhi SGST at 14%	1,68,000
Total Price Of Car	15,36,000



He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the AY 2025-26, if this is the only asset in the block. Rate of depreciation may be taken at 15%

If this car were to be used in the subsequent AY 2026-27 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income Tax Act, 1961.

ILLUSTRATION 33 (average)

Mr Sharad set up a manufacturing unit of detergent powder on 20 th April 2024. He purchased the following machines [falling under 15% block] during PY 2024-25:

	Particulars	(₹ In Lakhs)
(i)	Machinery A, Machinery B and Machinery C from XYZ Limited on credit (installed on 20th June 2024)	45
(ii)	Machinery D from Suyog Limited (installed on 5th September 2024). The Invoice was paid through a cash payment on the same day.	25
(iii)	Machinery E from Den Limited (a second-hand machine dealer) on 15th December 2024 (The payment for the purchase invoice was made through NEFT on 2nd January 2025)	5

Compute the depreciation allowance u/s 32 of the Income Tax Act, 1961 for PY 2024-25, AY 2025-26.

ILLUSTRATION 34 (easy)

M/s Keshav Enterprises, a sole proprietorship firm owns four machines, put in use for business in March, 2023. The depreciation on these machines is charged @ 15%. WDV of these machines as on 1st April 2024 was ₹7,70,000. Two of the old machines were sold on 15th July 2024 for ₹10,00,000. A second-hand plant was bought for ₹6,10,000 on 30th December 2024. You are required to:

- i. Determine the claim of depreciation for Assessment Year 2025-26.
- ii. Compute the capital gains liable to tax for Assessment Year 2025-26.
- iii. If Keshav Enterprises had sold the two machines in July 2024 for ₹ 15,00,000, explain, will there be any difference in your above workings?

ILLUSTRATION 35 (easy)



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X Ltd is a manufacturing company. On April 1, 2024, it owns Plant A and Plant B [depreciation rate 15%; WDV being ₹2,40,000]. Plant C [new] [depreciation rate 15%] is purchased by the company on June 10,2024 for ₹ 60,000. It is put to use on the same day. Find out the tax consequences in the following different situations:

- 1. Plant B is destroyed by fire on January 25, 2025. ₹ 10,000, being the compensation, is paid by the insurance company on February 10, 2025.
- 2. Suppose insurance compensation in Situation 1 is ₹ 3,70,000.
- 3. Plants A, B and C are destroyed by fire on January 25, 2025. Compensation paid by insurance company on February 10, 2025 is ₹ 20,000.
- 4. Suppose in Situation 3 insurance compensation is ₹4,00,000.

ILLUSTRATION 36 (difficult)

Lights & Power Ltd, engaged in the business of generation of power, furnishes the following particulars pertaining to PY 2024-25. Compute the depreciation allowable u/s 32 for AY 2025-26 while computing its income u/h PGBP. The company has opted for depreciation allowance on the basis of WDV.

S No	Particulars	Amount (₹)
1	Opening WDV of P&M (15% block) as on 01.04.2024 [Purchase value ₹ 8,00,000]	5,78,000
2	Purchase of second hand machinery (15% block) on 29.12.2024 for business purposes	2,00,000
3	Machinery Y (15% block) purchased and installed on 12.07.2024 for power generation	8,00,000
4	Acquired and installed for use a new air pollution control equipment on 31.07.2024	2,50,000
5	New air conditioner purchased and installed in office premises on 08.09.2024	3,00,000
6	New machinery Z (15% block) acquired and installed on 23.11.2024 for generation of power	3,25,000
7	Old machinery X sold during the year [Purchase value ₹ 4,80,000, WDV as on 01.04.2024 - ₹ 3,46,800]	3,10,000

Depreciation In Case Of Succession Of Business - Section 32

ILLUSTRATION 37 (easy)

Sai Ltd has a block of assets carrying 15% rate of depreciation, whose WDV as on 01.04.2024 was ₹ 40 lacs. It purchased another asset [second-hand plant and machinery] of the same block on 01.11.2024 for ₹ 14.40 lacs



which was put to use on the same day. Sai Ltd was amalgamated with Shirdi Ltd wef 01.01.2025. You are required to compute the depreciation allowable to Sai Ltd & Shirdi Ltd for PY 2024-25.

ILLUSTRATION 38 (easy)

Mr Gopi carrying on business as proprietor converted the same into a limited company wef 01.07.2024. The name of the company is Gopi Pipes (P) Ltd. The details of the assets are given below:

Block I	WDV of plant & machinery [rate of depreciation @ 15%]	₹12,00,000
Block II	WDV of building [rate of depreciation @ 10%]	₹ 25,00,000

The company Gopi Pipes (P) Ltd acquired new plant and machinery in December 2024 for 10,00,000. It has been doing the business from 01.07.2024. Compute the quantum of depreciation to be claimed by Mr Gopi and successor Gopi Pipes (P) Ltd for AY 2025-26. Ignore additional depreciation.

ILLUSTRATION 39 (easy)

Mr X has purchased one motor car costing ₹1,00,000 on April 1, 2024 which is used 70% for business purposes and 30% for personal purposes. Compute the amount of depreciation for PY 2024-25.

Expenditure On Scientific Research - Section 35

ILLUSTRATION 40 (average)

Mr Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2025:

S No	Particulars	₹ [in lacs]
(i)	Payments made to K Research Ltd	20
(ii)	Payment made to LMN College	15
(iii)	Payment made to OPQ College	10
(iv)	Payment made to National Laboratory	8
(v)	Machinery purchased for in-house scientific research	25
(vi)	Salaries to research staff engaged in in-house scientific research	12



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Compute the amount of deduction available u/s35 of the Income Tax Act, 1961 while arriving at PGBP income.
Note: K Research Ltd and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

ILLUSTRATION 41 [average]

During FY 24-25, Mr Rao furnished the following information regarding payments made towards scientific research:

- i. Revenue expenditure on scientific research incurred during the year - ₹ 1,00,000
- ii. Capital expenditure for scientific research - ₹ 3,00,000
- iii. Contribution to notified approved research association - ₹ 1,50,000.
- iv. Amount paid to H Limited, an Indian company which has as its main object scientific research and approved by the prescribed authority - ₹ 2,50,000.
- v. Expenditure of ₹ 2,50,000 towards purchase of land for scientific research.
- vi. He also incurred revenue expenditure of ₹ 2,00,000 towards salary of research staff. in FY 2023-24 [before commencement of business] and certified by the prescribed authority.

Compute the deduction allowable u/s 35 for AY 2025-26.

ILLUSTRATION 42 [average]

MNP Ltd commenced operations of the business of a new four-star hotel in Chennai on 01.04.2024. The company incurred capital expenditure of ₹ 40 lakhs during the period January 2024 to March 2024 exclusively for the above business, and capitalized the same in its books of accounts as on 1st April 2024. Further, during PY 2024-25, it incurred a capital expenditure of ₹ 2.5 crore [out of which ₹ 1 crore was for acquisition of land] exclusively for the above business.

The profits from business of running this hotel [before claiming deducting u/s 35AD] for AY 2025-26 is ₹ 80 lakhs. The company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which were ₹ 130 lakhs for AY 2025-26.

Compute the PGBP income of MNL Ltd for AY 2025-26 assuming that it has fulfilled all the conditions specified for claim of deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. Deductions in respect of certain incomes".

Would MNP Ltd be entitled to deduction u/s 35AD if it transfers the operation of the hotel in Chennai to PQR Ltd, while continuing to own the said hotel?

ILLUSTRATION 43 [average]



ABC Ltd, an Indian company, has incurred expenditure before the commencement of business as under:

- i. Expenditure on advertisements ₹ 3 lakhs.
- ii. Expenditure on preparation of project report and the report was prepared by a concern which is approved by the Board ₹ 85,000.
- iii. Expenditure in connection with travelling and stay in hotels ₹ 45,000.
- iv. Expenditure on drafting and printing of memorandum and articles of associations ₹ 4 lakhs.

All the expenditures are debited to P&L A/C and the company has computed income of ₹ 7 lakhs. The company has commenced its business on 01.06.2024. Company's project cost is ₹ 50 lakhs and capital employed is ₹ 57 lakhs.

Compute tax liability of ABC Ltd for AY 2025-26.

ILLUSTRATION 44 (easy)

X Co Ltd paid ₹ 120 lakhs as compensation as per approved Voluntary Retirement Scheme (VRS) during FY 2024-25. How much is deductible u/s 35DDA for AY 2025-26?

ILLUSTRATION 45 (average)

M/s Arora Ltd submits the following details of expenditure pertaining to PY 2024-25:

- i. Payment of professional fees of ₹ 50,000 to Mr Mani. Tax was not deducted at source.
- ii. Interior works done by Mr Hari for ₹ 2,00,000 on a contract basis. Payment made in the month of March 2025. Tax deducted in March 2025 was paid on 30.06.2025.
- iii. Factory rent of ₹15,00,000 paid to Mr Rao. Tax deducted at source and paid on 01.11.2025.
- iv. Interest paid on Fixed Deposits ₹ 2,00,000. Tax deducted on 31.12.2024 and paid on 28.10.2025.

Examine the above with reference to allowability of the same in AY 2025-26 under the Income Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant TDS provisions. Assume that the due date of filing the return of income is 31.10.2025.

ILLUSTRATION 46

M/s. Bhandari & Batra, a partnership firm consisting of two partners, reports a net profit of ₹7,00,000 before deduction of the following items:

- Salary of ₹ 20,000 each p.m. payable to two working partners of the firm (as authorized by partnership deed)
- Depreciation on plant and machinery u/s ₹ 1,50,000
- Interest on capital 15% p.a. (as per partnership deed). Amount of capital eligible for interest is ₹ 5,00,000



- Brought-forward loss of PY 2023-24 - ₹50,000

Compute for AY 2025-26:

- Book-profit of the firm u/s 40(b) of the Income Tax Act, 1961.
- Amount of salary that can be paid to working partners as per Section 40(b).

ILLUSTRATION 47 (average)

X Ltd follows mercantile system of accounting. After negotiations with the bank, interest of ₹ 4 lakhs (including interest of ₹1.2 lakhs pertaining to year ended 31.03.2025) has been converted into loan. Can the interest of ₹ 1.2 lakhs so capitalized be claimed as business expenditure?

ILLUSTRATION 48 (difficult)

Mr Querashi is a business man. During the year ended 31-03-2025, he was engaged in the business of Hypermarket and Super Market. He maintains proper books of accounts for both businesses in mercantile system. Sales from Hypermarket achieved a turnover of ₹ 75 lakhs and all receipts were in cash. However, Supermarket business is through online and entire receipts of ₹ 50 lakhs during the year were received online in his bank account. The expenses were incurred in the ratio 65:35.

Following additional information is furnished:

Particulars	(₹)
To Salary	10,00,000
To Repairs on building	1,81,000
To Interest	1,10,000
To Travelling	1,30,550
To Depreciation	8,12,000
Net profit	3,93,950

- a) In addition to above, repairs of ₹1,00,000 was incurred for building a new room which was debited to P&L A/c.
- b) Depreciation as per Income Tax Act, 1961 is ₹ 7,17,000.



- c) ₹ 75,000 was paid in cash on 30-09-2024 to Mrs Ann, accountant for preparation of the accounts for the year ended 31-03-2024 and adjusted under the head "expenses payable" account.
- d) He was forced to shutdown his furniture business in the year 2022 as his accountant absconded with cash of ₹ 5 lakhs and fully allowed in that year. Unabsorbed business loss of furniture business is ₹ 3 lakhs. ₹ 4 lakhs was received as insurance compensation on 31-03-2025 for the cash theft.
- e) Mr Querashi wants to declare income under "Presumptive Income" basis.

Compute the income chargeable as PGBP income of Mr Querashi under regular scheme as well as presumptive income scheme prescribed u/s 44AD for the year ended 31-03-2025. Also compute the total income for the year ended 31-03-2025.

ILLUSTRATION 49 (easy)

An assessee owns a light commercial vehicle for 9 months 15 days and a medium goods vehicle for 9 months. Compute his income applying the provisions of Section 44AE.

ILLUSTRATION 50 (average)

Ramamurthy had 4 light goods vehicles as on 1.4.2024. He sold 2 light goods vehicles on 31.5.2024. He acquired 7 light goods vehicles on 27.6.2024. He has brought forward business loss of ₹ 50,000 relating to AY 2021-22 of a discontinued business. Assuming that he opts for presumptive taxation of income u/s 44AE, compute his total income chargeable to tax for AY 2025-26.

ILLUSTRATION 51 (average)

Mr Prakash is in the business of operating goods vehicles. As on 1st April 2024, he had the following vehicles:

Vehicle	Gross Vehicle Weight (In Kgs)	Date Of Purchase	Put To Use During FY 2024-25
A	8,500	2 – 4 – 2023	Yes
B	13,000	15 – 5 – 2023	Yes
C	12,000	4 – 8 – 2023	No (as under repairs)

During PY 2024-25, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (In Kgs)	Date Of Purchase	Date On Which Put To Use
D	11,000	30 – 4 – 2024	10 – 5 – 2024
E	15,000	15 – 5 – 2024	18 – 5 – 2024



Compute his income u/s 44AE of the Income Tax Act, 1961 for PY 2024-25, AY 2025-26.

ILLUSTRATION 52 [difficult]

M/s MN & Co, a partnership firm, is engaged in the business of plying and hiring goods vehicles. It owns following vehicles as on 1st April 2024:

Gross Vehicle Weight [In Kgs]	Number Of Vehicles
7,000	2
9,000	2
12,000	3
15,000	2

It purchased a vehicle weighing 15,000kgs on 6th June 2024 which was put to use only on 10th July 2024. Net profits of the firm {after claiming partners remuneration of ₹ 1,50,000 and within the limits prescribed u/s 40 [b]} from the above business, as per books of accounts amounted to ₹6,50,000. The firm has declared its income for AY 2025-26 in accordance with the provisions of presumptive income u/s 44AE.

- (i) Compute the income of the firm if it opts for the provisions of Section 44AE for AY 2025-26.
- (ii) If the firm wants to claim its income as per books of accounts for AY 2025-26, what are its obligations under the Income Tax Act, 1961?
- (iii) What is the due date for filing its return of income under both the options?

ILLUSTRATION 53 [average]

Answer the following with reference to the provisions of the Income Tax Act, 1961:

- a) Bad debt claim disallowed in an earlier AY, recovered subsequently. Is the sum recovered chargeable to tax?
- b) TDS on salary paid to employees not remitted till the 'due date' for filing the return prescribed u/s 139. Is the expenditure to be disallowed u/s 40(a)(ia)?
- c) X Co Ltd paid ₹ 120 lakhs as compensation as per approved Voluntary Retirement Scheme [VRS] during PY 24-25. How much is deductible u/s 350DA for AY 2025-26?
- d) Bad debt of ₹ 50,000 written off and allowed in FY 2022-23 recovered in FY 2024-25.

ILLUSTRATION 54 [difficult]



The following is the P&L A/C of Mr Y, aged 58 years, an Indian Resident, for the year ended 31.03.2025:

Particulars	Amount (₹)	Particulars	Amount (₹)
Rent	60,000	Gross Profit	5,85,000
Repair of Car	3,000	Sale of Car	17,000
Medical expenses	4,500	Interest on income tax refund	3,000
Salary	18,000	Gift of cash from a friend	25,000
Depreciation of car	3,000	[received on 15.09.2024]	
Advance Income Tax	6,500		
Net Profit	5,35,000		
Total	6,30,000	Total	6,30,000

Other Information:

- Mr Y bought a car during the year for ₹ 20,000. He charged depreciation @ 15% on the value of the car. The car was sold during the year for ₹17,000. The use of the car was 3/4th for business and 1/4th for personal use.
- Medical expenses were incurred for the treatment of Mrs Y.
- Salary had been paid on account of car driver.
- Mr Y had also let out a house property at a monthly rent of ₹ 25,000. The expected rent is considered to be ₹2,50,000. The municipal taxes are ₹6,000, out of which ₹3,000 are paid by the tenant and ₹3,000 are yet to be paid by Mr Y. Interest on loan taken for the house property is ₹ 20,000.
- Mr Y's minor daughter received ₹75,000 from stage acting. Interest on company deposits of Mr Y's daughter [deposit,was made out of income from stage acting] was ₹ 10,000.
- Mr Y incurred an expense of ₹50,000 on the medical treatment of his dependent son, who is suffering from severe disability.
- Mr Y had taken a loan during the PY 2024-25 for the education of his son, from a notified organization & his son is pursuing B.Com in Delhi University. Interest paid on the same during the year was ₹ 10,000.

Compute the total income and tax liability of Mr Y for AY 2025-26.

ILLUSTRATION 55 (difficult)



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Dr Gurumoorthy, a resident individual at Madurai, aged 50 years is running a clinic. His Income & Expenditure A/c for the year ending 31.03.2025 is as under:

Expenditure	Amount (₹)	Income	Amount (₹)
To Medicine consumed	8,40,000	By Consultation and Medical charges	21,00,000
To Staff salary	4,25,000	By Dividend from Indian companies	27,000
To Clinic consumables	1,55,000	By Winnings from lottery (net of TDS)	35,000
To Rent paid	1,20,000	By Rent	54,000
To Administrative expenses	3,00,000	By Income tax refund (principal ₹ 15,000 ; interest of ₹ 1,500)	16,500
To Donation {to IIT, Delhi for research approved u/s35(2AA)}	1,00,000		
To Net profit	2,92,500		
	22,32,500		22,32,500

Considering the following additional information, compute the total income and tax liability of Dr Gurumoorthy.

- (i) Rent paid includes ₹36,000 paid by cheque towards rent for his residence.
- (ii) Clinic equipment are:

01.04.2024	Opening WDV	₹4,50,000
07.02.2025	Acquired cost (put to use on the same date)	₹1,00,000

- (iii) Rent received relates to property let out at Madurai. Gross annual value ₹ 54,000. The municipal taxes of ₹ 9,000 paid in January 2025 have been included in "administrative expenses".
- (iv) Dr Gurumoorthy availed loan of ₹ 5,50,000 from a bank for higher education of his daughter. He repaid principal of ₹ 50,000, and interest thereon ₹ 65,000 during PY 2024-25.
- (v) He paid ₹60,000 as tuition fee to the university for full time education of his son.

ILLUSTRATION 56 (difficult)



Mr Raghuveer, a resident individual aged 35 years, furnished the following information from his P&L A/c for the year ended 31st March 2025. You are required to compute the total income of Mr Raghuveer for AY 2025-26.

S.No.	Particulars
(i)	The net profit was ₹ 6,50,000
(ii)	The following incomes were credited in the Profit & Loss Account: • Interest on government securities ₹ 25,000 • Dividend from a foreign company ₹ 18,000 • Gold coins worth ₹ 55,000 received as gift from his father
(iii)	Depreciation debited in the books of accounts was ₹85,000. Depreciation allowed as per the Income Tax Act, 1961 was ₹ 96,000.
(iv)	Interest on loan amounting to ₹68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31 st March 2025.
(v)	General expenses included: • An expenditure of ₹ 20,500 which was paid by a bearer cheque. • Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

Additional Information: Mr Raghuveer contributes the following amounts by cheque:

- ₹ 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
- ₹ 20,000 to the Swachh Bharat Kosh set up by the Central Government.
- ₹28,000 towards premium for health insurance and ₹2,500 on account of preventive health check-up for self and his wife.
- ₹ 55,000 on account of medical expenses of his father aged, 82 years (no insurance scheme had been availed on the health of his father).

ILLUSTRATION 57 (difficult)

Mr Devansh, an Indian Resident aged 38 years, carries on his own business. He has prepared the following P&L A/c for the year ended 31st March 2025:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary	48,000	By Gross Profit	4,30,400
To Advertisement	24,000	By Cash Gift (on the occasion of Marriage)	1,20,000
To Sundry Expenses	54,500	By Interest on Debentures	5,400



To Income Tax	27,000	[Net of 10% TDS]	
To Household Expenses	42,500		
To Depreciation [Allowable]	23,800		
To Municipal taxes paid for HP	36,000		
To Printing & Stationary	12,000		
To Repairs & Maintenance	24,000		
To Contribution to a University approved and notified u/s 35(1)(ii)	1,00,000		
To Fire Insurance [₹10,000 relates to House Property]	30,000		
To Net Profit	1,34,000		
Total	5,55,800	Total	5,55,800

Other Information:

- Mr Devansh owns a House Property which is being used by him as follows:
- " 25% of the property for own business, 25% for self-residence and 50% let out for residential purpose"
- Rent received from 50% let out portion during the year was ₹ 1,65,000.
- On 01.12.2024, he acquired a vacant site from his friend for ₹ 1,05,000. The State Stamp Valuation Authority fixed the value of the site at ₹ 2,80,000 for stamp duty purpose.
- He received interest on Post Office Savings Bank Account amounting to ₹ 500.
- Cash gift on the occasion of marriage includes gift of ₹ 20,000 from non-relatives.
- LIC premium paid [policy value ₹ 3,00,000 taken on 01.06.2024] ₹ 60,000 for his handicapped son who is not dependent on Mr Devansh.
- He purchased 10,000 shares of X Co Ltd on 01.01.2014 for ₹ 1,00,000 and received a 1:1 bonus on 01.01.2017. He sold 5,000 bonus shares in June 2024 for ₹ 2,20,000. [Shares are not listed and STT not paid].

Compute total income and net tax payable by Mr Devansh for AY 2025-26.

ILLUSTRATION 58 [difficult]

Following is the P&L A/C of Mr Q for the year ended 31 1st March 2025:



Particulars	Amount (₹)	Particulars	Amount (₹)
To repairs on building	1,81,000	By Gross Profit	6,01,000
To interest	1,10,000	By income tax refund	8,100
To travelling	1,30,550	By interest on company deposits	6,400
To amount paid to IIT, Mumbai for an approved scientific research programme	1,00,000		
	93,950		
To Net Profit	6,15,500		6,15,500

Following additional information is furnished:

- Repairs on building includes ₹ 1,00,000 being cost of building a new toilet.
- Interest payments include ₹50,000 on which tax has not been deducted and penalty for contravention of Central Goods & Services Tax Act of ₹ 24,000.

The business turnover of Mr Q for the preceding financial year [ie, PY 2023-24] exceeds ₹1 crore and thus he is required to get his accounts audited for PY 2023-24. Compute the PGBP income of Mr Q for the year ended 31st March 2025 ignoring depreciation.

ILLUSTRATION 59 (difficult)

Mrs Y, a CA in practice, maintains her accounts on cash basis. Her Income & Expenditure A/C for the year ending 31.03.2025 are given below. Compute total income of Mrs Y and net tax payable by her for AY 2025-26.

Expenditure	Amount (₹)	Income	Amount (₹)
Salary to staff	5,50,000	Fees earned:	
Stipend to articled assistants	37,000	• Audit	7,88,000
Incentive to articled assistants	3,000	• Taxation services	5,40,300
Office rent	24,000	• Consultancy	2,70,000
Printing & Stationery	22,000	Dividend on shares of Indian Companies (Gross Amount - Before 10% TDS)	10,524
Meeting, Seminar & Conference	31,600		
Purchase of Car	80,000	Income from UTI (Gross Amount - Before 10% TDS)	7,600
Repair, Maintenance & Petrol of Car	4,000		



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Travelling expenses	35,000	Honorarium received for valuation of answer papers	15,800
Municipal Tax paid for House Property	3,000		
Net Profit	9,28,224	Rent received from residential flat let out	85,600
Total	17,17,824	Total	17,17,824

Other Information:

- i. Allowable rate of depreciation on motor car is 15%.
- ii. Value of benefits received from clients during the course of profession is ₹ 10,500.
- iii. Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- iv. Repairs and maintenances of car include ₹ 2,000 for the period from 01.10.2024 to 30.09.2025. (Payment was made on 31.03.2025).
- v. Salary includes ₹ 30,000 to a computer specialist in cash for assisting Mrs Y y in one professional assignment
- vi. The total travelling expenses incurred on foreign tour was ₹ 32,000 which was within the RBI norms.
- vii. Medical insurance premium on the health of dependent brother and major son dependent on her amounts to ₹5,000 and ₹10,000 respectively paid in cash.
- viii. She invested an amount of ₹ 10,000 in National Saving Certificate.

ILLUSTRATION 60 (difficult)

Ms Rekha, a resident individual aged 50, provides the following information for FY 2024-25. Compute the total income and the tax liability of Ms Rekha for AY 2025-26.

- a) She is a partner in AK&C0 and received the following amounts from the firm:
- Share of profit from the firm - ₹ 35,000
 - Interest on capital @ 15% p.a. - ₹ 3,00,000
 - Salary as working partner (fully allowed in the hands of the firm) - ₹ 1,00,000
- b) She is running a rice mill as proprietor. The Net profit as per P&L A/c is ₹4,50,000.

The following items are debited to Profit and Loss account:



- Advance income-tax paid - ₹ 1,00,000
- Personal drawings - ₹ 50,000

The following items are credited to P&L A/c:

- 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

c) She owned a house property in Mumbai which was sold in January 2024. She received ₹ 90,000 by way of arrears of rent in respect of the said property in October 2024.

d) She made the following investments:

- Life insurance premium on a policy in the name of her married daughter ₹60,000 [The policy was taken on 1 – 10 – 2015 and the sum assured being ₹ 5,00,000].
- Health insurance premium on a policy covering her mother aged 75. She is not dependent on Ms Rekha. Premium paid by cheque ₹ 55,000.

ILLUSTRATION 61 [difficult]

Mr K, resident individual aged 64, is a partner in KK & Co, a partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31.03.2025:

S No	Particulars	Amount (₹)
(i)	Interest on capital received from KK & Co, at 15%	1,50,000
(ii)	Interest from bank on fixed deposit [Net of TDS ₹ 1,500]	13,500
(iii)	Income tax refund received relating to AY 2024-25 including interest of ₹ 2,300	34,500
(iv)	Net profit from wholesale business. Amounts debited include the following:	5,60,000
	Depreciation as per book	34,000
	Motor car expenses	40,000
	Municipal taxes for the shop for two half years [payment for one half year made on 12.06.2025 and for the other on 14.11.2025]	7,000
	Salary to manager for whom single cash payment was made for	21,000
(v)	The WDV of assets [as on 01.04.2024] used in above wholesale business: - Computers - Motor Car [20% used for personal use]	1,20,000



		3,20,000
(vi)	LIC premium paid for major son	60,000
	Amount credited to PPF in the name of his wife	70,000

Compute the total income of the assessee for AY 2025-26. Computation should show the proper heads of income.

ILLUSTRATION 62 [difficult]

Dr Roopa is medical practitioner. Her age is 54 years as on 1st Jan 2025. Her Receipts and Payments A/c for FY

2024-25 is as under:

Receipts	Amount (₹)	Payments	Amount (₹)
Balance B/f :	10,000	Purchase of motor car on 01.07.2024	4,00,000
Receipts from sale of Medicine	2,50,000	Drawing	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Lecturer fees	5,000	Advance tax paid	20,000
Visiting fee	2,00,000	Purchase of medicine	47,000
Share from HUF	50,000	Payment for medical journal	5,000
Family pension	2,80,000	Medical insurance premium	32,000
Agricultural income	1,00,000	Motor car expenses	50,000
Income from lottery [Net of 30% TDS]	35,000	Surgical instruments [Purchased before 30 Sep 2024]	50,000
Loan from bank for purchase of motor car @ 8% p.a.	3,00,000	Instalment of motor car loan paid [including interest ₹ 18,000]	1,18,000
Saving bank interest	1,000	Instalment of housing loan [Principal - ₹ 48,000; Interest - ₹ 60,000]	1,08,000
		Balance c/f :	51,000
Total	12,81,000	Total	12,81,000



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Other relevant information is as under:

- i. She resides in her own house which was constructed in 1998 with a loan from LIC Housing of ₹ 10 lakhs out of which ₹ 6 lakhs was still due. She got a loan from SBI of ₹ 6 lakhs on 01.04.2024 at the rate of 10% and repaid the original loan. One fourth portion of the house is used for clinic purposes.
- ii. She invested in term deposit ₹ 1,50,000 in Bank of Baroda on 01.07.2024 for a period of 5 years in the name of her minor daughter at 9% interest p.a.
- iii. She purchased a motor car on 1st July 2024 and put to use on the same date ₹ 4,00,000. A loan of ₹ 3,00,000 was taken to buy the motor car @ interest of 8% p.a. 1/4th use of vehicle is estimated to be personal.
- iv. She paid medical insurance premium for herself of ₹16,000 and for mother ₹ 16,000. Her mother is dependent on her.

- v. She got her share from HUF's income of ₹ 50,000.

Compute her total income and tax liability for AY 2025-26.

ILLUSTRATION 63. [average]

State, with reasons, the allowability of the following expenses under the Income Tax Act, 1961, as deduction, while computing income from business/profession for AY 2025-26:

- a) On 14.5.2025, ABC Ltd paid ₹ 45,000 to Indian Railways for use of railway assets pertaining to PY 2024-25.
- b) ₹ 32,000 paid by S Ltd in cash on 28.3.2025 to a transporter (owning 8 goods carriages throughout the previous year) for carriage of goods, without deduction of tax at source.
- c) P Ltd paid ₹ 80,000 in cash for purchase of wheat from a farmer on a banking day.



SOLUTIONS

Normal Depreciation/Additional Depreciation - Section 32

Answer 29

Computation Of Depreciation For Gopichand Industries For AY 2025-26:

Particulars	₹	₹
Block 1: Plant & Machinery (Rate Of Depreciation - 15%)		
WDV (10 looms) as on 1st April 2024	5,00,000	
Add'- Additions during the year		
• 5 looms acquired on 05.07.2024	4,00,000	
• 2 looms acquired on 10.01.2025	3,00,000	
Less. Assets sold during the year (15 looms sold on 07.12.2024)	(10,00,000)	
WDV as on 31st March 2025 (2 looms)	2,00,000	
Depreciation on ₹ 2,00,000 @ 15% (limited to 50%)		15,000
Block 2: Buildings (Rate Of Depreciation - 10%)		
WDV as on 1st April 2024 (3 buildings)	12,50,000	
Depreciation on ₹ 12,50,000 @ 10%		1,25,000
Total depreciation for the year		1,40,000

Note 1: Closing balance of Block 1 represents the looms acquired on 10.01.2025. Since these 2 looms have been put to use for less than 180 days during PY 2024-25, only 50% of normal depreciation is permissible.

Note 2: No additional depreciation @ 20% of the cost of new plant and machinery is provided in the present problem assuming that all conditions contained u/s32 (1)(iia) have not been fulfilled.

Answer 30

Computation Of WDV Of Plant And Machinery As On 31.03.2025:

Particulars	Amount (₹)
Opening WDV	5,00,000



Add- Purchase of plant and machinery during the previous year	2,00,000
Less: Sale proceeds of obsolete plant and machinery sold during the year	(5,000)
WDV as on March 31, 2025	6,95,000

Computation Of Normal And Additional Depreciation For AY 2025-26:

Particulars	Amount (₹)
Normal Depreciation (₹ 6,95,000 x 15%)	1,04,250
Additional Depreciation [₹ (2,00,000 - ₹ 40,000) * 20%]	32,000

Note 1: Since the new plant and machinery was purchased and put to use before 1.10.2024, it was put to use for more than 180 days in the year. Hence, full depreciation is allowable for AY 2025-26,

Note 2: As per Section 32(1)(ia), additional depreciation is allowable in the case of any new P&M acquired and installed by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @ 20% of the actual cost of such P&M. However, additional depreciation shall not be allowed in respect of, inter alia:

- any P&M, before its installation by the assessee, was used either within or outside India by any other person; .
- any P&M installed in office premises, residential accommodation or in any guest house.

Note 3: In view of the above provisions, additional depreciation cannot be claimed in respect of

- Plant and machinery of ₹ 20,000 used previously for the purpose of business by the seller.
- Plant and machinery of ₹ 20,000, installed in office.

Therefore, in the given case, additional depreciation has to be provided only on ₹ 1,60,000.

Answer 31

Computation Of Depreciation/Capital gains For AY 2025-26:

Particulars	Amount (₹)
WDV of Plant 'X' A Plant V as on 01.04.2021	2,00,000
Less; Depreciation @ 15% for PY 2021-22	(30,000)
WDV of Plant 'X' A Plant Y as on 01.04,2022	1,70,000



Less: Depreciation @ 15% for PY 2022-23	(25,500)
WDV of Plant 'X' A Plant Y as on 01.04.2023	1,44,500
Less: Depreciation @ 15% for PY 2023-24	(21,675)
WDV of Plant 'X' A Plant Y as on 01.04.2024	1,22,825
Add: Cost of new Plant 'Z' acquired during PY 2024-25	2,00,000
Less: Sale consideration of Plant Y ₹ 4,00,000 (restricted to)	(3,22,825)
WDV of Plant 'X' and Z' as on 01.04.2025	Nil
Depreciation For PY 2024-25	Nil
Sale proceeds of Plant 'Y'	4,00,000
Less: WDV of the block	(3,22,825)
Less: Expenditure incurred in connection with transfer	(10,000)
Short Term Capital Gains	67,175

Answer 32

• As per Section 17(5) of the CGST Act, 2017, input tax credit is available on motor vehicles meant for transportation of persons with seating capacity upto 13 persons only if they are used for making following taxable supplies:

- > Further supply of such vehicles or conveyances; or
- > Transportation of passengers; or
- > Imparting training on driving such motor vehicles.

• In the present case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence, GST would form part of actual cost of car. Therefore, the actual cost of the car would come out to ₹ 15,36,000.

• Further, the car has been purchased on 21st July 2024 for business purposes. Since the car has been put to use for more than 180 days in PY 2024-25, full depreciation @ 15% is allowable on the actual cost of ₹ 15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75% since 25% of usage is estimated for personal use, on which depreciation is not allowable.

• The fact that the private cars can be pilled in the city only on alternate days wouldn't have any impact on the calculation of depreciation since the actual usage of the asset doesn't matter.



- Depreciation for PY 2024-25 $(15\% \times ₹ 15,36,000 \times 75\%) = ₹ 1,72,800$
- WDV as on 1.4.2025 $= ₹ 15,36,000 - ₹ 1,72,800 = ₹ 13,63,200$
- Depreciation for PY 2025-26 $(15\% \times ₹ 13,63,200 \times 75\%) = ₹ 1,53,360$

Note: If it is assumed that the motor car is used for eligible purposes and thus eligible for input tax credit, the actual cost of the asset would come out to ₹ 12,00,000 and depreciation would be computed accordingly.

Answer 33

Computation Of Depreciation u/s 32 For AY 2025-26:

Particulars	(₹)
> Machinery A, Machinery B and Machinery C acquired from XYZ Ltd and installed on 20.06.2024 {It has been assumed that the payment is made to XYZ Ltd by way of account payee cheque/bank draft or by use of ECS or through other prescribed electronic means and the machineries were put to use for more than 180 days during the previous year}	45,00,000
> Machinery D acquired from Sugog Ltd in cash and installed on 5.9.2024 {Since payment of ₹ 25 lakhs is made in cash, ie through ineligible means, the said amount will not be included in actual cost and hence depreciation not allowable}	Nil
> Second-hand Machinery E from Den Ltd on 15.12.2024 assuming it is installed and put to use in PY 2024-25	5,00,000
Actual Cost	50,00,000
Normal Depreciation:	
> Depreciation @ 15%. on Machineries A, B and C on ₹ 45 lakhs	6,75,000
> Depreciation @ 7.5% (50% of 15%) on ₹ 5 lakhs for Machinery E since it is put to use for less than 180 days	37,500
Total	7,12,500
Additional Depreciation:	
> Additional Depreciation @ 20% on ₹ 45 lakhs for Machineries A, B and C since the machineries are acquired and installed for a manufacturing unit	9,00,000
> Additional depreciation is not allowable for Machinery E as additional depreciation is available only on a new machinery and not on a second hand machinery	Nil



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Total	9,00,000

Answer 34

(i) Computation Of Depreciation For AY 2025-26:

Particulars	(₹)
WDV of the block as on 1.4.2024	7,70,000
Add: Purchase of second-hand plant during the year {in December 2024}	6,10,000
Less: Sale consideration of old machinery during the year {in July 2024}	[10,00,000]
WDV Of The Block As On 31.03.2025	3,80,000
Depreciation @ 15% But Restricted To 50% Thereon (₹ 3,80,000 x 7.5%)	28,500
{Since the value of the block as on 31.3.2025 represents part of actual cost of second hand plant purchased in December 2024 (which has been put to use for less than 180 days), depreciation is restricted to 50% of the prescribed percentage of 15%, ie depreciation is restricted to $7\frac{1}{2}$ %. Therefore, the depreciation allowable for the year is ₹ 28,500 being $7\frac{1}{2}$ % of ₹ 3,80,000}	

- (ii) In the given case, no capital gains would arise, since the block of asset continues to exist and some of the assets are sold for a price lower than the aggregate of the WDV of the block at the beginning of the year and the additions made during the year.
- (iii) If the two machines are sold in July 2024 for ₹ 15,00,000, then STCG would arise since the sale consideration is more than the aggregate of the WDV of the block at the beginning of the year and the additions made during the year.

Particulars	(₹)	(₹)
Sale consideration		15,00,000
Less: WDV of the machines as on 1.4.2024	7,70,000	
Less: Purchase of second plant during the year	6,10,000	[13,80,000]
Short-Term Capital Gains		1,20,000

Answer 35



Computation Of Depreciation u/s 32 For PY 2024-25:

Particulars	Situation 1 [₹]	Situation 2 [₹]	Situation 3 [₹]	Situation 4 [₹]
WDV as on 01.04.2024 {consisting of Plants A and B}	2,40,000	2,40,000	2,40,000	2,40,000
Add: Cost of Plant C purchased during PY 2024-25	60,000	60,000	60,000	60,000
Less: Money payable in respect of assets destroyed during PY 2024-25 [subject to maximum of ₹ 3,00,000]	(10,000)	(3,00,000)	(20,000)	(3,00,000)
WDV as on 31.03.2025 [before charging depreciation]	2,90,000	Nil	Nil [Block ceases to exist]	
Less: Depreciation for PY 2024-25				
• Normal Depreciation for PY 2024-25 [@ 15%]	(43,500)	Nil		
• Additional Depreciation for PY 2024-25 [@ 20%].	(12,000)	Nil		
WDV As On 31.03.2025 [after charging depreciation]	2,34,500	Nil	Nil [Block Ceases To Exist]	

Computation Of Capital Gains u/s 50 For PY 2024-25:

Particulars	Situation 1 [₹]	Situation 2 [₹]	Situation 3 [₹]	Situation 4 [₹]
Sale consideration [being the amount of compensation]	No capital gains would arise	3,70,000	20,000	4,00,000
Less: WDV	as the block continues to	(3,00,000)	(3,00,000)	(3,00,000)
	exist with a WDV value			
Short-Term Capital Gains /Loss for PY 2024-25	NA	70,000 Gain	[2,80,000] Loss	1,00,000 Gain

Answer 36

Computation Of Depreciation Allowance u/s 32 For AY 2025-26:



Particulars	Block 1 P&M [15%]	Block 2 P&M [40%]
Opening WDV as on 01.04.2024	5,78,000	-
Add: Plant and Machinery acquired during the year		
> Second hand machinery on 29.12.2024 [used for less than 180 days]	2,00,000	-
> Machinery Y on 12.07.2024 [used for more than 180 days]	8,00,000	-
> AC for office on 08.09.2024 [used for more than 180 days]	3,00,000	-
> Machinery Z on 23.11.2024 [used for less than 180 days]	3,25,000	-
> Air pollution control equipment on 31.07.2024 [used for more than 180 days]	-	2,50,000
Less: Assets sold during the year	[3,10,000]	Nil
WDV Before Charging Depreciation	18,93,000	2,50,000
• Normal Depreciation @ 40% on air pollution control equipment	-	1,00,000
• Normal Depreciation on Block 1:		
> @ 7.5% on second hand machinery of ₹ 2,00,000	15,000	-
> @ 7.5% on machinery Z of ₹ 3,25,000	24,375	-
> @ 15% on balance ₹ 13,68,000	2,05,200	-
• Additional Depreciation on Block 1:		
> @ 20% on air pollution control equipment of ₹ 2,50,000		50,000
> @ 20% on machinery Y of ₹ 8,00,000	1,60,000	-
> @ 10% on machinery Z of ₹ 3,25,000	32,500	-
Total Depreciation For PY 2024-25	4,37,075	1,50,000
WDV After Charging Depreciation	14,55,925	1,00,000

Note: Additional depreciation is available in respect of equipment used for the purposes of power generation. However, no additional depreciation is available in respect of second hand machinery.

Answer 37

Statement Showing Computation Of Depreciation Allowable To Sai Ltd & Shirdi Ltd For AY 2025-26:

Particulars	Amount (₹)



WDV as on 01.04.2024	40,00,000
Addition during the year (used for less than 180 days)	14,40,000
Total	54,40,000
Depreciation on ₹ 40,00,000 @ 15%	6,00,000
Depreciation on ₹ 14,40,000 @ 7.5%	1,08,000
Depreciation for the year	7,08,000
Apportionment between two companies:	
(a) Amalgamating Company - Sai Ltd:	
> ₹ 6,00,000 x 275 days/365 days	4,52,055
> ₹ 1,08,000 x 61 days/151 days	43,629
Total	4,95,684
(b) Amalgamated company - Shirdi Ltd:	
> ₹ 6,00,000 x 90 days/365 days	1,47,945
> ₹ 1,08,000 x 90 days/151 days	64,371
Total	2,12,316

Note: In case of amalgamation, depreciation shall be first calculated as if no amalgamation has taken place. The amount of depreciation so arrived at shall be apportioned between the amalgamating company and the amalgamated company in the ratio of the number of days for which the assets were used by them. The price at which the assets were transferred to the amalgamated company (ie ₹ 60 lacs) has no implication in computing the amount of eligible depreciation.

Answer 38

Section 32 is applicable while determining depreciation, if there is change of ownership of assets because of conversion of sole proprietary concern into company.

Particulars	Amount (₹)
Block 1 - Plant & Machinery	
WDV as on 01.04.2024	12,00,000
Addition during the year (used by Gopi Pipes Pvt Ltd for less than 180 days)	10,00,000
Total	22,00,000



	Depreciation on ₹ 12,00,000 @ 15%	1,80,000
	Depreciation on ₹ 10,00,000 @ 7.5% [Fully available to Gopi Pipes Pvt Ltd]	75,000
	Depreciation for the year	2,55,000
Block 2 - Building	WDV as on 01.04.2024	25,00,000
	Depreciation for the year @ 10%	2,50,000
	Apportionment between Mr Gopi A Gopi Pipes Pvt Ltd	
[a]	Predecessor - Mr Gopi:	
	₹ 4,30,000 x 91 days/365 days	1,07,205
[b]	Successor - Gopi Pipes Pvt Ltd:	
	> ₹ 4,30,000 x 274 days/365 days	3,22,795
	> Depreciation on P&M purchased in December 2024'	75,000
	Total	3,97,795

Note: The depreciation on the plant which was purchased after conversion shall be allowed to the company and further it is presumed that the plant was put to use on the date of purchase.

Answer 39

- The total amount of depreciation allowable for PY 2024-25 shall be ₹ 10,500 (₹ 1,00,000 * 15% * 70%).

Answer 40

Computation Of Deduction Allowable u/s 35:

Particulars	Amount (₹)	% Of Weighted Deduction	Amount Of Deduction (₹)
Payment For Scientific Research:			
• K Research Ltd [See Note 1]	20,00,000	100%	20,00,000
• LMN College	15,00,000	100%	15,00,000
• OPQ College [See Note 2]	10,00,000	Nil	Nil
• National Laboratory [See Note 3]	8,00,000	100%	8,00,000
In-House Research [See Note 4]:			



• Capital expenditure	25,00,000	100%	25,00,000
• Revenue expenditure	12,00,000	100%	12,00,000
Deduction Allowable u/s 35			80,00,000

Notes:

1. Payment To K Research Ltd: Any sum paid to a company registered in India which has as its main object scientific research, as is approved by the prescribed authority, qualifies for a weighted deduction of 100%.
2. Payment To OPQ College: Since the question clearly mentions that only K Research Ltd and LMN College are approved research institutions, it is a logical conclusion that OPQ College is not an approved research institution. Therefore, payment to OPQ College would not qualify for deduction u/s 35.
3. Payment To National Laboratory: It has been assumed that donation has been given to the National Laboratory for carrying out scientific research under an approved research programme. Accordingly, a weighted deduction of 150% is allowed.
4. Deduction For In-House RAD: The provisions of Section 35(2AB) are applicable only in case of company assessee. However, in this case, the assessee is an individual. Therefore, normal provisions given u/s 35 would apply.

Answer 41

Computation Of Deduction Allowable u/s 35:

Particulars	Amount Of Deduction (₹)
Payment For Scientific Research:	
• Contribution to notified approved research association {Eligible for 100% deduction}	1,50,000
• Amount paid to H Limited, an Indian company which has as its main object scientific research and approved by the prescribed authority IIT Delhi [Eligible for 100% deduction]	2,50,000
In-House Research:	
• Revenue expenditure on scientific research {Eligible for 100% deduction}	1,00,000
• Capital expenditure for scientific research [other than land] {Eligible for 100% deduction}	3,00,000
• Purchase of land for scientific research {Not eligible for any deduction}	Nil



• Pre-commencement expenditure on salary of research staff certified by the prescribed authority {Eligible for 100% deduction assuming that FY 2024-25 is the year of commencement of business}	2,00,000
Deduction Allowable u/s 35	10,00,000

Answer 42

- Computation Of PGBP Income Of MNP Ltd For AY 2025-26: Deduction of 100% of the capital expenditure is allowed u/s 35AD in case of business of building and operating a new hotel of two-star or above category, anywhere in India. However, expenditure on acquisition of land does not qualify for deduction u/s 35AD,

Particulars	Amount (₹)
Profits from the specified business of new four-star hotel in Chennai (before providing deduction u/s 35AD)	80,00,000
Less: Deduction u/s 35AD	
• Capital expenditure incurred prior to 1,4,2024 and capitalized in the books as on 1.4.2024	(40,00,000)
• Capital expenditure incurred post commencement [2,50,00,000 - 1,00,00,000]	(1,50,00,000)
Loss from specified business of new four-star hotel in Chennai	(1,10,00,000)
Profit from the existing business of running a four-star hotel in Kanpur	1,30,00,000
Net profit from business after set-off of loss of specified business against profits of another specified business u/s 73A	20,00,000

- Section 35AD provides that where the assessee builds a hotel of two-star or above category and subsequently, while continuing to own the hotel, transfers the operation of the said hotel to another person, the assessee shall be deemed to be carrying on the specified business of building and operating a hotel. Therefore, MNP Ltd would be eligible to claim deduction u/s 35AD even if it transfers the operation of the Chennai hotel to PQR Ltd.

Answer 43

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in PY 2024-25, amount calculated below shall be deemed as the PGBP income of PY 2024-25.

Particulars	Amount (₹)



Deduction allowed u/s 35AD for PY 2023-24	50,00,000
Less: Depreciation allowable u/s 32 for PY 2023-24 [10% of ₹ 50 lacs]	(5,00,000)
Deemed Income	45,00,000

Answer 44

Computation Of Total Income Of ABC Ltd For AY 2025-26:

Particulars	Amount (₹)
Net Profit as per P&L A/c	7,00,000
Add: Ineligible Expenditure	
• Expenditure on advertisement	3,00,000
• Expenditure in connection with travelling and stay in hotels	45,000
• Excessive deduction claimed u/s 35D:	4,28,000
Eligible expenditure u/s 35D:	
> Expenditure in preparation of project report = ₹ 85,000	
> Expenditure on drafting and printing of MOA & AOA = ₹ 4,00,000	
> Total amount = ₹ 4,85,000	
Expenditure allowed u/s 35D cannot exceed 5% of the capital employed, ₹ 57,00,000 x 5% = ₹ 2,85,000. ₹ 2,85,000 shall be allowed as deduction in 5 equal instalments starting with PY 2024-25. Therefore, deduction allowed u/s 35D for PY 2024-25 shall be ₹ 57,000. Excessive deduction of ₹ 4,28,000 (₹ 4,85,000 - ₹ 57,000) shall be added back.	
Gross Total Income (ie Income u/h PGBP)	14,73,000
Less: Deduction u/s 80C-80U	Nil
Total Income	14,73,000

Computation Of Tax Liability Of ABC Ltd:

Particulars	Amount (₹)
Tax on ₹ 14,73,000 @ 30%	4,41,900
Add: Health & Education Cess @ 4%	17,676



Tax Liability	4,59,576
Rounded off u/s 288B	4,59,580

Answer 45

It is deductible in 5 equal annual instalments commencing from the PY of payment. The amount deductible u/s 35DDA for AY 2025-26 shall be ₹ 24 lakhs.

Answer 46

- i. Payment of professional fees is subject to TDS u/s 194J. Since no tax is deducted at source, ₹ 15,000 [being 30% of the expenditure of ₹ 50,000] is disallowed u/s 40(a)(ia).
- ii. Since the tax was deducted in March 2025 and paid on or before the due date of filing ROI [ie before 31.10.2025], the expenditure on inferior works will be allowed as deduction. Hence, disallowance u/s 40(a)(ia) is not attracted.
- iii. The maximum time allowable for deposit of TDS is up to the due date of filing of return [ie 31.10.2025]. In this case, since tax deducted u/s 194-1 was paid after the due date of filing the return, ₹ 4,50,000 [being 30% of ₹ 15,00,000] is disallowed u/s 40(a)(ia) for PY 2024-25.
- iv. The tax deducted at source can be deposited on or before the due date of filing of return to avoid disallowance u/s 40(a)(ia). In this case, disallowance would not be attracted since tax deducted during December 2024 was deposited on 28.10.2025 [ie before the due date of filing of return of income].

Remuneration To Partners - Section 40(b)

Answer 47

Computation Of Book Profit Of The Firm u/s 40(b):

Particulars	Amount (₹)
Net Profit [before deduction of depreciation, salary and interest]	7,00,000
Less: Depreciation u/s 32	(1,50,000)
Less: Interest @ 12% p.a., being the maximum allowable as per Section 40(b) [₹ 5,00,000 x 12%]	(60,000)
Less: B/f loss of PY 2023-24 [Not allowed to be adjusted while computing book profits]	Nil



Book Profit	4,90,000

Salary actually paid to working partners = ₹ 20,000 x 2 x 12 = ₹ 4,80,000. As per the provisions of Section 40(b), the maximum allowable working partners' salary for AY 2025-26 in this case would be ₹ 4,41,000 [ie, 90% of ₹ 4,90,000].

Certain Deductions Allowed On Actual Payment Basis - Section 43B

Answer 48

- U/s 43B, interest on term loans and advances to scheduled banks shall be allowed in the year during which such interest has been paid irrespective of the method of accounting followed by the assessee.
- If any interest payable by the assessee is converted into a loan, the interest so converted and not "actually paid" shall not be deemed as actual payment, and hence would not be allowed as deduction. Therefore, interest of ₹ 1.2 lakhs converted into loan cannot be claimed as business expenditure.

Answer 49

Computation Of PGBP Income Of Mr Querashi (Under Regular Scheme):

Particulars	(₹)
Net Profit (as given in question)	3,93,950
Add: Depreciation debited in the books	8,12,000
Less: Depreciation as per Income-tax Act, 1961	[7,17,000]
Add: Cash payments in excess of ₹ 10,000 made in the current year in respect of expenditure allowed on mercantile basis in the preceding year, would be deemed as income in the current year	75,000
Add: Building construction expenditure debited to P & L A/c	1,00,000
Less: Depreciation on building extension of a room @ 10% {It is assumed that since capital repairs of ₹ 1 lakh on building has been debited to PAL A/c, depreciation in respect of the same is not included in the figure of ₹ 7,17,000 computed as per the Income Tax Act, 1961}	[10,000]
PGBP Income {As Per Books Of Accounts}	6,53,950

Computation Of P6BP Income Of Mr Querashi (Under Presumptive Income Scheme As Per Section 44AD):



- For PY 2024-25, the turnover of Mr Querashi from Hypermarket business is ₹ 75 lakhs and Supermarket business is ₹ 50 lakhs. Since his turnover in respect of such business is less than ₹ 200 lakhs, he is eligible to opt for presumptive tax scheme under Section 44AD in respect of these businesses.
- Presumptive income u/s 44AD would be as under:
 - > Hypermarket business (100% Cash Sales) {8% x ₹ 75 lakhs} = ₹ 6,00,000
 - > Supermarket business (Online Sales) {6% x ₹ 50 lakhs} = ₹ 3,00,000No deduction in respect of any expenditure is allowed while computing presumptive business income as per the provisions of Section 44AD.
- In the question it is stated that Mr Querashi "maintains proper books of accounts for both businesses in mercantile system". The income as per regular books of accounts has to be computed and if such income is more than the presumptive income computed u/s 44AD, the higher income can be declared u/s 44AD. Hence, income of Mr Querashi for AY 2025-26 as per books of account is computed below:

Computation Of Total Income:

Particulars	Regular Scheme (₹)	Presumptive Scheme (₹)
> PGBP income from hypermarket A supermarket business	6,53,950	9,00,000
> Discontinued furniture business {Amount of insurance compensation of ₹ 4L deemed as PGBP income of current year [-] Unabsorbed business loss of ₹ 3,00,000}	1,00,000	1,00,000
Total Income	7,53,950	10,00,000

Answer 50

The income of the assessee shall be ₹ 1,42,500 [(₹ 7,500 x 10) + (₹ 7,500 x 9)].

Answer 51

Computation Of Total Income Of Mr Ramamurthy For AY 2025-26:

Particulars	Amount (₹)
Presumptive business income u/s 44AE:	
• 2 light goods vehicles for 2 months (2 x ₹ 7,500 x 2 months)	30,000



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• Balance 2 light goods vehicles for 12 months [2 x ₹ 7,500 x 12 months]	1,80,000
• 7 light goods vehicles for 10 months [7 x ₹ 7,500 x 10 months]	5,25,000
Business Income	7,35,000
Less: Brought forward business loss of discontinued business	[50,000]
Total Income	6,85,000

Note: The assesses is eligible for computing the income from goods carriages applying the presumptive provisions of Section 44AE since he does not own more than 10 goods carriages at any time during the PY. .

Answer 52

Since Mr X does not own more than 10 vehicles at any time during PY 2024-25, he is eligible to opt for presumptive taxation scheme u/s 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Number Of Vehicles	Date Of Purchase	No Of Months For Which Vehicle Is Owned	No Of Months X No Of Vehicles
For Heavy Goods Vehicle:			
2	29.08,2024	8	16
1	23.02.2025	2	2
TOTAL			18
For Goods Vehicle Other Than Heavy Goods Vehicle:			
2	10.04.2024	12	24
1	15.03.2025	1	1
3	16.07.2024	9	27
1	02.01.2025	3	3
TOTAL			55

The presumptive income of Mr X u/s 44AE for AY 2025-26 would be ₹ 6,82,500 {(ie, 55 x ₹ 7,500, being for other than heavy goods vehicle) + [18 x ₹ 1,000 x 15 tons being for heavy goods vehicle]}.



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The answer would remain the same even if the two vehicles purchased in April 2024 were put to use only in July 2024, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr X.

Answer 53

Since Mr Prakash does not own more than 10 vehicles at any time during PY 2024-25, he is eligible to opt for presumptive taxation scheme u/s 44AE. As per Section 44AE, following amounts are deemed as profits and gains from goods carriage:

- Heavy Goods Vehicle - ₹ 1,000 per ton of gross vehicle weight per month or part of the month; and
- Other Than Heavy Goods Vehicle - ₹ 7,500 per month or part of month.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation Of Presumptive Income As Per Section 44AE:

Vehicle	Date of Purchase	Months For Which Vehicle Is Owned During PY 2024-25	Presumptive Income As Per Section 44AE
For Heavy Goods Vehicle:			
B	Purchased in PY 2023-24	12	12 Months x 13 Tons x ₹ 1,000 Per Ton Per Month = ₹ 1,56,000
E	15.05.2024	11	11 Months x 15 Tons x ₹ 1,000 Per Ton Per Month - ₹ 1,65,000
For Other Than Heavy Goods Vehicle:			
A	Purchased in PY 2023-24	12	12 Months x ₹ 7,500 Per Month - ₹ 90,000
C	Purchased in PY 2023-24	12	12 Months x ₹ 7,500 Per Month = ₹ 90,000
D	30.04.2024	12	12 Months x ₹ 7,500 Per Month = ₹ 90,000
TOTAL			5,91,000

Note: The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income u/s 44AE since the presumptive income has to be calculated per month or part of the month for which the



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vehicle is owned by Mr Prakash.

Answer 54

- i. Since M/s MN & Co, a partnership firm, does not own more than 10 vehicles at any time during PY 2024-25, it is eligible to opt for presumptive taxation scheme u/s 44AE.

Particulars		[₹]
(I)	Heavy Goods Vehicle {Goods carriage whose gross vehicle weight exceeds 12,000 kg}	
	{[(15 tons x ₹ 1,000/ton x 2 vehicles x 12 months) + (15 tons x ₹ 1,000/ton x 1 vehicle x 10 months)]}	3,60,000
		1,50,000
	Note: Months owned to be considered and not months used.	
(II)	Other Than Heavy Goods Vehicle [₹ 7,500 per month x 7 vehicles x 12 months]	6,30,000
Presumptive Income		11,40,000
Less: Partners' remuneration {Within limits prescribed u/s 40(b)}		[1,50,000]
PGBP Income		9,90,000

- ii. If M/s MN 5 Co declares profits and gains in accordance with the provisions of Section 44AE, it is not required to maintain books of accounts u/s 44AA or get them audited u/s 44AB. However, if the firm wishes to claim its income of ₹ 6,50,000 as per books of accounts, which is lower than the profits of ₹ 9,90,000 computed u/s 44AE, it has to maintain books of accounts u/s 44AA and get its accounts audited u/s 44AB.
- iii. In case the firm opts for the presumptive taxation scheme u/s 44AE, the due date for filing of return would be 31st July 2025. In case the firm does not opt for Section 44AE, it is required to get its books of account audited, in which case the due date for filing of return of income would be 31st October 2025.

Answer 55

- a) Recovery of a bad debt claim disallowed in the earlier year cannot be brought tp tax u/s 41(4). Section 41(4) can be invoked only in a case where bad debts or part thereof has been allowed as deduction earlier u/s 36(1)(vii).
- b) The scope of Section 40(a)(ia) has been recently expanded to cover all sums in respect of which TDS



provisions apply. Tax is required to be deducted on salary income u/s 192. Therefore, salary payment without deduction of tax at source would attract disallowance u/s 40(a)(ia). However, only 30% of salary paid without deduction tax at source would be disallowed u/s 40(a)(ia).

- c) It is deductible in 5 equal annual instalments commencing from the PY of payment. ₹ 24 lakhs (1/5th of ₹ 120 lakhs) is deductible u/s 35DDA for AY 2025-26.
- d) As per Section 41(4), any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received. Therefore, in this case, ₹ 50,000 would be taxable in the year of receipt, ie PY 2024-25 (AY 2025-26).

Answer 56

Computation Of Total Income Of Mr Y For AV 2025-26:

Particulars		Amount (₹)	Amount (₹)
Net Profit as per PAL A/c		5,35,000	
Add: Inadmissible expenses			
• Advance Income Tax		6,500	
• Depreciation on car		3,000	
• Medical expenses of wife		4,500	
• Driver's salary (1/4th being for personal use)		4,500	
• Repair of Car (1/4th being for personal use)		750	
Less: Ineligible incomes			
• Cash Gift from friend		(25,000)	
• Sale of Car		(17,000)	
• Interest on income tax refund		(3,000)	
Income u/h Business/Profession			5,09,250
Income u/h House Property:		3,00,000	
Gross Annual Value (Higher of Actual Rent A Expected Rent)			
Actual Rent (₹ 25,000 x 12)	₹ 3,00,000		
Expected Rent	₹ 2,50,000		
Less: Municipal Taxes (No amount has yet been paid by the owner himself)		Nil	



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Net Annual Value	3,00,000	
Less; Deduction u/s 24(a) @ 30% of NAV	(90,000)	
Less: Interest on capital borrowed u/s 24(b)	(20,000)	
Income from House Property		1,90,000
Income from Other Sources:		
• Cash gift [Exempt since total gift does not exceed ₹ 50,000]	Exempt	
• Interest on income tax refund	3,000	
• Interest on company deposits accruing to Mr Y's minor daughter	8,500	
{₹ 1,500 exemption available u/s 10(32)}		
Income u/h Other Sources		11,500
Gross Total Income		7,10,750
Less: Deduction u/s 80DD [Dependent son is suffering-from severe disability]		(1,25,000)
Less: Deduction u/s 80E [Interest on loan taken for higher education of son]		(10,000)
Total Income		5,75,750

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on ₹ 5,75,750 at slab rates	27,650.00
Add: Health & Education Cess @ 4% -	1,106.00
Tax Liability	28,756.00
Tax Payable [28,756 - Advance Tax of 6,500] [After Rounding off u/s 288B]	22,260.00

Notes:

- Income received by Mr Y's minor daughter from stage acting is not includible in the income of Mr Y, since the income has been earned by her on account of her special talent. However, interest on company deposits is includible in Mr Y's income as per Section 64(1A), even though the deposit was made out of income derived from special talent.



- No depreciation is available where an asset is purchased and sold during the same year. The transaction of purchase and sale of motor car during the year would result in a short-term capital loss eligible to be c/f for set-off in future years.

Answer 57

Computation Of Total Income Of Mr Gurumoorthy For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Income A Expenditure A/c	2,92,500	
Add: Inadmissible expenses		
• Rent for his residential accommodation	36,000	
• Municipal tax paid relating to residential house included in administrative expenses	9,000	
Less: Ineligible income/eligible expenses		
• Rent received	(54,000)	
• Dividend on shares from Indian Companies	(27,000)	
• Winning from lottery (net of TDS)	(35,000)	
• Income tax refund	(16,500)	
• Depreciation on clinical equipment (15% of ₹ 4.5 lakhs + 7.5% of ₹ 1 lakh)	(75,000)	
Income under the head Business/Profession		1,30,000
Income u/h House Property:		
Gross Annual Value	54,000	
Less: Municipal Taxes	(9,000)	
Net Annual Value	45,000	
Less Deduction u/s 24(a) @ 30% of NAV	(13,500)	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from House Property		31,500
Income u/h Other Sources:		
• Dividend from Indian Company	27,000	
• Interest on income tax refund	1,500	



• Winnings from lottery (₹ 35,000 + ₹ 15,000)	50,000	
Income from Other Sources		78,500
Gross Total Income		2,40,000
Less: Deduction u/s 80C (Tuition fees paid to university for full time education of his son)		(60,000)
Less: Deduction u/s 80E (Interest on loan taken for higher education of his daughter)		(65,000)
Total		1,15,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on ₹ 50,000 @ 30% u/s 115BB	15,000
Tax on normal income of ₹ 65,000 at slab rates	Nil
Less: Rebate u/s 87A	(12,500)
Tax after rebate	2,500
Add: Health & Education Cess @ 4%	100
Tax Payable	2,600
Less: TDS on winnings from lottery	(15,000)
Tax Refund	12,400

Note 1: The principal amount received towards income tax refund will be excluded from computation of total income. Interest received will be taxed u/h other sources.

Note 2: Winnings from lottery should be grossed up for computing the total income. While computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable.

Answer 58

Computation Of Total Income Of Mr Raghuveer For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
I. Income From Business/Profession:		
Net Profit as per PAL A/c	6,50,000	



Less: Eligible Expenses/Ineligible Incomes		
• Depreciation as per income tax provisions	(96,000)	
• Interest on government securities	(25,000)	
• Dividend from foreign company	(18,000)	
• Gift of gold coins received from his father	(55,000)	
Add: Ineligible Expenses		
• Depreciation debited as per books of accounts	85,000	
• Interest on loan [Since the asset has not been put to use till 31st March 2025, interest on loan borrowed for purchase of the new asset is not allowed to be deducted u/s 36(1)(iii). Such interest shall be capitalized and added to the cost of the asset]	68,000	
• Expenditure in excess of ₹ 10,000 not paid by an account payee cheque or account payee draft to be disallowed as per Section 40A(3)	20,500	
• Compensation paid to an employee on termination of his services in the business unit is an allowable business expense because it relates to business	Nil	
Net Income u/h PGBP		6,29,500
II. Income From Other Sources		
• Interest on Government Securities	25,000	
• Dividend from foreign company	18,000	
• Gift of gold coins received from father [Father is included in the definition of 'relative as given u/s 56(2)(x) and gift received from relative is not taxable]	Not Taxable	
Net Income u/h Other Sources		43,000
Gross Total Income		6,72,500
Less: Deduction u/s 80C [Deposit in Sukanya Samridhi Scheme]		(45,000)
Less: Deduction u/s 80D		
• Medical premium for self and wife [₹ 28,000] + preventive health check-up [₹ 2,500], subject to a maximum of ₹ 25,000		(25,000)
• Medical expenses of father eligible for deduction u/s 80D, subject to a maximum of ₹ 50,000 [Since no medical insurance policy has been taken in the name of father, actual medical expenses are eligible for deduction]		(50,000)
Less: Deduction u/s 80G [Donation to Swachh Bharat Kosh eligible for 100% deduction]		(20,000)



Total Income	5,32,500

Answer 59

Computation Of Total Income Of Mr Devansh For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Net Profit as per PAL A/c	1,34,000	
Add: Inadmissible expenses		
• Fire insurance (3/4th of ₹ 10,000)	7,500	
• Income tax	27,000	
• Household expenses	42,500	
• Municipal taxes paid for house property (3/4th of ₹ 36,000)	27,000	
Less: Eligible expenses/ineligible incomes		
• Cash gift (on the occasion of marriage)	(1,20,000)	
• Interest on debentures	(5,400)	
Income under the head Business/Profession		1,12,600
Income u/h House Property:		
Gross Annual Value	1,65,000	
Less: Municipal Taxes	(18,000)	
Net Annual Value	1,47,000	
Less: Deduction u/s 24(a) @ 30% of NAV	(44,100)	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from House Property		1,02,900
Income from Capital Gains: LTCG (Cost of acquisition of bonus shares is Nil)		2,20,000
Income from Other Sources:		
• Cash Gift (Received on the occasion of marriage)	Exempt	
• Gross interest on debentures	6,000	
• Interest on post office saving account [Exempt u/s 10(15)]	Nil	



• Gift on acquisition of vacant site taxable u/s 56(2)(x) [2,80,000 - 1,05,000]	1,75,000	
Income u/h Other Sources		1,81,000
Gross Total Income		6,16,500
Less: Deduction u/s 80C [15% of ₹ 3,00,000]		[45,000]
Total Income		5,71,500

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on Long Term Capital Gain of ₹ 2,20,000 @ 20%	44,000
Tax on Normal Income of ₹ 3,51,500 at slab rates	5,075
Tax before Health A Education Cess	49,075
Add: Health A Education Cess @ 4%	1,963
Tax Liability	51,038
Less: TDS A Income Tax Paid	[27,600]
Net Tax Payable	23,438
Rounded off u/s. 288B	23,440

Answer 60

Computation Of PGBP Income Of Mr Q For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Net profit as per PAL A/c		93,950
Add: Ineligible Expenses:		
• Expenses on building a new toilet is in the nature of capital expenditure and thus not allowable as per Section 37(1).	1,00,000	
• Interest payable on which TDS has not been deducted at source disallowed u/s 40(a) to the extent of 30% {Assumed that interest is payable to a resident}	15,000	
• Penalty for contravention of Central GST Act {Penalty paid for violation or	24,000	



infringement of any law is not allowable as deduction u/s 37(1)}		1,39,000
Less: Ineligible Incomes/Eligible Expenses:		
• Interest from company deposits {Chargeable u/h other sources assuming that the same is not in the nature of a business income}	[6,400]	
• Income tax refund {not an income chargeable to tax}	[8,100]	[14,500]
PGBP Income		2,18,450

Note: Payment to IIT for an approved scientific research program qualifies for deduction @ 100% u/s 35(2AA). Thus, no treatment needs to be done separately.

Answer 61

Computation Of Total Income Of Mr. Y For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Income A Expenditure A/c	9,28,224	
Add: Inadmissible expenses/Eligible incomes		
• Value of benefits received	10,500	
• Purchase of Car	80,000	
• Municipal Tax	3,000	
• Payment made in cash in excess of ₹ 10,000 {Sec 40A(3)}	30,000	
Less: Ineligible incomes/Eligible expenses		
• Dividend on shares	[10,524]	
• Income from Unit Trust of India	[7,600]	
• Honorarium received	[15,800]	
• Rent received	[85,600]	
• Depreciation of car [80,000 x 15%] (Note 1)	[12,000]	
Income u/h Business/Profession		9,20,200
Income u/h House Property:		
Gross Annual Value	85,600	
Less- Municipal Taxes	[3,000]	



Net Annual Value	82,600	
Less: Deduction u/s 24(a) @ 30% of NAV	(24,780)	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from House Property		57,820
Income u/h Other Sources:		
• Dividend from Indian Company	10,524	
• Income from UTT	7,600	
• Honorarium received	15,800	
Income from Other Sources		33,924
Gross Total Income		10,11,944
Less: Deduction u/s 80C (NSC)		(10,000)
Less: Deduction u/s 80D (Not available since mediclaim premium paid in cash)		Nil
Total Income		10,01,944
Total Income (Rounded off u/s 288B)		10,01,940

Note 1: It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for u/s 32.

Note 2: Incentive to articled assistants for passing IPCC examination in their first attempt is deductible u/s 37(1).

Note 3: Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 (ie for 6 months amounting to ₹ 1,000) is allowable since Ms Purvi is following the cash system of accounting.

Note 4: ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to Income A Exp A/c, no further adjustment is required. Further, the balance amount of travelling expenses has been assumed to be incurred on domestic tours in connection with professional work.

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on ₹ 10,01,940 at slab rates	1,13,082.00
Add: Health & Education Cess @ 4%	4,523.28
Tax Liability	1,17,605.28



Less: TDS (₹ 1,052 + ₹ 760)	[1,812.00]
Tax Payable	1,15,793.28
Tax Payable [Rounded off u/s 288B]	1,15,790.00

Answer 62

Computation Of Total Income Of Ms Rekha For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income u/h House Property:		
Arrears of rent taxable after allowing a deduction of 30%		63,000
{Arrears of rent are taxable u/h 'income from house property' in the year of receipt after allowing a deduction of 30% irrespective of the fact whether the assessee is the owner of the property or not}		
Income u/h Business/Profession:		
a) Income from firm AK & Co:		3,40,000
• Share of profit from AK & Co {Exempt u/s 10(2A)}	Exempt	
• Interest on capital from AK & Co {Restricted to 12%, which is the maximum deduction allowable in the hands of the firm}	2,40,000	
• Salary as a working partner {Taxable as per Section 28 since the same has been fully allowed in the hands of the firm}	1,00,000	
b) Income from Rice Mill:		5,03,000
Net Profit as per PAL A/c	4,50,000	
Add: Inadmissible expenses {ie expenses wrongly debited to PAL A/c}		
• Advance income-tax paid	1,00,000	
• Personal drawings	50,000	
Less: Ineligible incomes {ie incomes wrongly credited to PAL A/c}		
• Interest on savings bank A/c with SBI	[12,000]	
• Interest on savings A/c with post office	[5,000]	
• Dividend from listed Indian company	[80,000]	
Income u/h Other Sources:		



• Interest on savings bank A/c with SBI	12,000	
• Interest on savings A/c with post office {Exemption of ₹ 3,500 available u/s 10(15)}	1,500	
• Dividend from listed Indian company	80,000	
Income from Other Sources		93,500
Gross Total Income		9,99,500
Less: Deduction for life insurance premium u/s 80C {Since the policy has been taken on or after 01.04.2012, maximum deduction shall be restricted to 10% of sum assured}		(50,000)
Less: Deduction for medical insurance premium u/s 80D {Medical insurance premium of ₹ 55,000 on a policy taken for mother, being a senior citizen, is allowable upto ₹ 50,000, even though her mother is not dependent on her}		(50,000)
Less: Deduction for interest on savings bank A/c with SBI A post office u/s 80TTA {Max ₹ 10,000}		(10,000)
Total Income		8,89,500

Computation Of Tax Liability Of Ms Rekha For AY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 8,89,500 at slab rates	90,400
Add: Health & Education Cess @ 4%	3,616
Tax Liability	94,016
Less: Advance Tax Paid	(1,00,000)
Tax Refund	5,984
Rounded off u/s 288B	5,980

Answer 63

Computation Of Total Income Of Mr K For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income u/h Business/Profession:		
* Income from own business:		



Net profit as per books	5,60,000	
Add: Depreciation as per books	34,000	
Add: Disallowance of municipal taxes paid for the second half-year u/s 43B, since the same was paid after the due date of filing of return	3,500	
Add: Disallowance u/s 40A(3) for salary exceeding ₹ 10,000 paid in cash	21,000	
Add: 20% of car expenses for personal use	8,000	
Less: Depreciation allowable [Note 1]	[86,400]	5,40,100
• Income from firm: Interest on capital from partnership firm		1,20,000
[Interest is includible as business income in the hands of the partner only to the extent it is allowed as deduction in the hands of the firm. Interest upto 12% p.a. is allowable as deduction to the firm. Therefore, interest @ 12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr K. It has also been assumed that the interest on capital has been authorized under the Partnership Deed]		
Income u/h Other Sources:		
* Interest on bank fixed deposit [Gross]	15,000	
• Interest on income tax refund	2,300	17,300
Gross Total Income		6,77,400
Less: Deduction u/s 80C [LIC premium paid for major son]		[60,000]
Less: Deduction u/s 80C [Amount credited to PPF in the name of his wife]		[70,000]
Less: Deduction u/s 80TTB [Interest on bank fixed deposit]		[15,000]
Total Income		5,32,400

Note 1 - Depreciation Allowable Under The Income Tax Act, 1961:

		Opening WDV	Rate	Depreciation
Block 1	Computers	₹ 1,20,000	40%	₹ 48,000
Block 2	Motor Car (80% used for business and 20% used for personal purposes)	₹ 3,20,000	15%	₹ 38,400 (₹ 3,20,000 * 15% * 80%)
Total Depreciation For PY 2024-25				₹ 86,400

Answer 64



Computation Of Total Income Of Dr Roopa For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income u/h Business/Profession:		
Business Receipts: Sale of medicine	2,50,000	
Consultation fees	50,000	
Visiting fee	2,00,000	
Less: Business Expenses		
• Purchase of medicines	(47,000)	
• Medical journal	(5,000)	
• Depreciation on surgical instrument (15% of ₹ 50,000)	(7,500)	
• Depreciation on motor car [(15% of ₹ 4,00,000) x 3/4]	(45,000)	
• Motor car expenses (50,000 x 3/4)	(37,500)	
• Interest on loan taken for motor car (18,000 x 3/4)	(13,500)	
• Interest on housing loan (60,000 x 1/4)	(15,000)	
Business Income		3,29,500
Income u/h House Property:		
Net Annual Value	Nil	
Less: Deduction u/s 24(a) @ 30% of NAV	Nil	
Less: Interest on capital borrowed u/s 24(b) (₹ 45,000, being 3/4+h of ₹ 60,000 but limited to ₹ 30,000)	(30,000)	
Loss from self-occupied house property		(30,000)
Income u/h Other Sources:		
• Family Pension	2,80,000	
Less: ₹ 15,000 or 1/3 whichever is lower	(15,000)	
• Bank FD interest in name of minor daughter (₹ 1,50,000 x 9% x 9/12)	10,125	
Less: Exempt u/s 10(32)	(1,500)	
• Lecturer fees	5,000	
• Savings bank interest	1,000	



• Winnings from lottery [Gross] (35,000 + 15,000)	50,000	
Income from Other Sources		3,29,625
Gross Total Income		6,29,125
Less: Deduction u/s 80C - Housing loan principal repayment (48,000 x 3/4)		[36,000]
Less: Deduction u/s 80D - Medical insurance premium paid		
• Own		[16,000]
• Mother		[16,000]
Less: Deduction u/s 80TTA [Savings bank interest]		[1,000]
Total Income		5,60,125
Total Income [Rounded off u/s 288A]		5,60,130
Agricultural Income		1,00,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on casual income of ₹ 50,000 @ 30%	15,000.00
Tax on normal income of ₹ 5,10,130 [partial integration to be done]	29,526.00
Step 1: Tax on agricultural income (₹ 1 lakh) + non-agricultural income (₹ 5,10,130) at slab rates	
Step 2: Tax on agricultural income (₹ 1 lakh) + exemption limit (₹ 2.5 lakhs) at slab rates	
Step 3: Tax on normal income (₹ 34,526 - 5,000)	
Tax before Health & Education Cess	44,526.00
Add: Health & Education Cess @ 4%	1,781.04
Tax Liability	46,307.04
Less: TDS	[15,000.00]
Less: Advance Tax	[20,000.00]
Tax Payable	11,307.04
Tax Payable [Rounded off u/s 288B]	11,310.00

Notes:



- i. Since the residential house was constructed before 01.04.1999, the deduction for interest is restricted to ₹ 30,000.
- ii. Since 25% portion of the house is used for business purposes, therefore, 25% share of interest paid is deductible while computing business income.
- iii. Agricultural income is exempt u/s 10(1) and share of income from HUF is exempt u/s 10(2).
- iv. Term deposit of ₹ 1,50,000 in name of minor daughter does not qualify for deduction u/s 80C. However, principal repayment of housing loan (75%) would qualify for deduction u/s 80C. Therefore, eligible deduction u/s 80C would come out to ₹ 36,000 [ie, 75% of ₹ 48,000].
- v. Depreciation @ 15% has been provided on surgical instruments and motor car.

Answer 65

- a. As per Section 43B, any sum payable to the Indian Railways for use of railway assets is allowed to be deducted subject to the condition that such sum has been paid on or before the due date of filing of return of income u/s 139(1). Thus, in the present case, ₹ 45,000 paid by ABC Ltd to Indian Railways for use of railway assets would be allowed as deduction while computing the business income for PY 2024-25 since such payment has been made on or before the due date for filing return of income for PY 2024-25.
- b. The expenditure of ₹ 32,000 shall be available as deduction while calculating business income. No disallowance u/s 40A(3) would be attracted in the hands of S Ltd because payment upto ₹ 35,000 can be made in cash to a transporter for plying, hiring or leasing goods carriage. Further, disallowance u/s 40(a)(ia) for non-deduction of TDS would also not be attracted because TDS provisions u/s 194C are not applicable in case of a transporter owning not more than 10 goods carriages.
- c. As per Rule 6DD of Income Tax Rules, 1962, where payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance u/s 40A(3) is attracted even if the cash payment for the expense exceeds ₹ 10,000. Therefore, expenditure of ₹ 80,000 would be available as deduction because disallowance u/s 40A(3) would not be attracted where cash payment for purchase of wheat is made directly to the farmer.





CHAPTER - 11

CAPITAL GAINS

(easy)

EXAMPLE

	Area	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.	Is the land situated in this area a capital asset?
(i)	A	1 km	9,000	No
(ii)	B	1.5 kms	12,000	Yes
(iii)	C	2 kms	11,00,000	Yes
(iv)	D	3 kms	80,000	No
(v)	E	4 kms	3,00,000	Yes
(v)	F	5 kms	12,00,000	Yes
(vi)	G	6 kms	8,000	No
(vii)	H	7 kms	4,00,000	No
(viii)	I	8 kms	10,50,000	Yes
(ix)	J	9 kms	15,00,000	No

ILLUSTRATION 1 (easy)

How will you calculate the period of holding in case of the following assets?

1. Shares held in a company in liquidation
2. Bonus shares
3. Flat in a co-operative society



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SOLUTION

1. **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
2. **Bonus shares** - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
3. **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

ILLUSTRATION 2 (easy)

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

SOLUTION

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

ILLUSTRATION 3 (easy)

X converts his capital asset [acquired on June 10, 2006 for ₹ 60,000] into stock-in-trade on March 10, 2024. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2024. Discuss the year of chargeability of capital gain and business income.

SOLUTION

Since the capital asset is converted into stock-in-trade during the previous year 2023-24 relevant to the A.Y.



2024-25, it will be a transfer u/s 2(47) during the P.Y. 2023-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2025-26, since the stock-in-trade has been sold only on June 10, 2024. For this purpose, the fair market value on the date of such conversion [i.e. 10th March, 2024] will be the full value of consideration for computation of capital gains. The capital gains would be computed by reducing the indexed cost of acquisition therefrom, since the transfer [i.e., conversion of capital asset into stock in trade] took place during the P.Y. 2023-24. The business income of ₹ 50,000 [i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion] would also be taxable in the A.Y.2025-26. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2025-26.

ILLUSTRATION 4 (easy)

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2025. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

SOLUTION

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

ILLUSTRATION 5 (average)

In which of the following situations capital gains tax liability does not arise?

- i. Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2024-25, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- ii. A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2024-25 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.
- iii. Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2024 by the company.

SOLUTION

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- i. As per the provisions of section 47(iii), gift of a capital asset by an individual is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- ii. As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- iii. As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

ILLUSTRATION 6 (average)

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

SOLUTION

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

ILLUSTRATION 7 (average)

Examine, with reasons, whether the following statements are True or False.

- i. Alienation of a residential house in a transaction of reverse mortgage under a scheme made and



notified by the Central Government is treated as "transfer" for the purpose of capital gains.

- ii. Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.
- iii. Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

SOLUTION

- i. **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- ii. **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bonds held for more than 12 months will be a long-term capital asset.
- iii. **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

ILLUSTRATION 8 (difficult)

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of November, 2023. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2004-05	113
2023-24	348
2024-25	363

SOLUTION

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion [i.e. P.Y. 2023-24] but will be taxable only in the year in which the stock-in-trade is sold [i.e. P.Y. 2024-25]. Profits from business will also be taxable in the year of sale of the



stock-in-trade (P.Y. 2024-25).

The LTCG and business income for the A.Y.2025-26 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹ 50,000 x 348/113)	1,53,982	2,96,018

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Since the transfer (conversion into stock-in-trade) took place in the P.Y. 2023-24, the benefit of indexation would be available. The date of sale of stock-in trade is not relevant for determining whether benefit of indexation would be available.

ILLUSTRATION 9 (difficult)

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2023-24 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2024 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2024.

You are required to:

- determine the claim of depreciation for Assessment Year 2025-26.
- compute the capital gains liable to tax for Assessment Year 2025-26.
- If Singhania & Co. had sold the three machines in June, 2024 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

SOLUTION



i. **Computation of depreciation for A.Y.2025-26**

Particulars	₹
Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2025	6,00,000

Since the value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

ii. The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of the block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

iii. If the three machines are sold in June, 2024 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.



Particulars	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

ILLUSTRATION 10 (difficult)

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2024 is ₹ 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (₹)	Assets	Unit 1(₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the land of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2022 for ₹ 50,000 on which no depreciation has been charged.
- The value of machinery represents the written down value as per the Income- tax Act, 1961.
- Compute the capital gain for the assessment year 2025-26.



SOLUTION

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth [See Note 1 below]	12,50,625
Long-term capital gain	17,21,375

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Land [excluding ₹ 3 lakhs on account of revaluation]		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents [See Note 2 below]		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors [25% of ₹ 1,50,000]	37,500	
Bank Loan [70% of ₹ 2,00,000]	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2024

Value of patents:	₹
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for Financial Year 2022-23	12,500



Balance as on 1.4.2023	37,500
Less: Depreciation for Financial Year 2023-24	9,375
Balance as on 1.4.2024	28,125

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

(average)

(1)	(2)	(3)	(4)	(5)
S.No.	LTCG computed	Cost of new residential house	Amount in column (3) or ₹ 10 crore, whichever is lower	Exempt LTCG [Lower of column (2) and column (4)]
(1)	₹ 7 crore	₹ 12 crore	₹ 10 crore	₹ 7 crore
(2)	₹ 12 crore	₹ 14 crore	₹ 10 crore	₹ 10 crore
(3)	₹ 11 crore	₹ 9 crore	₹ 9 crore	₹ 9 crore
(4)	₹ 15 crore	₹ 13 crore	₹ 10 crore	₹ 10 crore

(average)

EXAMPLE

1. If the LTCG is ₹ 8 crore and the assessee has incurred ₹ 5 crore in construction of new residential house upto the due date u/s 139(1) i.e., 31.7.2025/ 31.10.2025, as the case may be, then, as per section 54(2), he can deposit the amount of ₹ 3 crore not appropriated by him towards construction of house upto 31.7.2025/31.10.2025, as the case may be, in Capital Gains Account Scheme (CGAS) for claiming exemption under section 54. If he deposits, say, ₹ 2 crore, in CGAS on or before the due date u/s 139(1), the deemed cost of the new residential house would be ₹ 7 crore (₹ 5 crore + ₹ 2 crore). The amount exempt u/s 54 would be ₹ 7 crore.
2. If the LTCG is ₹ 14 crore and the assessee has already incurred ₹ 7 crore in construction of new residential house upto 31.7.2025/31.10.2025, as the case may be, then, as per section 54(2), he can deposit the difference of ₹ 3 crore (₹ 10 crore - ₹ 7 crore) in CGAS for claiming exemption u/s 54. If he deposits, say, ₹ 2 crore in CGAS on or before the due date u/s 139(1), the deemed cost of the new residential house would be ₹ 9 crore (₹ 7 crore + ₹ 2 crore). The amount exempt under section 54 would



ILLUSTRATION 11 [average]

Mr. Cee purchased a residential house on July 20, 2022 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2022. He sold the house property in April 2024 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2024.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?

SOLUTION

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	₹
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

ILLUSTRATION 12 [average]

Long term capital gain of ₹ 75 lakhs arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

SOLUTION

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to ₹ 50 lakhs, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹ 50 lakhs, provided the investment is made before 1.11.2024 (i.e., within six months from the date of transfer).



	(1)	(2)	(3)	(4)	(5)
	Net Consideration	LTCG computed	Cost of new residential house	Amount in column (3) or ₹ 10 crores, whichever is lower	Exempt LTCG
[1]	₹ 15 crore	₹ 7.5 crore	₹ 12 crore	₹ 10 crore	₹ 7.5 crore x 10/15 = ₹ 5 crore
[2]	₹ 20 crore	₹ 12 crore	₹ 15 crore	₹ 10 crore	₹ 12 crore x 10/20 = ₹ 6 crore
[3]	₹ 16 crore	₹ 12 crore	₹ 8 crore	₹ 8 crore	₹ 12 crore x 8/16 = ₹ 6 crore
[4]	₹ 10 crore	₹ 6 crore	₹ 10 crore	₹ 10 crore	₹ 6 crore x 10/10 = ₹ 6 crore
[5]	₹ 12 crore	₹ 6 crore	₹ 12 crore	₹ 10 crore	₹ 6 crore x 10/12 = ₹ 5 crore

Examples (average)

1. If the net consideration is ₹ 9 crore, the capital gain is ₹ 4.50 crore and the amount incurred for construction of new residential house upto 31.7.2025/31.10.2025, as the case may be, is ₹ 5 crore, then, as per section 54F(4), the assessee can deposit the amount of ₹ 4 crore [i.e., ₹ 9 crore – ₹ 5 crore] not appropriated towards construction upto 31.7.2025/ 31.10.2025, as the case may be, in CGAS for claiming exemption u/s 54F. If the assessee has deposited, say, ₹ 3 crore on or before 31.7.2025/ 31.10.2025, as the case may be, the deemed cost of new residential house would be ₹ 8 crore (₹ 5 crore + ₹ 3 crore). The exemption u/s 54F would be ₹ 4 crore [i.e., ₹ 4.50 crore x ₹ 8 crore/₹ 9 crore].
2. If the net consideration is ₹ 15 crore, the capital gain is ₹ 7.50 crore and the amount incurred for construction of new residential house upto 31.7.2025/31.10.2025, as the case may be, is ₹ 6 crore, the assessee can deposit ₹ 4 crore [i.e., ₹ 10 crore – ₹ 6 crore] on or before 31.7.2025/31.10.2025, as the case may be, in CGAS for claiming exemption u/s 54F. If the assessee has deposited, say, ₹ 3 crore on or before the due date of filing return u/s 139(1), the deemed cost of new residential house would be ₹ 9 crore (₹ 6 crore + ₹ 3 crore). The exemption u/s 54F would be ₹ 4.50 crore [i.e., ₹ 7.50 crore x ₹ 9 crore/ ₹ 15 crore].

ILLUSTRATION 13 (difficult)

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

	Mr. A [age 45]	Mrs. B [age 62]	Mr. C [age 81]	Mr. D [age 82]



Status	Non-resident	Non-resident	Resident	Non- resident
Total income other than long-term capital gain	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain [Assume transfer took place before 23.7.2024]	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

- If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
- If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

SOLUTION

- If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

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

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non- resident	Non-resident	Resident	Non- resident
Applicable basic exemption limit	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @ 20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 [Exempt – not a capital asset]	-
Other income	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				



On LTCG	₹ 17,000	-	-	-
On Other income	Nil	₹ 500	₹ 14,500	₹ 9,000
	₹ 17,000	₹ 500	₹ 14,500	₹ 9,000
Less: Rebate u/s 87A	-	-	₹ 14,500	-
	₹ 17,000	₹ 500	Nil	₹ 9,000
Add: Health & education cess (HEC) @4%	₹ 680	₹ 20	Nil	₹ 360
Total tax liability	₹ 17,680	₹ 520	Nil	₹ 9,360

Note: Since Mr. C is a resident whose total income does not exceed ₹ 7 lakhs, he is eligible for rebate of ₹ 25,000 or the actual tax payable, whichever is lower, under section 87A.

- ii. **If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act**

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

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non- resident	Non-resident	Resident	Non- resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	5,00,000	Non- resident
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	₹ 2,50,000
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	10,000 [exempt u/s 112A since it is less than ₹ 1,25,000]	60,000 [Exempt – not a capital asset]	
Other income	₹ 2,40,000	3,10,000	5,90,000	4,80,000



Tax liability				
On LTCG	17,000			
On Other income	Nil	3,000	18,000	₹ 11,500
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Add: Health & education cess (HEC) @4%	₹ 680	₹ 120	₹ 720	₹ 460
Total tax liability	₹ 17,680	₹ 3,120	₹ 18,720	₹ 11,960

Notes:

Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.





TEST YOUR KNOWLEDGE

14] Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.12.2018 is ₹ 2,000.

(average)

15] Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2025.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2023-24: 348; F.Y. 2024-25: 363.

(average)

16] Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.



She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363].

(difficult)

- 17) Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2024.

The value of stock lost [total damaged] was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

i. Towards loss of stock	₹ 4,80,000
ii. Towards damage of machinery	₹ 6,00,000
iii. Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

(difficult)

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

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

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

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



The value determined by the Stamp Duty Authority-

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

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

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

Cost Inflation Index for Financial Year[s]: 2001-02 - 100; 2024-25 - 363

[difficult]

- 19) Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- i. Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025
- ii. Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.
- iii. Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 40 lakhs on 9-1-2025.



Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2024-25 - 363.

(difficult)

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

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

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

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

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

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

(difficult)



ANSWERS

14. Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) [Refer Note 1]	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]	NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. Is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Other income	8,00,000
Total Income	13,94,000
Tax Liability	
Tax on STCG u/s 11A	
20% of ₹ 3,96,000	79,200
Tax on LTCG u/s 112A	
12.5% of (₹ 1,96,000 - ₹ 1,25,000) since it is transferred on or after 23.7.2024	8,875



Tax on other income of ₹ 8,02,000		
₹ 3,00,000 to ₹ 7,00,000@5%	20,000	
₹ 7,00,000 to ₹ 8,02,000 @10%	10,200	30,200
		1,18,275
Add: Health and education cess @4%		4,731
Tax liability		1,23,006
Tax liability (rounded off)		1,23,010

Notes:

i. Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of

- Cost of acquisition i.e., ₹ 1,000 per share and
- lower of

Fair market value of such asset i.e., ₹ 2,000 per share and

Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

ii. Securities transaction tax is not allowable as deduction.

- 15.** Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2025-26.

Particulars	₹	
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3,25,000	



Less: Fair market value on the date of conversion	3,00,000	
Capital Gains		25,000
Full value of consideration (Fair market value on the date of conversion)	3,00,000	
Less: Indexed cost of acquisition ($\text{₹ } 80,000 \times 348/113$)	2,46,372	
Long-term capital gain		53,628
Taxable Income		78,628

16. Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	₹
Business Income	
Sale price of flats [$10 \times \text{₹ } 30 \text{ lakhs}$]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [$\text{₹ } 210 \text{ lacs} \times 2/3$]	1,40,00,000
Cost of construction of flats [$10 \times \text{₹ } 10 \text{ lakhs}$]	1,00,00,000
Business income chargeable to tax for A.Y.2025-26 Capital Gains	60,00,000
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$\text{₹ } 35,00,000 \times 348/113$]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 [$\text{₹ } 1,02,21,239 \times 2/3$]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159

Notes:

- The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade [i.e., P.Y.2023-24, in this case].
- As per section 45(2), the capital gains arising from the transfer by way of conversion of capital



assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.

- iii. The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade [i.e., P.Y.2023-24] and not up to the year of sale of stock-in-trade [i.e., P.Y.2024-25].
- iv. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
- v. In this case, since only 2/3rd of the stock-in-trade [10 flats out of 15 flats] is sold in the P.Y.2024-25, only proportionate capital gains [i.e., 2/3rd] would be chargeable to tax in the A.Y.2025-26.
- vi. On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- vii. In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, is only ₹ 50 lakhs.

17.

- I. **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for



deduction while computing income under the head “Profits and gains of business or profession”.

- II. **Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value [i.e. ₹ 10,80,000] over the insurance compensation [i.e. ₹ 6,00,000] will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- III. **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by section 2[14]. They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

18. Computation of income chargeable under the head “Capital Gains” of Mr. Sarthak for A.Y. 2025-26

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority	₹
1,70,00,000	
on the date of agreement	
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.]	



In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Cost of acquisition of residential house	30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	1,40,00,000
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	85,00,000

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

19. Computation of income chargeable under the head “Capital Gains” of Mrs. Yuvika for A.Y.2025-26



Particulars	₹ [in lakhs]	₹ [in lakhs]
Capital Gains on sale of residential building Actual sale consideration ₹ 810 lakhs Value adopted by Stamp Valuation Authority ₹ 890 lakhs [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]		
Gross Sale consideration [Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration]		810.00
Less: Brokerage @1% of sale consideration [1% of ₹ 810 lakhs]		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 363/117]	273.03	



- Construction cost of residential building (₹ 100 lakhs x 363/129)	281.40	554.43
Long-term capital gains		247.47
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2025), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2025 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		67.47

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head “Income from other sources”, in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.



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

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

Computation of tax liability u/s 112

Particulars		Amount (₹)
On LTCG of ₹ 25,20,500 x 12.5%		3,15,063
Add: Health and Education cess @4%		12,603
		3,27,666
On LTCG with indexation benefit		
Net Sale consideration	38,69,500	
Less: Indexed cost of Acquisition (₹ 9,59,000 x 363/100)	34,81,170	
Less: Indexed cost of Improvement (₹ 3,90,000 x 363/254)		
5,57,362		
Long-term capital loss	[1,69,032]	
Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.		

Notes:**i. Computation of cost of acquisition**

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

- ii. Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the



previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

ILLUSTRATION 21

Mr C purchases a house property for ₹ 1,06,000 on May 15, 1975. The following expenses are incurred by him for making addition/alternation to the house property:

Particulars	Amount (₹)
Cost of construction of first floor during FY 1982-83	3,10,000
Cost of construction of second floor during FY 2002-03	7,35,000
Reconstruction of the property during FY 2012-13	5,50,000

FMV of the property on April 1, 2001 is ₹ 8,50,000. The house property is sold by Mr C on July 10, 2024 for ₹ 68,00,000 [expenses incurred on transfer were ₹ 50,000]. Compute capital gains, for AY 2025-26.

FY	Cost Inflation Index
2002-03	105
2012-13	200
2024-25	363

ILLUSTRATION 22

Ms Paulomi has transferred 1,000 shares of Hetal Ltd [which were acquired by her for ₹ 10,000 during FY 02-03] to Dhaval, her brother, at a consideration of ₹ 3,12,934 on 15.05.2024 privately. During FY 24-25, she has paid through e-banking ₹ 15,000 towards medical premium, ₹ 50,000 towards LIC premium & ₹ 25,000 towards PPF.

Assuming she has no other source of income, compute her total income and tax payable for AY 2025-26. Cost Inflation Index for FY 2002-03 is 105 and for FY 2024-25 is 363.

ILLUSTRATION 23

Ms Usha purchases 1,000 equity shares in X Ltd at a cost of ₹ 15 per share [brokerage 1%] in Jan 1998. She gets 100 bonus shares in August 2000. She again gets 1,100 bonus shares by virtue of her holding in Feb 2006. FMV of such shares on 01.04.2001 is ₹ 25 per share. In May 2024, she transfers all her shares @ ₹ 150 per share [brokerage 2%]. Cost Inflation Index for FY 2001-02 is 100; for FY 2005-06 is 117 and for FY 2024-25 is 363.

Compute the capital gains taxable in the hands of Ms Usha for AY 2025-26 assuming X Ltd is an unlisted company and STT was not applicable at the time of sale.

ILLUSTRATION 24

Mr Rajan provides you the following details with regard to sale of certain securities by him during FY 2024-25:

1) Sold 10,000 Shares Of A Ltd On 05-04-2024 @ ₹ 650 Per Share - A Ltd is a listed company. These shares were acquired by Mr Rajan on 05-04-2017 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of A Ltd were traded on a recognized stock exchange as under:

> Highest price - ₹ 300 per share

> Average price - ₹ 290 per share

> Lowest price - ₹ 280 per share

2) Sold 1,000 Units Of B Mutual Fund On 20-04-2024 @ ₹ 50 Per Unit: B Mutual Fund is an equity oriented fund. These units were acquired by Mr Rajan on 15-04-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was ₹ 55 per unit.

3) Sold 100 Shares Of C Ltd On 25-04-2024 @ ₹ 200 Per Share: C Ltd is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.

Relevant Cost Inflation Index: FY 2001-02 - 100; FY 2016-17 - 264; FY 2017-18 - 272 and FY 2024-25 - 363.

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for AY 2025-26 assuming that the other incomes of Mr Rajan exceeds the maximum amount not chargeable to tax. [Ignore surcharge and cess]

ILLUSTRATION 25

Miss Himanshi (68 years) is a resident individual. During AY 2025-26, she has income from LTCG on transfer of equity shares ₹ 1,80,000 [STT has been paid on acquisition and transfer of the said shares] and income from



other sources ₹ 2,75,000. Compute her tax liability for AY 2025-26 assuming that transfer took place before 23/7/2024.

ILLUSTRATION 26

Mr R holds 1,000 shares in Star Minus Ltd. an unlisted company, acquired during PY 2001-02 at ₹ 75,000. He has been offered right shares by the company in the month of Apr 2024 at ₹ 140 per share in the ratio of 2 shares for every 5 held.. He retains 50% of the rights and renounces the balance right shares in favour of Mr Q for ₹ 25 per share in May 2024. All the shares are sold by Mr R for ₹ 300 per share in June 2024 and Mr Q sells his shares in June 2024 at ₹ 280 per share. Compute the amount of capital gains taxable in the hands of Mr R and Mr Q.

FY	Cost Inflation Index
2001-02	100
2024-25	363

ILLUSTRATION 27

ABC Ltd converts a capital asset acquired for an amount of ₹ 1,00,000 in June 2004 into SIT in the month of November 2012. The FMV of the asset as on the date of conversion is ₹ 2,50,000. The SIT is sold for an amount of ₹ 3,50,000 in May 2024. Explain the tax treatment of the present transaction. Cost Inflation Index for FY 2004-05 is 113, for FY 2012-13 is 200 and for FY 2024-25 is 363.

ILLUSTRATION 28

Mr X acquired a house for ₹ 20,000 during PY 1997-98. The fair market value of the house as on 01.04.2001 was ₹ 80,000. This house was acquired by the Government on 15.03.2011 for ₹ 6,60,000 and ₹ 5,20,000 was paid as compensation to him on 25.03.2013 and the balance ₹ 1,40,000 was paid on 15.04.2013. Mr X filed a suit against the Government challenging the quantum of compensation and the court ordered for giving of additional compensation of ₹ 1,00,000. He incurred an expenditure of ₹ 2,000 in connection with the suit. The additional compensation is received on 14.06.2024. Compute the capital gains chargeable to tax.

FY	Cost Inflation Index
2001-02	100
2010-11	167
2012-13	200



2013-14	220

ILLUSTRATION 29

Ms Vasumathi purchased 10,000 equity shares of ABC Co Pvt Ltd on 28.02.2005 for ₹ 1,20,000. The company was wound up on 31.05.2024, The following is the summarized financial position of the company as on 31.05.2024:

Liabilities	Amount (₹)	Assets	Amount (₹)
60,000 Equity Shares	6,00,000	Agricultural Lands	42,00,000
General Reserve	40,00,000	Cash at Bank	6,50,000
Provision for taxation	2,50,000		
Total	48,50,000	Total	48,50,000

The tax liability was ascertained at ₹ 3,00,000. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market value of 6 acres of agricultural land (in an urban area) as on 31.5.2024 is ₹ 10L per acre. The agricultural land received above was sold by Ms Vasumathi on 28.02.2025 for ₹ 15L. Cost Inflation Index for FY 2004-05 is 113 and for FY 2024-25 is 363.

Discuss the tax consequences in the hands of the company and Ms Vasumathi.

ILLUSTRATION 30

Star Enterprises has transferred its 'Unit R' to A Ltd by way of slump-sale on June 23, 2024. The summarized Balance

Sheet of Star Enterprises as on that date is given below:

Liabilities	Amount (in Lacs)	Assets	Amount (in Lacs)
Own Capital	1,750	Fixed Assets:	
Accumulated P&L Balance	670	Unit P	200
Liabilities:		Unit Q	150
Unit P	90	Unit R	600
Unit Q	160	Other Assets:	
Unit R	140	Unit P	570



		Unit Q	850
		Unit R	440
Total	2,810	Total	2,810

Using the further information below, compute the capital gains arising from slump sale of 'Unit R' for AY 2025-26:

- I. Slump sale consideration on, transfer of Unit R, was ₹ 930 lacs.
- II. Fixed Assets of Unit R includes land which was purchased at ₹ 110 lacs in 2009 and was revalued at ₹ 140 lacs.
- III. Other fixed assets of Unit R are reflected at ₹ 460 lacs, (ie, ₹ 600 lacs less value of land) which represents WDV of those assets as per books. The WDV of these assets is ₹ 430 lacs.
- IV. Unit R was set up by Star Enterprises in October 2007.

Note: Cost Inflation Indices for FY 2007-08 and FY 2024-25 are 122 and 363 respectively.

ILLUSTRATION 31

Mr Patel is a proprietor of Star Stores since 20.05.2022. He has transferred his shop on 01.04.2024 by way of slump sale for a total consideration of ₹ 40 Lakhs. The professional fees & brokerage paid for this sale are ₹ 80,000, His Balance Sheet as on 01.04.2024 is as under:

Liabilities	(₹)	Assets	(₹)
Own Capital	10,50,000	Building-	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000
Trade Creditors	2,50,000	Debtors	2,00,000
Unsecured Loan	2,00,000	Other Assets	8,00,000
	20,00,000		20,00,000

Other Information:

1. No individual value of any asset is considered in the transfer deed.
2. Other assets include trademarks valuing ₹ 2,00,000 as on 01.04.2023 on which no depreciation has been provided. "



3. Furniture of ₹ 1,50,000 purchased on 05.11.2023 on which no depreciation has been provided.
4. Unsecured loan includes ₹ 50,000 as advance received from his wife, which she has agreed to waive off. Compute the capital gain for AY 2025-26.

ILLUSTRATION 32

M held 2,000 shares in a company ABC Ltd. This company amalgamated with another company during the year ending 31.3.2025. Under the scheme of amalgamation, M was allotted 1,000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The AO proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

ILLUSTRATION 33

Mrs Mahalakshmi, an individual aged 68 years, mortgaged her residential property, purchased for ₹ 3,00,000 on 01-10-2003, with a bank, under a notified reverse mortgage scheme and was sanctioned a loan of ₹ 20 lakhs. As per the said scheme, she was receiving the loan amount in equal monthly installments of ₹ 30,000 per month from the bank. Mrs Mahalakshmi was not able to repay the loan on maturity and in lieu of settlement of the loan, surrenders the residential property to the bank. Bank sold the property for ₹ 25 lakhs on 22-05-2024. She had no other income during the year. Discuss the tax consequences of the above transaction and tax payable for AY 2025-26. Cost Inflation Index for FY 2003-04 is 109 and for FY 2024-25 is 363.

ILLUSTRATION 34

Mr Balaeshwar sold his vacant site on 21.07.2024 for ₹ 7 lakhs which was acquired by him on 01.10.2006 for a sum of ₹ 1,50,000. The State Stamp Valuation Authority fixed ₹ 13 lakhs as the value of the site at the time of transfer. Compute capital gains in the hands of Mr Balaeshwar and give your reasons for computation. Cost Inflation Index for FY 2006-07 is 122 and for FY 2024-25 is 363.

ILLUSTRATION 35

Ms Chhaya transferred a vacant site to Ms Dayama for ₹ 4,25,000. The Stamp Valuation Authority fixed the value of vacant site for stamp duty purpose at ₹ 6,00,000. The total income of Chhaya and Dayama before considering the transfer of vacant site are ₹ 50,000 and ₹ 2,05,000, respectively. The indexed CO A for Ms Chhaya in respect of vacant site is ₹ 4,00,000 [computed].

Determine the total income of Ms Chhaya and Ms Dayama taking into account the above said transaction. Assume that the transfer took place before July 23, 2024.



ILLUSTRATION 36

Ms Sandhya transferred a house to her friend Ms Karishma for ₹ 35,00,000 on 01.07.2024. The sub-registrar valued the land at ₹ 48,00,000. Ms Sandhya contested the valuation and the matter was referred to the Divisional Revenue Officer, who valued the house at ₹ 45,00,000. Accepting the said value, the differential stamp duty was also paid and the transfer was completed. Ms Sandhya had purchased the house on 15th May 2012 for ₹ 25,00,000 and registration expenses were ₹ 1,50,000.

The total income of Sandhya and Karishma for AY 2025-26 before considering the transfer of said house is ₹ 2,80,000 and ₹ 3,45,000, respectively.

You are required to explain the relevant provisions of the Income Tax Act, 1961 applicable to the present case and also determine the total income of both Ms Sandhya and Ms Karishma taking into account the above transactions. Cost Inflation Index for FY 2012-13 is 200 and for FY 2024-25 is 363.

ILLUSTRATION 37

Mr Raj Kumar sold a house to his friend Mr Dhuruv on 01.06.2024 for ₹ 25,00,000. The sub-registrar refused to register the document for the said value, as according to him, stamp duty had to be paid on ₹ 45,00,000, which was the government guideline value. Mr Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as ₹ 32,00,000 [22,00,000 for land and the balance for the building portion]. The differential stamp duty was paid, accepting the said value determined.

What are the tax implications for Mr Raj Kumar and Mr Dhuruv for AY 2025-26? Mr Raj Kumar had purchased the land on 01.06.2011 for ₹ 5,19,000 and completed the construction of house on 01.12.2022 for ₹ 14,00,000,

Cost Inflation Indices may be taken as 184 for FY 2011-12, 331 for FY 2022-23 and 363 for FY 2024-25.

ILLUSTRATION 38

Mr Ajay sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 75 lakhs and ₹ 25 lakhs respectively, to Mr Bhuvan on 01.05.2024. He had purchased the house property and the land in the year 2023 for ₹ 40 lakhs and ₹ 10 lakhs, respectively. The SDV on the date of transfer (01.05.2024) is ₹ 99 lakhs and ₹ 20 lakhs for the house property and rural agricultural land, respectively. Determine the tax implications in the hands of Mr Ajay and Mr Bhuvan and the TDS implications, if any, in the hands of Mr Bhuvan, assuming that both Mr Ajay and Mr Bhuvan are resident Indians.



ILLUSTRATION 39

Mr Thomas inherited a house in Jaipur under will of his father in May 2003. The house was purchased by his father in Jan 2001 for ₹ 10,00,000. He invested an amount of ₹ 7,00,000 in construction of one more floor in this house in June 2006. The house was sold by him in June 2024 for ₹ 37,50,000. Value adopted by registration authorities for charge of stamp duty was ₹ 47,25,000 which was not contested by the buyer, but as per assessee's request, the AO made a reference to the Valuation Officer who determined the value at ₹ 47,50,000. Brokerage @ 1% of sale consideration was paid by Mr Thomas to Mr Sunil. The FMV of house as on 01.04.2001 was ₹ 2,70,000.

You are required to compute the amount of capital gain chargeable to tax for AY 2025-26 with the help of above information and by taking CII for FY 2003-04 as 109, FY 2006-07 as 122 and for FY 2024-25 as 363.

ILLUSTRATION 40

Mr Subramani sold a house plot to Mrs Vimala for ₹ 45 lakhs on 12.05.2023. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Discuss tax consequences of this transaction in the hands of Mr Subramani as well as Mrs Vimala.

Mrs Vimala has sold this plot to Ms Padmaja on 21-5-2024 for ₹ 55 lakhs. The valuation as per stamp valuation authority remains the same at ₹ 53 lakhs. Compute capital gains arising on sale of the house plot by Mrs Vimala.

None of the parties [ie, Mr Subramani, Mrs Vimala & Ms Padmaja] are related to each other; in other words, the transactions are between outsiders.

ILLUSTRATION 41

Mr Hari, a property dealer, sold a building in the course of his business to his friend Mr Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakhs on 01.06.2024, when its SDV was ₹ 150 lakhs. The agreement was, however, entered into on 01.05.2024 when its SDV was ₹ 140 lakhs. Mr Hari had received a down payment of ₹ 15 lakhs by account payee cheque from Mr Rajesh on the date of agreement. Discuss the tax implications in the hands of Mr Hari and Mr Rajesh, assuming that Mr Hari has purchased the building for ₹ 75 lakhs on 12th June 2023. Would your answer be different if Hari was a share broker instead of a property dealer?

Forfeiture Of Advance Money - Section 51**ILLUSTRATION 42**

A house was purchased on 01.05.2003 for ₹ 4,50,000 and was used as a residence by Smt Megha. She had contracted to sell this property in April 2024 for ₹ 15L and had received an advance of ₹ 2,00,000 towards sale.



The intending purchaser did not proceed with the transaction and she forfeited the advance. The property was finally sold in June 2024 for ₹ 19,00,000. Out of the total sale proceeds, she invested a sum of ₹ 2 lacs in a new residential house in January 2025. Compute capital gains on the basis of the above information. CII for FY 200304 is 109 and for FY 2024-25 is 363.

ILLUSTRATION 43

Mr X purchased a house property in December 1993 for ₹ 5,25,000 and an amount of ₹ 1,75,000 was spent on the improvement and repairs of the property in March 1997. The property was proposed to be sold to Mr Z in the month of May 2006 and an advance of ₹ 40,000 was taken from him. As the entire money was not paid in time, Mr X forfeited the advance and subsequently sold the property to Mr Y in April 2024 for ₹ 52,00,000. The FMV of the property on April 1, 2001 was ₹ 11,90,000. Compute capital gains chargeable in the hands of Mr X for AY 2025-26. CII for FY 2001-02 is 100; for FY 2006-07 is 122 and for FY 2024-25 is 363.

ILLUSTRATION 44

Mr Rakesh purchased a house property on 14.04.1999 for ₹ 1,05,000. He entered into an agreement with Mr Bobby for the sale of house on 15.09.2003 and received an advance of ₹ 25,000. However, since Mr Bobby did not remit the balance amount, Mr Rakesh forfeited the advance. Later on, he gifted the property to his friend Mr Aakash on 15.06.2004. The FMV of the property as on 01.04.2001 is ₹ 1,50,000.

Following renovations were carried out by Mr Rakesh and Mr Aakash to the house property:

By Mr Rakesh during FY 2000-01	₹ 10,000
By Mr Rakesh during FY 2003-04	₹ 50,000
By Mr Aakash during FY 2011-12	₹ 1,90,000

Mr Aakash entered into an agreement with Mr Chintu for sale of the house on 01.06.2006 and received an advance of ₹ 80,000. The said amount was forfeited by Mr Aakash since Mr Chintu could not fulfil the terms of the agreement. Finally, the house was sold by Mr Aakash to Mr Sanjay on 02.06.2024 for ₹ 12,00,000. Compute the capital gains chargeable to tax in the hands of Mr Aakash for AY 2025-26. Cost Inflation Indices are as under:

FY	Cost Inflation Index	FY	Cost Inflation Index
2001-02	100	2006-07	122
2003-04	109	2011-12	184
2004-05	113	2024-25	363



ILLUSTRATION 45

Mr Roy owned a residential house in Noida. It was acquired on 09.09.2009 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2022. Mr Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2022. The said house property was sold on 31.05.2024 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2025. The property at Panchkula was sold for ₹ 3,25,00,000.

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

2009-10	148
2021-22	317
2022-23	331
2024-25	363

ILLUSTRATION 46

Mr Basu owned 5 acres of agricultural land within the city limits of Madras which he had purchased on 01.10.2003 for ₹ 5,00,000. On July 1, 2024, he sold the agricultural land for ₹ 70,00,000. On Jan 1, 2025, he purchased a new agricultural land for ₹ 10,00,000. You are required to calculate the capital gains for AY 2025-26.

The new agricultural land purchased by Mr Basu on January 1, 2025 was sold by him on February 28, 2026 for a sum of ₹ 35L. You are also required to calculate the capital gains accruing to Mr Basu for AY 2026-27 assuming that:

- **Case (a):** The new agricultural land is situated in an urban area
- **Case (b):** The new agricultural land is situated in a rural area

ILLUSTRATION 47

Mr Chandru transferred a vacant site on 28.06.2024 for ₹ 100 lakhs. The site so transferred was acquired for ₹ 9,99,300 on 30.6.2002. He invested ₹ 50 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd (RECL) on 20.11.2024. Again, he invested ₹ 20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16.12.2024. Compute the chargeable capital gain in the hands of Mr Chandru for AY 2025-26:

FY	Cost Inflation Index



2002-03	105
2024-25	363

ILLUSTRATION 48

Mr Malik owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and land appurtenant thereto were sold during the year. The following details are available:

Particulars	Amount (₹)
Building completed in September 2009 for	10,00,000
Land appurtenant thereto purchased in April 2002 for	12,00,000
WDV of the building block as on 1.4.2024	8,74,800.
Sale value of factory building in June 2024	8,00,000
Sale value of appurtenant land in June 2024	41,00,000
Advance received from a prospective buyer for land in May 2003, forfeited in favour of assessee, as negotiations failed	50,000

The assessee is ready to invest in long-term specified assets u/s 54EC, within specified time. Compute the amount of taxable capital gain for AY 2025-26 and the amount to be invested u/s 54EC for availing the maximum exemption. Cost Inflation Indices are as under:

FY	Cost Inflation Index
2002-03	105
2003-04	109
2024-25	363

ILLUSTRATION 49

Mr Selvan acquired a residential house in January 2003 for ₹ 10,00,000 and made some improvements by way of additional construction to the house incurring expenditure of ₹ 2,00,000 in October 2005. He sold the house property in April 2024 for ₹ 72,00,000. The value of property was adopted as ₹ 80,00,000 by the State Stamp Valuation Authority for registration purposes.



He acquired a residential house in May 2024 for ₹ 25,00,000. He deposited ₹ 20,00,000 in bonds issued by [NHAI] in December 2024. Compute the capital gain chargeable to tax for AY 2025-26.

What would be the tax consequence and in which AY would it be taxable, if the house property acquired in May 2024 is sold for ₹ 40,00,000 in March 2026?

FY	Cost Inflation Index
2002-03	105
2005-06	117
2024-25	363

ILLUSTRATION 50

Mr Roy, aged 55 years, owns a residential house in Ghaziabad. He acquired the house on 10.10.2008 for ₹ 24L. He sold it for ₹ 65,00,000 on 04.06.2024. The Stamp Valuation Authority of the State fixed value of the property at ₹ 80,00,000. The assessee paid 2% of the sale consideration as brokerage on the sale of the said property.

Mr Roy acquired a residential house property at Kolkata on 10.12.2024 for ₹ 7,00,000 and deposited ₹ 3,00,000 on 10.11.2024 and ₹ 5,00,000 on 15.12.2024 in the capital gains bonds of RECL. He also deposited ₹ 4,00,000 on 06.07.2025 and ₹ 3,00,000 on 01.11.2025 in the Capital Gain Deposit Scheme in a Nationalized Bank for construction of an additional floor on the residential house property in Kolkata.

Compute the capital gains chargeable to tax for AY 2025-26. Cost Inflation Index for FY 2008-09 is 137 and for FY 2024-25 is 363.

ILLUSTRATION 51

Mr Martin sold his residential house on 08-06-2024 for ₹ 70 lakhs. It was purchased by him for ₹ 20,50,000 on 05-05-2006. He paid ₹ 1 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was ₹ 95 lakhs. He bought another house property on 25-12-2024 for ₹ 15 lakhs.

He deposited ₹ 10 lakhs on 10-11-2024 in the bonds of National Highway Authority of India [NHAI]. He deposited another ₹ 5 lakhs on 10-07-2025 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income u/h "Capital Gains" for AY 2025-26 as per the Income Tax Act, 1961 and also income tax payable on the assumption that he has no other income chargeable to tax. Cost Inflation Index for FY 2006-07 is 122 and for FY 2024-25 is 363.



ILLUSTRATION 52

From the following particulars, compute the taxable capital gains of Mr D for AY 2025-26:

Particulars	Amount (₹)
Cost of jewellery [Purchased in FY 2005-06]	4,52,000
Sale price of jewellery sold in June 2024	15,00,000
Expenses on transfer	7,000
Residential house purchased in March 2025	5,00,000

ILLUSTRATION 53

Mr X furnishes the following data for the PY ending 31.03.2025:

[a] 10,000 unlisted equity shares of AB Ltd were sold on 31.05.2024 @ ₹ 600 for each share. These 10,000 shares were acquired by Mr X in the following manner:

- (i) Received as gift from his father on 01.06.2000 (5,000 shares). FM V as on 01.04.2001 is ₹ 200 per share.
- (ii) Bonus shares received from AB Ltd on 21.07.2008 (2,000 shares).
- (iii) Purchased on 01.02.2011 at the price of ₹ 350 per share (3,000 shares).

[b] Purchased one residential house at ₹ 30 lakhs on 01.05.2025 from the sale proceeds of shares.

[c] Mr X is already owning a residential house even before the purchase of the above house.

You are required to compute the taxable capital gain. He has no other source of income chargeable to tax. CII for FY 2001-02 is 100; for FY 2008-09 is 137; for FY 2010-11 is 167 and for FY 2024-25 is 363.

ILLUSTRATION 54

Mr Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2024 for ₹ 10,00,000. The shares were bought on 01.08.2012 for a consideration of ₹ 2,00,000. Mr Aryan paid ₹ 2,000 as brokerage on sale of shares.

Mr Aryan deposited ₹ 5,00,000 in Capital Gain Account scheme on 15.06.2025 (Before filing the return of income for AY 2025-26). On April 30, 2026 he withdraws ₹ 4,50,000 and purchases a residential house properly at Delhi on May 1, 2026 for ₹ 4,50,000.

Cost Inflation Index (CII) - FY 2012-13 - 200, FY 2024-25 - 363. Ascertain the following:



- (i) The amount of capital gains chargeable to tax for AY 2025-26.
- (ii) Tax treatment [with mention of relevant assessment year] of the unutilised amount.

ILLUSTRATION 55

Mr Kumar has an agricultural land [costing ₹ 6 lakh] in Lucknow and has been using it for agricultural purposes since 01.04.2001. On 01.08.2010, the Government took over compulsory acquisition of this land and ₹ 10 lakhs was fixed as compensation in respect of such acquisition. The compensation was received by Mr Kumar on 01.07.2024.

- (a) Compute the amount of capital gains taxable in the hands of Mr Kumar.
- (b) Will your answer be different if Mr Kumar had by his own will sold this land to his friend Mr Sharma? Explain.
- (c) Will your answer be different if Mr Kumar had not used this land for agricultural activities? Explain.
- (d) Will your answer be different if the land belonged to ABC Ltd and not Mr Kumar and compensation on

ILLUSTRATION 56

Mr A, a dealer in shares, received the following without consideration during PY 2024-25 from his friend Mr B:

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.
 - (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
 - (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakhs on that date. Mr B had purchased the land in April, 2009. On 1st March 2025, Mr A sold the plot of land at Faridabad for ₹ 7 lakhs.
- Mr A, purchased from his friend Mr C, who is also a dealer in shares, 1,000 shares of X Ltd @ ₹ 400 each on 19th June, 2024, the fair market value of which was ₹ 600 each on that date. Mr A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr A took possession of property [building] booked by him two years back at ₹ 20 lakhs. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakhs and on the date of booking was ₹ 23 lakhs. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

Compute the income of Mr A chargeable u/h "income from other sources" and "capital gains" for AY 2025-26.



ILLUSTRATION 57

Mr Y submits the following information pertaining to the year ended 31st March, 2025:

- (i) On 30.04.2024, when he attained the age of 60, his friends in India gave a flat at Surat as a gift, each contributing a sum of ₹ 20,000 in cash. The cost of the flat purchased using the various gifts was ₹ 3,40,000.
- (ii) His close friend abroad sent him a cash gift of ₹ 75,000 through his relative for the above occasion.
- (iii) Mr Y sold the above flat on 30.06.2024 for ₹ 3,60,000. The Registrar's valuation for stamp duty purposes was ₹ 3,70,000. Neither Mr Y nor the buyer, questioned the value fixed by the Registrar.
- (iv) He had purchased some unlisted equity shares in X Pvt Ltd on 05.02.2007 for ₹ 3,50,000. These shares were sold on 15.06.2024 for ₹ 2,80,000.

You are requested to calculate the total income of Mr Y for AY 2025-26. [Cost Inflation Index for FY 2006-07 is 122 and for FY 2024-25 is 363]

SOLUTIONS**Computation Of Capital Gains - Section 48****Answer 21**

Particulars	Amount (₹)
Gross Sale Consideration	68,00,000
Less: Expenses on transfer	(50,000)
Less: Indexed Cost of Acquisition [₹ 8,50,000 x 363/100]	(30,85,500)
Less: Indexed Cost of Improvement [₹ 7,35,000 x 363/105]	(25,41,000)
Less: Indexed Cost of Improvement [₹ 5,50,000 x 363/200]	(9,98,250)
Long Term Capital Gain	1,25,250



Note: Since FMV as on April 1, 2001 is more than the actual cost of acquisition of the asset, FMV as on April 1, 2001 shall be taken as the cost of acquisition for the purposes of computation of capital gains. Further, cost of improvement incurred prior to April 1, 2001 is to be ignored.

Answer 22**Computation Of Total Income And Tax Liability Of Ms Paulomi For AY 2025-26:**

Computation Of Total Income	
Particulars	Amount (₹)
Sale consideration	3,12,934
Less: Indexed Cost of Acquisition (₹ 10,000 x 363/105)	[34,571]
Long Term Capital Gain	2,78,363
Gross Total Income	2,78,363
Less: Deduction u/s 80C to 80U	Nil
Total Income (Rounded off u/s 288A)	2,78,360
Calculation Of Tax Liability	
Particulars	Amount (₹)
Tax on LTCG of ₹ 28,360 @ 20% (₹ 2,78,360 - ₹ 2,50,000)	5,672
Less: Rebate u/s 87A	[5,672]
Tax Liability	Nil

Note: No deductions are allowed from LTCG. Further, since Paulomi has not transferred her shares through a stock exchange and has not paid STT on such sale, Section 112A shall not be applicable. She is, however, entitled to reduce the LTCG by the unexhausted basic exemption limit and pay tax on the balance @ 20% as per Section 112.

Answer 23**Computation Of Capital Gains Of Ms Usha For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)



1,000 Original Shares		
Sale proceeds (1,000 shares x ₹ 150 per share)	1,50,000	
Less: Indexed Cost of Acquisition [(1,000 shares * ₹ 25) x 363/100]	(90,750)	
Less: Brokerage paid (2% of ₹ 1,50,000)	(3,000)	
Long Term Capital Gain		56,250
100 Bonus Shares		
Sale proceeds (100 shares x ₹ 150 per share)	15,000	
Less: Indexed Cost of Acquisition [(100 shares * ₹ 25) x 363/100]	(9,075)	
Less: Brokerage paid (2% of ₹ 15,000)	(300)	
Long Term Capital Gain		5,625
1,100 Bonus Shares		
Sale proceeds (1,100 shares x ₹ 150 per share)	1,65,000	
Less: Cost of acquisition	Nil	
Less: Brokerage paid (2% of ₹ 1,65,000)	(3,300)	
Long Term Capital Gain		1,61,700
Total Long Term Capital Gain		2,23,575

Answer 24

1) Sale Of 10,000 Shares Of A Ltd On 05.04,2024 @ ₹ 650 Per Share:

Cost of acquisition of listed equity shares acquired before 1.2.2018 is higher of:

- Cost of acquisition (ie, ₹ 100 per share); and
- Lower of:

> FMV of such asset as on 31st Jan 2018 (ie ₹ 300 per share, being the highest price of the share traded on 31st Jan 2018); and

> Full value of consideration (ie, ₹ 650 per share).

So, the cost of acquisition of shares of A Ltd shall be taken as ₹ 300 per share..

Since listed shares are held for more than 12 months & STT is paid both at the time of purchase and sale, listed



shares would qualify as a long-term capital asset and LTCG shall be computed as per Section 112A and benefit of indexation shall not be allowed.

Computation Of LTCG On Sale Of Shares Of A Ltd.:

Particulars	Amount (₹)
Full Value of Consideration (10,000 shares x ₹ 650 per share)	65,00,000
Less: Cost of Acquisition (10,000 shares x ₹ 300 per share)	(30,00,000)
Long Term Capital Gains u/s 112A	35,00,000

2) Sale Of 1,000 Units Of B Mutual Fund @ ₹ 50 Per Unit:

Cost of units of equity oriented mutual fund acquired before 1.2.2018 is higher of:

- Cost of acquisition (ie, ₹ 10 per unit); and
- Lower of:

> Fair market value of such asset as on 31st Jan 2018 (ie ₹ 55 per unit); and

> Full value of consideration (ie, ₹ 50 per unit).

So, the cost of acquisition of units of B Mutual Fund shall be taken as ₹ 50 per unit.

Since units of equity oriented mutual fund are held for more than 12 months and STT is paid at the time of transfer of such units, units would qualify as a long-term capital asset and LTCG shall be computed as per Section 112A and benefit of indexation shall not be allowed.

Computation Of LTCG On Sale Of Units Of B Mutual Fund:

Particulars	Amount (₹)
Full Value of Consideration (1,000 units x ₹ 50 per unit)	50,000
Less: Cost of Acquisition (1,000 units x ₹ 50 per unit)	(50,000)
Long Term Capital Gains u/s 112A	Nil

3) Sale Of 100 Shares Of C Ltd @ ₹ 200 Per Share:

Cost of bonus shares allotted before 1.4.2001 shall be their FMV as on 01.04.2001. Therefore, the cost of



acquisition of bonus shares of C Ltd shall be taken as ₹ 50 per share.

Since unlisted shares are held for more than 24 months, such shares would qualify as a long-term capital asset. LTCG shall be computed as per the provisions of Section 112 and benefit of indexation shall be allowed.

Computation Of LTCG On Sale Of Shares Of C Ltd:

Particulars	Amount (₹)
Full Value of Consideration (100 shares x ₹ 200 per shares)	20,000
Less: Indexed Cost of Acquisition (100 shares x ₹ 50 per share x 363/100)	(18,150)
Long Term Capital Gains u/s 112	1,850

Computation Of Tax On Capital Gains For AY 2025-26:

Particulars	Amount (₹)
Tax on LTCG u/s 112 @ 20% [20% of ₹ 1,850]	370
Tax on LTCG u/s 112A @ 10% after exemption of ₹ 1.25L [10% of (₹ 35L - ₹ 1.25L)]	3,37,500

Answer 25

Computation Of Tax Liability Of Miss Himanshi For AY 2025-26:

Particulars	(₹)
LTCG u/s 112A on transfer of equity shares of (STT paid both at the time of acquisition and transfer)	1,80,000
Income from other sources	2,75,000
Gross Total Income/Total Income	4,55,000
Tax on ₹ 4,55,000:	
> Tax on income of ₹ 2,75,000 from other sources {Being lower than the basic exemption limit of ₹ 3,00,000, applicable in case of a senior.citizen}	Nil
> Tax on LTCG u/s 112A {10% of (LTCG of ₹ 1,80,000 - Exemption of ₹ 1,25,000 - Deficiency of ₹ 25,000)}	3,000
Tax Before Health and Education Cess	3,000
Add: Health and Education Cess @ 4%	120



Tax liability	3,120

Answer 26**• Computation Of Capital Gains In The Hands Of Mr R For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
1,000 Original Shares		
Sale proceeds (1,000 shares x ₹ 300 per share)	3,00,000	
Less: Indexed Cost of Acquisition [₹ 75,000 x 363/100]	[2,72,250]	
Long Term Capital Gain		27,750
200 Right Shares		
Sale proceeds (200 shares x ₹ 300 per share)	60,000	
Less: Cost of acquisition (200 shares x ₹ 140 per share)	[28,000]	
Short Term Capital Gain		32,000
Sale of Right Entitlement		
Sale proceeds (200 shares x ₹ 25 per share)	5,000	
Less: Cost of acquisition	Nil	
Short Term Capital Gain		5,000
Total Capital Gains (LT as well as ST)		64,750

Notes:

- > The shares purchased under the right issue have been held for less than two years. Thus, capital gains arising on sale of right shares shall be short-term and cost of acquisition of right shares shall not be indexed.
- > The cost of the rights renounced in favour of another person for a consideration is taken to be Nil. The amount of consideration so received is taxed as short-term capital gains in full.

Computation Of Capital Gains In The Hands Of Mr Q For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)



200 Right Shares		
Sale proceeds (200 shares x ₹ 280 per share)	56,000	
Less: Cost of Acquisition {200 shares x (₹ 25 + ₹ 140)}	(33,000)	
Short Term Capital Gains		23,000

Note: The sum total of amount paid to Mr R and amount paid to the company shall be treated as cost of acquisition of right shares in the hands of Mr Q. Since the holding period of these shares is less than two years, capital gains arising on sale of such shares shall be treated as short-term.

Taxability Of Insurance Commission In Respect Of Capital Assets - Section 45(1 A)

Answer 27

Conversion of capital asset into SIT is a transfer u/s 2(47) in the PY in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which such SIT is sold. The sale price less the FMV on the date of conversion would be treated as the business income of the year in which the SIT is sold.

In the present case, capital gains shall be computed during PY 2012-13 (or AY 2013-14) but such capital gains would be charged to tax during PY 2024-25 (ie AY 2025-26) when the stock-in-trade is sold. Further, profit arising on sale of such stock shall be charged to tax as PGBP -income during PY 2024-25 (ie AY 2025-26).

Computation Of Taxable Income Of ABC Ltd For AY 2025-26:

Computation of Capital Gains	
Particulars	Amount (₹)
Sale Consideration (FMV as on the date of conversion)	2,50,000.00
Less: Indexed Cost of Acquisition (₹ 1,00,000 x 200/113)	(1,76,991.15)
Long Term Capital Gain	73,008.85
Computation of Profits & Gains of Business/Profession	
Particulars	Amount (₹)
Sale Price of SIT	3,50,000
Less: Fair market value on the date of conversion	(2,50,000)
PGBP Income	1,00,000



Compulsory Acquisition Of Capital Asset - Section 45(5)**Answer 28**

• Capital gains shall be computed in the year in which the transfer has taken place but the entire capital gains shall be taxable in the year in which the first instalment of the original compensation is received by the assessee. In the present question, capital gains shall be computed during PY 2010-11 (ie indexation shall apply till PY 2010-11) but the capital gains shall be taxable during PY 2012-13 (ie the year in which the first instalment is received).

• Computation Of Capital Gains In The Hands Of Mr X:

Particulars	Amount (₹)
Full Value of Consideration (ie Initial Compensation)	6,60,000
Less: Indexed Cost of Acquisition [₹ 80,000 x 167/100]	(1,33,600)
Long Term Capital Gains	5,26,400

LTCG of ₹ 5,26,400 shall be taxable during PY 2012-13.

- **Taxability Of Enhanced Compensation In The Hands Of Mr X:** The amount of enhanced compensation shall be taxable in the year of receipt. The nature of capital gains would be same as in case of original compensation. While computing capital gains on enhanced compensation, the assessee will be allowed to deduct legal expenses incurred to earn the enhanced compensation. COA and COI shall be taken as Nil. In the present case, enhanced compensation would be taxable as LTCG during PY 2024-25 and the taxable amount of such LTCG would be calculated as follows:

Particulars	Amount (₹)
Enhanced Compensation	1,00,000
Less: Indexed Cost of Acquisition	Nil
Less: Indexed Cost of Improvement	Nil
Less: Legal expenses	(2,000)
Long Term Capital Gains	98,000



Capital Gains On Distribution Of Assets By Companies In Liquidation - Section 46

Answer 29

- **Tax Implications In The Hands Of The Company:** As per Section 46, if any company is in liquidation and it has sold its assets to its shareholders, no capital gains shall be computed in the hands of the company. Hence, in the given case, no capital gains would arise in the hands of the company for sale of land to shareholder.
- **Tax Implications In The Hands Of Ms Vasumathi (Shareholder):**

Particulars	Amount (₹)
Ms Vasumathi holds 1/6th of the shareholding of the company	
Market value of land received $[1/6 \times ₹ 60,00,000]$	10,00,000.00
Cash at bank $[1/6\text{th of } (₹ 6,50,000 - ₹ 3,00,000)]$	58,333.33
Total amount received on liquidation	10,58,333.33
Less: Deemed Dividend u/s 2(22)(c) $\{1/6\text{th of } (₹ 40,00,000 - ₹ 50,000)\}$	(6,58,333.33)
Consideration for computing capital gains (ie Full Value of Consideration)	4,00,000.00
Less: Indexed cost of acquisition of shares $(₹ 1,20,000 \times 363/113)$	(3,85,486.73)
Long Term Capital Gains	14,513.27

Note: STCG of ₹ 5,00,000 would also arise additionally in the hands of Ms Vasumathi on sale of land on 28.02.2025 $(₹ 15,00,000 - ₹ 10,00,000 \text{ (FMV of land as on the date of distribution)})$.

Capital Gain In Case Of Slump Sale - Section 50B

Answer 30

Computation Of Capital Gains On Slump Sale Of Unit R: Since the Unit R is held for more than 36 months, capital gain arising would be LTCG. However, indexation benefit is not available in case of slump sale.

Particulars	Amount (₹)
Sale Value	930 lakhs
Less: Net Worth of Unit R (Note 1)	(840 lakhs)
Long Term Capital Gains	90 lakhs



Note 1 - Computation of Net-Worth of Unit R:

- 'Net worth' of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.
- For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the WDV of the block of assets determined in accordance with the provisions of the Income Tax Act, 1961 is to be considered and for all other assets, book value is to be considered. However, any change in the value of assets on account of revaluation shall not be considered for this purpose.

Particulars •	Amount (₹)
• Cost of land (Revaluation not to be considered)	110 lakhs
• WDV of other depreciable fixed assets as per the Income Tax Act, 1961	430 lakhs
• Other Assets (Book value)	440 lakhs
Total Assets	980 lakhs
Less: Liabilities	[140 lakhs]
Net Worth	840 lakhs

Answer 31

Computation Of Capital Gains On Slump Sale Of Star Stores: Since shop is held for not more than 36 months immediately preceding the date of transfer, capital gain arising would be STCG.

Particulars	Amount (₹)
Sale Value	40,00,000
Less: Professional fees & brokerage for sale	[80,000]
Less: Net Worth	[10,42,500]
Short Term Capital Gains	28,77,500

Note 1 - Computation of Net-Worth of Star Stores:

- 'Net worth' of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.



- For calculating aggregate value of total assets of the undertaking or division in case of slump sale, in case of depreciable assets, the WDV of the block of assets determined in accordance with the provisions of the Income Tax Act, 1961 is to be considered and for all other assets, book value is to be considered. However, any change in the value of assets on account of revaluation shall not be considered for this purpose

Particulars	Amount (₹)
• Building	5,00,000
• Furniture (₹ 5L - Depreciation @ 5% on ₹ 1.5L)	4,92,500
• Debtors	2,00,000
• Trademarks (₹ 2L - Depreciation @ 25% for FY 2023-24)	1,50,000
• Other assets [other than trademarks] (₹ 8L - ₹ 2L)	6,00,000
Total Assets	19,42,500
Less: Bank loan	(5,00,000)
Less: Trade creditors	(2,50,000)
Less: Unsecured loan (₹ 2L - ₹ 50,000)	(1,50,000)
Net Worth	10,42,500

Answer 32

- Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a Transfer for the purpose of capital gains as per Section 47. Accordingly, the mortgaging of residential house with bank by Mrs Mahalakshmi will not be regarded as a transfer for levy of capital gains. Therefore, no capital gain will be attracted on such mortgage.
- Any amount received by the senior citizen as a loan, either in lump sum or in instalments, in a transaction of reverse mortgage is exempt from income tax u/s 10(43). Therefore, the monthly instalment of ₹ 30,000 received by Mrs Mahalakshmi is exempt from income tax u/s 10(43).
- Under a reverse mortgage scheme, the borrower is liable to pay income tax (in the nature of tax on capital gains) only at the point of alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan. Accordingly, when the bank sells the mortgaged property for the purposes of recovering the loan, tax liability would be attracted in the hands of Mrs Mahalakshmi in PY 2024-25 and the bank will be liable to pay such tax liability to the government on behalf of Mrs Mahalakshmi.



- Since the residential house property has been held by Mrs Mahalakshmi for more than 24 months immediately preceding the date of its transfer, the resultant capital gains would be long-term.

• **Computation Of LTCG Of Mrs Mahalakshmi For AY 2025-26:**

Particulars	Amount (₹)
Full Value of Consideration	25,00,000
Less: Indexed Cost of Acquisition (₹ 3L x 363/109)	(9,99,083)
Long Term Capital Gains	15,00,917
Total Income (Rounded Off u/s 288A)	15,00,920

• **Computation Of Tax Liability Of Mrs Mahalakshmi For AY 2025-26.**

Particulars	Amount (₹)
Tax on LTCG of ₹ 15,00,920 after adjusting deficiency of ₹ 3L	2,40,184.00
[20% of (₹ 15,00,920 - ₹ 3,00,000)]	
Add: Health & Education Cess @ 4%	9,607.36
Tax Liability	2,49,791.36
Tax Liability (Rounded Off u/s 288B)	2,49,790.00

Answer 33

Particulars	Amount (₹)
Sale consideration	15,00,000
Less: Expenses on transfer (brokerage)	(50,000)
Less: Indexed Cost of Acquisition (5,00,000 x 363/105)	(17,28,571)
Long Term Capital Loss	(2,78,571)

Note: In case of conversion of debentures into shares, cost of acquisition of debentures is treated as the cost of acquisition of shares. The holding period of debentures shall be considered for computing the time period of



holding as well as for indexation purposes. Therefore, the holding period is considered from the date of acquisition of debentures (ie August 2002 - June 2024) and indexation is also done from FY 2002-03 onwards.

Full Value Of Consideration In Certain Cases - Section 50C

Answer 34

Computation Of Capital Gains In The Hands Of Mr Balaeshwar For AY 2025-26:

Particulars	Amount (₹)
Deemed Sale Consideration as per Section 50C	13,00,000
Less: Indexed Cost of Acquisition (₹ 1,50,000 x 363/122)	(4,46,311)
Long Term Capital Gain	8,53,689

Note: According to Section 50C, where the SDV of a property exceeds the actual sale consideration by more than 10% of actual sale consideration, the SDV of the property shall be taken as full value of consideration for the purposes of computation of capital gains. Since in the present case, the SDV of ₹ 13 lakhs exceeds the sale price of ₹ 7 lakhs by more than 10% of sale price, ₹ 13 lakhs shall be taken as full value of consideration.

Answer 35

- As per Section 50C, if the SDV of a property exceeds the actual sale consideration by more than 10% of the actual sale consideration, such SDV shall be taken as FVC for the purposes of computation of capital gains.
- Section 56(2)(x) would get attracted in the hands of buyer in case of transfer of immovable property for inadequate consideration, since the difference b/w the SDV and sale consideration exceeds ₹ 50,000 as well as 10% of sale price. Therefore, ₹ 1,75,000 (6,00,000 - 4,25,000) will be taxed u/h 'other sources' in the hands of Ms Dayama

Computation Of Total Income:

Particulars	Chhaya (Transferor)	Dayama (Transferee)
Income from Capital Gains:		
Full value of consideration (As per Section 50C)	6,00,000	
Less: Indexed Cost of Acquisition	(4,00,000)	



Long Term Capital Gains	2,00,000	
Income from Other Sources:		
• Gift of immovable property	-	1,75,000
• Other incomes (computed)	50,000	2,05,000
Total Income	2,50,000	3,80,000

Answer 36**Computation Of Total Income Of Ms Sandhya For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Income from Capital Gains:		
Sale consideration as per Section 50C (Note 1)	45,00,000	
Less: Indexed Cost of Acquisition (₹ 26,50,000 x 363/200)	(48,09,750)	
Long Term Capital Loss {To Be Carried-Forward}		(3,09,750)
Income from Other Sources: Other incomes		2,80,000
Total Income		2,80,000

Computation Of Total Income Of Ms Karishma For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income from Other Sources:		
• Gift of immovable property (₹ 45,00,000 - ₹ 35,00,000)	10,00,000	
• Other incomes	3,45,000	13,45,000
Total Income		13,45,000

Note 1: Applying the provisions of Section 50C to the present case, ₹ 45L, being the value adopted by the Divisional Revenue Officer for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.



Answer 37

- Tax Implications In The Hands Of The Seller, Mr Raj Kumar:**

According to Section 50C, where the SDV of a property exceeds its actual sale price by more than 10% of actual sale price, the SDV of the property shall be taken as full value of consideration for the purposes of computation of capital gains. Further, where the assessee appeals against the stamp valuation and the value is reduced in appeal by the Appellate Authority (Revenue Divisional Officer, in this case), such value will be regarded as the full value of consideration accruing as a result of transfer provided such value exceeds the actual sale price by more than 10% of actual sale price. In the given problem, land has been held for a period exceeding 24 months whereas building has been held for a period less than 24 months. So, land is a long-term capital asset while building is a short-term capital asset.

Computation Of Capital Gains In The Hands Of Mr Raj Kumar For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Lona Term Capital Gain on Sale of Land:		
Consideration received or accruing as a result of transfer of land	22,00,000	
Less: Indexed Cost of Acquisition (₹ 5,19,000 x 363/184)	(10,23,897)	
Long Term Capital Gain		11,76,103
Short Term Capital Loss on Sale of Building:		
Consideration received or accruing as a result of transfer of building	10,00,000	
Less: Cost of Construction	(14,00,000)	
Short Term Capital Loss		(4,00,000)
Net Long Term Capital Gain (After Setting Off STCL)		7,76,103

Tax Implications In The Hands Of The Buyer, Mr Dhuruv:

Section 56(2)(x) provides that where an individual/HUF receives from a non-relative, any immovable property for a price which is less than the stamp value (or the value reduced by the appellate authority, as in this case) by an amount exceeding ₹ 50,000 as well as 10% of actual sale price, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources. Therefore, ₹ 7,00,000 (₹ 32L - ₹ 25L) would be charged to tax as 'income from other sources' u/s 56(2)(x) in the hands of Mr Dhuruv.



Answer 38**Tax Implications In The Hands Of Mr Ajay;**

- As per Section 50C, SDV of the house property [ie ₹ 99 lakhs] would be deemed to be the full value of consideration. Therefore, ₹ 59 lakhs [₹ 99 lakhs - ₹ 40 lakhs] would be taxable as short-term capital gains.
- No capital gains would arise on sale of rural agricultural land since the same is not a capital asset.

Tax Implications In The Hands Of Mr Bhuvan: '

- In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable as gift and the amount of gift shall be ₹ 24 lakhs [₹ 99 lakhs - ₹ 75 lakhs].
- 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. The definition of "property" u/s 56(2)(x) does not include rural agricultural land.

TDS Implications In The Hands Of Mr Bhuvan:

- Since the sale consideration of house property exceeds ₹ 50L, the buyer is required to deduct TDS u/s 194-IA.
- TDS u/s 194-IA would be 1% of SP or SDV, whichever is higher. Therefore, TDS shall be 1% of ₹ 99L = ₹ 99,000.
- TDS provisions u/s 194-IA are not attracted in respect of transfer of rural agricultural land.

Answer 39**Computation Of Capital Gains In The Hands Of Mr Thomas For AY 2025-26;**

Particulars	Amount (₹)
Sale Consideration as per Section 50C	47,25,000
Less: Indexed Cost of Acquisition [₹ 10,00,000 x 363/100]	[36,30,000]
Less: Indexed Cost of Improvement [₹ 7,00,000 x 363/122]	[20,82,787]
Less: Brokerage @ 1% of sale consideration [ie 1% of ₹ 37.50 lacs]	[37,500]
Long Term Capital Loss	[10,25,287]



Notes:

- According to Section 50C, where the SDV of a property exceeds its actual sale price by more than 10% of actual sale price, the SbV of the property shall be taken as full value of consideration for the purposes of computation of capital gains. Further where reference is made to the Valuation Officer and the value ascertained by the Valuation Officer exceeds the SDV, the SDV adopted by the Stamp Valuation Authority shall be taken as FVC. Therefore, in the present case, ₹ 47,25,000 shall be taken as FVC for the purposes of computation of capital gains.
- The house was inherited by Mr Thomas under the will of his father and therefore, the cost incurred by his father shall be taken as the cost. Further since the house was purchased by the previous owner before 01.04.2001, FMV as on 01.04.2001 or actual cost, whichever is higher shall be taken as the cost of acquisition of the house property. In so far as indexation is concerned, the decision of the Bombay High Court in the case of CIT v. Manjula Shah has been followed and indexation benefit has been calculated with reference to the PY in which the previous owner first held the asset.

Alternative view: If the decision of the Bombay High Court is not followed, indexation would apply from the year in which Mr Thomas first held the property (ie PY 2003-04). Indexed cost of acquisition would then come out to ₹ 33,30,275 and the amount of LTCL would be recalculated as ₹ 7,25,562.

Answer 40**Tax Consequences In The Hands Of Mr Subramani:**

- As per Section 50C, the SDV of immovable property, being land or building or both, would be deemed as the full value of consideration arising on transfer of such property, if the SDV of the property exceeds the actual sale consideration by more than 10% of actual sale consideration.
- In the present case, plot of land having SDV of ₹ 53 lakhs is sold for an amount of ₹ 45 lakhs. The SDV of ₹ 53L exceeds the actual sale consideration of ₹ 45 lakhs by more than 10% of actual sale consideration (ie, ₹ 4.5 lakhs). Therefore, the SDV of ₹ 53 lakhs shall be taken as full value of consideration. Thus, capital gains shall be calculated in the hands of Mr Subramani taking ₹ 53 lakhs as the full value of consideration.

Note: If it is assumed that Mr Subramani is a property dealer, the income would be taxable as business income u/s 43CA.



Tax Consequences In The Hands Of Mrs Vimala:

- In case immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration is taxable as gift u/s 56(2)(x) in the hands of the recipient, if the difference amount exceeds ₹ 50,000 as well as 10% of purchase price. Therefore, in this case, ₹ 8 lakhs (₹ 53 lakhs - ₹ 45 lakhs) would be taxable in the hands of Mrs Vimala u/h "Income from Other Sources" in AY 2025-26.
- Further, as per Section 49, cost of acquisition of this property in the hands of Mrs Vimala would be ₹ 53L [ie, the sum of the actual amount of ₹ 45L paid to the seller and the amount of ₹ 8L taxed as gift in the hands of Mrs Vimala].
- At the time of subsequent sale of property by Mrs Vimala to Mrs Padmaja [on 21.5.2024], STCG would arise in the hands of Mrs Vimala in AY 2025-26 since the property is held by her for less than 24 months. Since the SP of ₹ 55 lakhs exceeds the SDV of ₹ 53 lakhs, the actual SP of ₹ 55 lakhs shall be taken as full value of consideration.

Particulars	Amount (₹)
Full Value of Consideration	55 lakhs
Less: Cost of Acquisition	[53 lakhs]
Short Term Capital Gains	2 lakhs

Answer 41**Case 1 - Tax Implications If Mr Hari Is A Property Dealer (Ie Such Property Is Stock In Trade For Mr Hari):**

In The Hands Of Mr Hari	In The Hands Of Mr Rajesh
• In hands of Mr Hari, the provisions of Section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the SDV on the date of agreement. Since the booking amount has been received by account payee cheque, SDV on the date of agreement can be adopted. • Therefore, ₹ 65 lakh, being the difference between the SDV on the date of agreement [ie ₹ 140 lakh] and the purchase price [ie ₹ 75 lakh], would be chargeable as business income in the hands of Mr Hari.	• Since Mr Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of Section 56(2)(x) would be attracted in the hands of Mr Rajesh who has received immovable property, being a capital asset, for inadequate consideration. • Therefore, ₹ 50 lakh, being the difference between the SDV of the property [ie ₹ 140 lakh] and the actual consideration [ie ₹ 90 lakh] would be taxable as gift u/s 56(2)(x) in the hands of Mr Rajesh.



Case 2 - Tax Implications If Mr Hari Is A Stock Broker (Ie Such Property Is Not Stock In Trade For Mr Hari):

In The Hands Of Mr Hari	In The Hands Of Mr Rajesh
• In case Mr Hari is a stock broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. Section 50C would be attracted since land & building has been transferred for an amount which is less than its SDV. The booking amount has been received by way of an account payee cheque, thus SDV on the date of agreement can be adopted. • Therefore, ₹ 65 lakhs, being the difference between the SDV on the date of agreement (ie ₹ 140 lakh) and the purchase price (ie ₹ 75 lakh) would be chargeable as STCG.	• There would be no difference in the taxability in the hands of Mr Rajesh, whether Mr Hari is a property dealer or a stock broker. Therefore, the provisions of Section 56(2)(x) would be attracted in the hands of Mr Rajesh who has received immovable property, being a capital asset, for inadequate consideration. • Therefore, ₹ 50 lakh, being the difference between the SDV of the property (ie ₹ 140 lakh) and the actual consideration (ie ₹ 90 lakh) would be taxable as gift u/s 56(2)(x) in the hands of Mr Rajesh.

Answer 42**Computation Of Total Income And Tax Liability Of Smt Meqha For AY 2025-26:**

Particulars	Amount (₹)
Income u/h Capital Gains:	
Full Value of Consideration	19,00,000
Less: Indexed Cost of Acquisition (₹ 4,50,000 x 363/109)	[14,98,624]
Gross Long-Term Capital Gain	4,01,376
Less: Exemption u/s 54	[2,00,000]
Taxable Long-Term Capital Gain	2,01,376
Income u/h Other Sources:	
Advance forfeited towards sale	2,00,000

Note: Exemption u/s 54 is available if one new residential house is purchased within 2 years from the date of



transfer of existing residential house, which is a long-term capital asset. Since the cost of new residential house is less than the LTCG, capital gains to the extent of cost of new house [ie ₹ 2 lakhs] is exempt u/s 54.

Answer 43

Particulars	Amount (₹)
Sale proceeds	52,00,000
Less: Indexed Cost of Acquisition (₹ 11,50,000 x 363/100) (Note 1)	[41,74,500]
Less: Indexed Cost of Improvement (Note 2)	Nil
Long Term Capital Gain	10,25,500

Note 1: Since the FMV of the property as on 1st April 2001 exceeds the cost of the property, FMV of the property as on 1st April 2001 shall be taken as the cost of the acquisition [ie ₹ 11,90,000]. Any advance received and forfeited before April 1, 2014 is to be reduced from the cost of acquisition. Therefore, indexation shall apply on ₹ 11,50,000.

Note 2: Any improvement cost incurred prior to 01.04.2001 is to be ignored.

Answer 44**Computation Of Capital Gains Of Mr Aakash For AY 2025-26:**

Particulars	Amount (₹)
Sale consideration	12,00,000
Less: Indexed Cost of Acquisition (W.N. 1)	[2,54,100]
Less: Indexed Cost of Improvement (₹ 50,000 x 363/109)	[1,66,514]
Less: Indexed Cost of Improvement (₹ 1,90,000 x 363/184)	[3,74,837]
Long Term Capital Gains	4,04,549

Note 1: Computation of Indexed Cost of Acquisition:

- Cost to the previous owner or FMV as on 01.04.2001, whichever is higher, shall be taken as the cost of acquisition in the present case. However, amount forfeited by the previous owner shall not be considered.



Further, since the advance amount has been received & forfeited by Mr Aakash before April 1, 2014, such advance shall be reduced from COA.

- As per the view expressed by Bombay High Court in CIT v. Manjula Shah, the indexation benefit in respect of cost of acquisition would be available from the year in which the capital asset is acquired by the previous owner. Considering this view, the indexed cost of acquisition would have to be calculated by taking the CII of FY 2001-02, since the FMV of the asset as on 01.04.2001 has been taken as the cost of acquisition,

Particulars	Amount (₹)
Higher of cost to the previous owner [ie ₹ 1,05,000] or FMV on 1st April, 2001 [ie ₹ 1,50,000]	1,50,000
Less: Advance money forfeited by Mr Rakesh	Nil
Less: Advance money forfeited by Mr Aakash	[80,000]
Cost of Acquisition	70,000
Indexed Cost of Acquisition [₹ 70,000 x 363/100]	2,54,100

Note 2: Cost of improvement incurred prior to 01.04.2001 shall be completely ignored.

Answer 45

Computation Of Capital Gains Chargeable To Tax For AY 2022-23:

Particulars	(₹)
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [₹ 30,00,000 x 317/148]	[64,25,676]
Long-Term Capital Gain	92,74,324
Less: Exemption u/s 54 {Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2022, ie within two years from the date of transfer of residential house in Noida. Exemption restricted to LTCG, since cost of new house exceeds LTCG}	[92,74,324]
Taxable Long-Term Capital Gain	Nil



Computation Of Capital Gains Chargeable To Tax For AY 2025-261

Particulars	(₹)
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition {The new residential house purchased on 20.7.2022 is transferred on 31.05.2024, ie within 3 years of its purchase. Therefore, as per Section 54, the cost of acquisition of such new residential house [ie, ₹ 2,05,00,000] shall be reduced by LTCG exempted earlier [792,74,324], while computing capital gains on sale of the new residential house.] {₹ 1,12,25,676 [₹ 2,05,00,000 - ₹ 92,74,324] x 363/331}	[1,23,10,938]
Long-Term Capital Gain [Since The Residential House Is Held For More Than 24 Months]	2,01,89,062
Less: Exemption u/s 54 [Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 02.03.2025, ie within two years from 31.05.2024, being the date of transfer of residential house at Panchkula. Exemption restricted to LTCG, since cost of new house exceeds LTCG]	[2,01,89,062]
Taxable Long-Term Capital Gain	Nil

Answer 46**• Computation Of Capital Gains In The Hands Of Mr Basu For AY 2025-26:**

Particulars	Amount (₹)
Full Value of Consideration	70,00,000
Less: Indexed Cost of Acquisition [₹ 5,00,000 x 363/109]	[16,65,138]
Gross Long-Term Capital Gains	53,34,862
Less: Exemption u/s 54B [Cost of new agricultural land]	[10,00,000]
Taxable Long-Term Capital Gains	43,34,862

• Computation Of Capital Gains In The Hands Of Mr Basu For AY 2026-27:

Particulars	Case [a] - New Agricultural Land Is Situated In Urban Area [₹]	Case [b] - New Agricultural Land Is Situated In Rural Area [₹]



Full Value of Consideration	35,00,000	No capital gains would arise on the transfer of new agricultural land as rural agricultural land is not a capital asset.
Less: Cost of Acquisition	Nil [Exemption allowed earlier u/s 54B shall be reduced from the cost of acquisition as the new agricultural land is transferred within 3 years]	
Short-Term Capital Gains	35,00,000	

Answer 47

Particulars	Amount (₹)
Sale Consideration	1,00,00,000
Less: Indexed cost of acquisition [₹ 9,99,300 x 363/105]	[34,54,723]
Gross Long-Term Capital Gain	65,45,277
Less: Deduction u/s 54EC	[50,00,000]
Taxable Long-Term Capital Gain	15.45,277

Notes:

- Since the site was held for more than 24 months prior to the date of transfer, it is a long-term capital asset and the capital gain arising upon its transfer is long-term capital gain.
- In order to claim exemption u/s 54EC, Mr Chandru has to invest in specified bonds of RECL or NHAI within a period of 6 months from the date of transfer of the asset. Further, total exemption u/s 54EC per AY cannot exceed ₹ 50 lakhs. In the present case, Mr Chandru has invested ₹ 50 lakhs in RECL bonds and ₹ 20 lakhs in NHAI bonds, both within 6 months from the date of transfer. However, maximum exemption u/s 54EC is limited to ₹ 50 lakhs only.

Answer 48

Particulars	Amount (₹)	Amount (₹)
Factory Building:		
Sale Price	8,00,000	



Less: WDV as on 01.04.2024	(8,74,800)	
Short Term Capital Loss on sale of building		(74,800)
Land Appurtenant:		
Sale Price	41,00,000	
Less: Indexed Cost of Acquisition [$\text{₹ } 11,50,000 \times 363/105$]	(39,75,714)	
Long Term Capital Gain on sale of land		1,24,286
Chargeable Long-Term Capital Gain		49,486

Notes:

- 1) Factory building on which depreciation is claimed is a depreciable asset. Profit/loss arising on sale, of a depreciable asset is deemed to be short-term as per Section 50 and no indexation benefit is available. Land is not a depreciable asset and therefore Section 50 will not apply. Being a long-term capital asset [held for more than 24 months], indexation benefit is available in respect of land. '
- 2) **Investment u/s 54EC:** Exemption u/s 54EC is available if the capital gains arising from transfer of a long-term immovable property are invested in long-term specified assets like bonds of NHAI and Rural Electrification Corporation Ltd within 6 months from the date of transfer. The amount to be invested in the present case for availing maximum exemption is equal to net long-term capital gains of ₹ 49,486.
- 3) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, Section 51 will apply. Since the advance has been received and forfeited before 01.04.2014, the advance so forfeited will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited ($\text{₹ } 12,00,000 - \text{₹ } 50,000$) = ₹ 11,50,000.
- 4) If the advance money was received and forfeited on or after 01.04.2014, the amount so forfeited would be taxable u/h "other sources" and such amount will not be deducted from the cost of acquisition while calculating capital gains.
- 5) Short term capital loss can be set-off against LTCG. Therefore, short-term capital loss of ₹ 74,800 has been set-off against LTCG of ₹ 1,24,286.

Answer 49**Computation Of Capital Gains In The Hands Of Mr selvan For AY 2025-26:**

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Particulars	Amount (₹)
Full Value of Consideration (Note 1)	80,00,000
Less: Indexed Cost of Acquisition (₹ 10,00,000 x 363/105)	[34,57,143]
Less: Indexed Cost of Improvement (₹ 2,00,000 x 363/117)	[6,20,513]
Gross Long Term Capital Gain	39,22,344
Less: Exemption u/s 54 (Purchase of a new residential house)	[25,00,000]
Taxable Long Term Capital Gain	14,22,344

Notes:

- 1) As per Section 50C, if the SDV adopted by the Stamp Valuation Authority exceeds the actual sale consideration by more than 10% of actual sale consideration, such SDV shall be deemed as the full value of consideration.
- 2) Exemption u/s 54 is available if a new residential house is purchased within one year before or two years after the date of transfer. Since the cost of new residential house is less than the capital gain, capital gain to the extent of cost of new asset is exempt u/s 54.
- 3) Exemption u/s 54EC is available in respect of investment in bonds of NHAI only if the investment is made within a period of 6 months after the date of such transfer. In this case, since the investment is made after six months, exemption u/s 54EC would not be available.

Tax Consequences If The New House Purchased In May 2024 Is Sold In March 2026: If the new asset purchased by the assessee on the basis of which exemption u/s 54 is claimed, is transferred within 3 years from the date of its acquisition, then for computing the taxable capital gains on such transfer, the cost of acquisition of such asset shall be reduced by the amount earlier allowed as exemption u/s 54.

Particulars	Amount (₹)
Sale Consideration	40,00,000
Less: Cost of Acquisition (₹ 25L - ₹ 25L)	Nil
Short Term Capital Gains	40,00,000

Answer 50

Particulars	Amount (₹)



Full Value of Consideration (u/s 50C)	80,00,000
Less: Indexed Cost of Acquisition ($\text{₹ } 24,00,000 \times 363/137$)	[63,59,124]
Less: Brokerage @ 2% of ₹ 65,00,000	[1,30,000]
Gross Long Term Capital Gain	15,10,876
Less: Exemption u/s 54	
• Acquisition of residential house property at Kolkata	[7,00,000]
• Amount deposited in CGAS before the due date of filing of ROI for construction of additional floor on the residential house property acquired at Kolkata	[4,00,000]
Less: Exemption u/s 54EC (Amt invested in bonds of RECL within 6 months of date of transfer)	[3,00,000]
Long Term Capital Gain	1,10,876
Total Income (Rounded Off u/s 288A)	1,10,880

Answer 51

Particulars	Amount (₹)
Full Value of Consideration (u/s 50C) -	95,00,000
Less: Indexed Cost of Acquisition ($\text{₹ } 20,50,000 \times 363/122$)	[60,99,590]
Less: Brokerage paid for sale of property	[1,00,000]
Gross Long Term Capital Gain	33,00,410
Less: Exemption u/s 54	
• Acquisition of residential house property	[15,00,000]
• Amount deposited in CGAS before the due date of filing of ROI for construction of additional floor on the residential house property acquired.	[5,00,000]
Less: Exemption u/s 54EC (Amt invested in bonds of NHAI within 6 months of date of transfer)	[10,00,000]
Long Term Capital Gain	3,00,410
Total Income	3,00,410



Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on LTCG of ₹ 3,00,410 after allowing the benefit of deficiency	10,082
Less: Rebate u/s 87A	[10,082]
Tax Liability	Nil

Answer 52

Particulars	Amount (₹)
Gross consideration	15,00,000
Less: Expenses on transfer	[7,000]
Less: Indexed Cost of Acquisition [₹ 4,52,000 x 363/117]	[14,02,359]
Gross Long Term Capital Gains	90,641
Less: Exemption u/s 54F [₹ 90,641 x ₹ 5,00,000/₹ 14,93,000]	[30,355]
Taxable Long Term Capital Gains	60,286

Answer 53**Computation Of Taxable Capital Gains In The Hands Of Mr X For AY 2025-26:**

Particulars	Amount (₹)
Sale consideration received on sale of 10,000 shares @ ₹ 600 each	60,00,000
Less: Indexed Cost of Acquisition:	
• 5,000 shares received as gift from father on 01.06.2000 [5,000 shares x 200 x 363/100]	[36,30,000]
• 2,000 bonus shares received from AB Ltd [Cost shall be taken as Nil]	Nil
• 3,000 shares purchased on 01.02.2011 @ ₹ 350 per share [3,000 shares x 350 x 363/167]	[22,82,335]
Gross Long Term Capital Gain	87,665
Less: Exemption u/s 54F [₹ 87,665 x ₹ 30,00,000/₹ 60,00,000] - Refer Note below	[43,832]
Taxable Long Term Capital Gains	43,833



Note: Exemption u/s 54F can be availed by the assessee subject to fulfillment of the following conditions:

- (a)** The assessee should not own more than one residential house on the date of transfer of the long-term capital asset;
- (b)** The assessee should purchase a residential house within a period of 1 year before or 2 years after the date of transfer or construct a residential house within a period of 3 years from the date of transfer of the LT capital asset.

In this case, the assessee has fulfilled both the conditions and therefore he is entitled to exemption u/s 54F.

Answer 54

Part (i) - Computation Of Taxable Capital Gain In The Hands Of Mr Aryan For AY 2025-26:

Particulars	Amount (₹)
Full Value Of Consideration (ie, consideration received on sale of shares)	10,00,000
Less: Brokerage on sale	(2,000)
Net Value Of Consideration	9,98,000
Less: Indexed cost of acquisition $(2,00,000 \times 363/200)$	(3,63,000)
Gross Long-Term Capital Gain	6,35,000
Less: Exemption u/s 54F [Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset. Accordingly, exemption u/s 54F would be ₹ 3,18,136 (ie, $6,35,000 \times 5,00,000/9,98,000$)]	(3,18,136)
Taxable Long-Term Capital Gain	3,16,864

Part (ii): The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3 year period from 17.5.2024 expires on - 16.5.2027. Consequently, the proportionate capital gains on the unutilized amount will be taxable in AY 2028-29, relevant to PY 2027-28. The amount of capital gains for AY 2028-29 would be ₹ 31,814 (₹ 3,18,136 × ₹ 50,000/₹5,00,000).

Answer 55

- a) In the given problem, compulsory acquisition of an urban agricultural land has taken place and the land was being used for at least 2 years by the assessee himself for agricultural purposes. Thus, as per



Section 10(37), capital gains arising on such compulsory acquisition will be fully exempt and nothing is taxable in the hands of Mr Kumar in the year of receipt of compensation.

- b) As per Section 10(37), exemption is available if compulsory acquisition of urban agricultural land takes place. Since the sale is out of own will and desire, the provisions of Section 10(37) are not attracted and the capital gains arising on such sale will be taxable in the hands of Mr Kumar.
- c) As per Section 10(37), exemption is available only when such land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such HUF. If the assessee has not used the land for agricultural activities, the provisions of Section 10(37) are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of Mr Kumar.
- d) Section 10(37) exempts capital gains arising to an individual or a HUF from transfer of agricultural land by way of compulsory acquisition. If the land belongs to ABC Ltd. the provisions of Section 10(37) are not attracted and the capital gains arising on such compulsory acquisition will be taxable in the hands of ABC Ltd.

Answer 56

Computation Of Income u/h Other Sources:

Particulars	Amount (₹)
1 Cash gift is taxable u/s 56(2)(x) since it exceeds ₹ 50,000	75,000
2 Gift of bullion (Bullion is included in the definition of property; further the FMV of bullion received as gift exceeds ₹ 50,000)	60,000
3 SDV of plot of land at Faridabad received without consideration	5,00,000
4 Gift of shares is not taxable as it represents stock-in-trade for A and gift provisions don't apply in case of gift of stock-in-trade. The cost of such stock shall be taken as ₹ 4,00,000 and the amount received in excess of ₹ 4,00,000 on its sale shall be chargeable as business income.	Nil
5 Since booking amount has been paid by account payee cheque, SDV on the date of booking has to be considered for calculating the taxable amount of gift. Difference between SDV on the date of booking (ie ₹ 23 lakhs) and the actual consideration paid (ie ₹ 20 lakhs) is taxable u/s 56(2)(x) because such difference exceeds ₹ 50,000 as well as 10% of ₹ 20 lakhs.	3,00,000
Income from Other Sources	9,35,000



Computation Of Capital Gains:

Particulars	Amount (₹)
Sale Consideration	7,00,000
Less: Cost of Acquisition {SDV charged to tax u/s 56(2)(x)}	[5,00,000]
Short Term Capital Gain	2,00,000

Answer 57**Computation Of Total Income Of Mr V For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Income u/h Capital Gains:		
• Sale of Ffatj		
Full Value of Consideration [as per Section 50C]	3,60,000	
Less: Cost of Acquisition {As per Section 49, COA shall be the SDV taken into consideration for arriving at the taxable amount of gift u/s 56(2)(x)}	[3,40,000]	
Short Term Capital Gain		20,000
• Sale of Unlisted Equity Shares of X Pvt Ltd;		
Sale Consideration	2,80,000	
Less: Indexed Cost of Acquisition $[3,50,000 \times 363/122]$	[10,41,393]	
Long Term Capital Loss To Be Carried Forward	[7,61,393]	Nil
Income u/h Other Sources:		
• Gift from friends by way of immovable property on 30.04.2024		3,40,000
• Gift received from a close friend (unrelated person)		75,000
Total Income		4,35,000

Note 1: As per Section 50C, if the SDV of the property is more than its actual sale consideration but the difference doesn't exceed 10% of actual sale consideration, the actual sale consideration shall be taken as full value of consideration for the purposes of computation of capital gains. Since the difference between SDV of



₹ 3,70,000 and actual sale consideration of ₹ 3,60,000 doesn't exceed 10% of actual sale consideration, therefore actual consideration shall be taken as full value of consideration.

Note 2: As per Section 56(2)(x), any sum received from an unrelated person will be deemed as income and taxed as income from other sources if the aggregate sum received exceeds ₹ 50,000 in a year.





CHAPTER - 12

INCOME FROM OTHER SOURCES

ILLUSTRATION 1 [easy]

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- What would be your answer, if the lending company is a private limited company [i.e. which is not a company in which the public are substantially interested]?

SOLUTION

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2[22](e), to the extent the company possesses accumulated profits.

- The provisions of section 2[22](e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- However, if the loan is taken from a private company [i.e., a company in which the public are not substantially interested], which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2[22](e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2[22](e) would be attracted.
- The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

ILLUSTRATION 2 [difficult]

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B, -



1. Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.
2. Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
3. A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26.

SOLUTION

Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26

Particulars	₹
1. Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
2. Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
3. Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
4. Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
5. Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	9,35,000



Computation of “Capital Gains” of Mr. A for the A.Y.2025-26

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

ILLUSTRATION 3 (difficult)

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 –

- Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

SOLUTION

	Taxable/ Non- taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.



(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

ILLUSTRATION 4 (difficult)

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2025 when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

SOLUTION**Case 1: Tax implications if Mr. Hari is a property dealer**

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹



or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS [Immediate payment Service], UPI [Unified Payment Interface], RTGS [Real Time Gross Settlement], NEFT [National Electronic Funds Transfer], and BHIM [Bharat Interface for Money] Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration

₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.

Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration [i.e., ₹ 150 lakh] and the actual consideration [i.e., ₹ 90 lakh] would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS [Immediate payment Service], UPI [Unified Payment Interface], RTGS [Real Time Gross Settlement], NEFT [National Electronic Funds Transfer], and BHIM [Bharat Interface for Money] Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration [i.e., ₹ 150 lakh] and the purchase price [i.e., ₹ 75 lakh] would be chargeable as short-term capital gains. It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration [i.e., ₹ 150 lakh] and the actual consideration [i.e., ₹ 90 lakh] would be taxable under section 56(2)(x) in the hands of Mr.



of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS [Immediate payment Service], UPI [Unified Payment Interface], RTGS [Real Time Gross Settlement], NEFT [National Electronic Funds Transfer], and BHIM [Bharat Interface for Money] Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS [Immediate payment Service], UPI [Unified Payment Interface], RTGS [Real Time Gross Settlement], NEFT [National Electronic Funds Transfer], and BHIM [Bharat Interface for Money] Aadhar Pay.

ILLUSTRATION 5 (easy)

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

SOLUTION

The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

ILLUSTRATION 6 (easy)

Interest on enhanced compensation received by Mr. G during the previous year 2024-25 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2025-26.

SOLUTION

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2024-25

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000



Interest chargeable under the head "Income from other sources"	2,50,000



TEST YOUR KNOWLEDGE

7. Examine under which heads the following incomes are taxable:
 - i. Rental income in case property held as stock-in-trade for 3 years
 - ii. Salary received by a partner from his partnership firm
 - iii. Rental income of machinery
 - iv. Winnings from lotteries by a person having the same as business activity
 - v. Salaries received by a Member of Parliament
 - vi. Receipts without consideration
 - vii. In case of retirement, interest on employee's contribution if provident fund is unrecognized.
 - viii. Rental income in case of a person engaged in the business of letting out of properties.

8. Examine whether the following are chargeable to tax and the amount liable to tax:
 - i. A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
 - ii. Interest on enhanced compensation of ₹ 96,000 received on 12-3-2025 for acquisition of urban land, of which 40% relates to P.Y.2023-24.

9. On 10.10.2024, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17.
 Out of this interest, ₹ 1,50,000 relates to the financial year 2017-18; ₹ 1,65,000 to the financial year 2018-19; and ₹ 1,85,000 to the financial year 2019-20. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.
 How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2025-26?

10. The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2025:



- i. Cash gift of ₹ 51,000 received from her friend on the occasion of her “Shastiaptha Poorthi”, a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- ii. On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- iii. When she celebrated her daughter's wedding on 21.2.2025, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as “Income from other sources” for A.Y.2025-26.

(difficult)

11. Examine the following transactions in the context of Income-tax Act, 1961:

- i. Mr. B transferred 500 shares of R [P] Ltd. to M/s. B Co. [P] Ltd. on 10.10.2024 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. [P] Ltd. because of the above said transaction.

- ii. Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2023 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

(difficult)



ANSWERS

7. Head under which following incomes are taxable:

	Particulars	Head of Income
	Rental income in case property held as stock-in trade for 3 years	Income from house property
	Salary by partner from his partnership firm	Profits and gains of business or profession
	Rental income of machinery [See Note below]	Profits and gains of business or profession/Income from other sources
	Winnings from lotteries by a person having the same as business activity	Income from other sources
	Salaries payable to a Member of Parliament	Income from other sources
	Receipts without consideration	Income from other sources
	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

8. Taxability of Receipts

S.No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
i.	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).



ii.	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2023- 24 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

9. Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2025-26a

Particulars	
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,00
Less: Deduction under section 57(iv) [50% x ₹ 5,00,000]	2,50,000
Taxable interest on enhanced compensation	2,50,000

10.

- i. Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.
- ii. The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.



- iii. The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of “property”.
- iv. To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. “Sum of money” has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- a) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of “property”.
- b) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as “Income from other sources”

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be ₹ 51,000, being cash gift received from a friend on her Shastipatha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

11.

- i. Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.



- ii. The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

ILLUSTRATION 12 (easy)

State with reasons whether the following statement is true/false:

"Mr A receives ₹ 2 lakhs from his friends on the occasion of his marriage on 22.04.2024 and ₹ 1 lakh from the brother of his father-in-law on 31.12.2024. Mr A's income under "other sources" for PY 2024-25 is ₹ 3 lakhs."

ILLUSTRATION 13 (average)

Discuss the taxability of the gift in the following cases (treat each case as an independent case);

- a) Mr P has received gift of ₹ 50,000 in cash from his friend.
- b) Mr P has received gift of ₹ 2,50,000 in cash from his brother.
- c) Mr P has received gift of ₹ 2,50,000 in cash from his mother's sister.
- d) Mr P has received gift of ₹ 2,50,000 in cash from his father's brother.
- e) Mr P has received gift of ₹ 2,50,000 in cash from his cousin.
- f) Mr P has received gift of ₹ 2,50,000 in cash from brother of his spouse.
- g) Mr P has received gift of ₹ 2,50,000 in cash from his grand-father.
- h) Mr P has received gift of ₹ 2,50,000 in cash from spouse of his brother.
- i) Mr P has received gift of ₹ 2,50,000 in cash from husband of his sister.
- j) Mr P has received gift of ₹ 2,50,000 in cash from sister of his brother's wife.
- k) Mr P has received gift of ₹ 2,50,000 in cash from the sister of his spouse.
- l) Mr P has received gift of ₹ 6,000 in cash on his birthday from each of his eleven friends.
- m) Mr P has received gift of ₹ 2,50,000 in cash from his friend on the occasion of his marriage.
- n) Mr P has received gift of ₹ 1,00,000 in cash from his fiancée.

ILLUSTRATION 14 (average)

Discuss the taxability of the following receipts in the hands of Mr Sanjay Kamboj under the Income Tax Act, 1961



for AY 2025-26:

(i) ₹ 51,000 received from his sister-living in US on 1-6-2024.

(ii) Received a car from his friend on payment of ₹ 2,50,000, the FMV of which was ₹ 5,50,000.

Provisions of taxability or non-taxability must be discussed.

ILLUSTRATION 15 (average)

The following details have been furnished by Mrs Hemali pertaining to the year ended 31.03.2025;

- i. Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- ii. On the above occasion, a diamond necklace worth 7 2 lacs was presented by her sister living in Dubai.
- iii. When she celebrated her daughter's wedding on 21.02.2025, her friend assigned in Mrs Hemali's favour, a fixed deposit held by the said friend in a scheduled bank: the value of the fixed deposit and the accrued interest on the said date was ₹ 51,000.

Compute the income, if any, assessable as income from other sources.

ILLUSTRATION 16 (average)

Check the taxability of the following gifts received by Mrs Rashmi during PY 2024-25 and also compute her tax liability. Calculate your answer ignoring the benefit of standard deduction available in respect of salary income.

- i. On the occasion of her marriage on 14.08.2024, she has received ₹ 90,000 as gift out of which ₹ 70,000 are from relatives and balance from friends.
- ii. On 12.09.2024, she has received gift of ₹ 18,000 from cousin of her mother.
- iii. A cell phone of ₹ 21,000 is gifted by her employer on 15.08.2024.
- iv. She gets a cash gift of ₹ 25,000 from the elder brother of her husband's grandfather on 25.10.2024.
- v. She has received a cash gift of ₹ 2,000 from her friend on 14.04.2024.
- vi. She has won ₹ 4 lakh from a game show on electronic media.

ILLUSTRATION 17 (average)

From the following transactions reported to you by Smt Laxmi for AY 2025-26, determine the amounts



chargeable to tax in the hands of Smt Laxmi. Your answer should be supported by reasons.

- (i) Received cash gifts on the occasion of her marriage on 18.7.2024 of ₹ 1,20,000. It includes gift of ₹ 20,000 received from non-relatives.
- (ii) On 1.8.2024, being her birthday, she received a gift by means of cheque from her mother's maternal uncle, the amount being ₹ 40,000.
- (iii) On 1.12.2024, she acquired a vacant site from her friend for ₹ 1,05,000. The state stamp valuation authority fixed the value of site at ₹ 1,80,000 for stamp duty purpose.
- (iv) She bought 100 equity shares of a listed company from another friend for ₹ 60,000. The value of shares in the stock exchange on the date of purchase was ₹ 1,15,000.

ILLUSTRATION 18 (difficult)

Following gifts are received by Mrs X, who is carrying on jewellery business, during PY 2024-25:

- (i) On the occasion of her marriage on 07.09.2024, she has received ₹ 1,20,000 as gift out of which ₹ 85,000 are from relatives and balance from friends.
- (ii) On 03.10.2024, she has received cash gift of ₹ 2,50,000 from cousin of her mother.
- (iii) A mobile phone worth ₹ 15,000 is gifted by her friend on 21.09.2024.
- (iv) She gets a cash gift of ₹ 2,40,000 from the elder brother of her husband's grandfather on 10.12.2024.
- (v) She has received a cash gift of ₹ 6,00,000 from her friend on 27.01.2025.
- (vi) She has received bullion, the fair market value of which was ₹ 4,75,000 on her birthday, 19.01.2025.

Mrs X purchased from her friend, who is also carrying jewellery business, jewellery at ₹ 2,50,000 on 25.01.2025, the fair market value of which was ₹ 5,00,000 on that date. Compute total income and tax liability of Mrs X for AY 2025-26.

ILLUSTRATION 19 (difficult)

Mr X is holding 100 shares of ABC Ltd which were purchased by him on 01.10.1978 @ ₹ 10 per share. Market value of one share on 01.04.2001 was ₹ 25 and total number of shares issued by the company is 10,000. The company goes into liquidation on 01.06.2024 and has net distributable amount of ₹ 25 lakhs (after discharging all the liabilities). Out of ₹ 25 lakhs, ₹ 10 lakhs is accumulated profits. Compute dividends in the hands of Mr X.



ILLUSTRATION 20 (difficult)

Mr X purchased 10,000 equity shares of ABC Pvt Ltd on 28.04.2024 for ₹ 1,20,000. The company was wound up on 30.06.2024. The following is the summarized financial position of the company as on 30.06.2024:

Liability	Amount (₹)	Assets	Amount (₹)
1,00,000 equity shares	10,00,000	Land	42,00,000
General reserve	40,00,000	Cash at bank	10,50,000
Provision for taxation	2,50,000		
Total	52,50,000	Total	52,50,000

The tax liability was finally ascertained as ₹ 3,00,000. The remaining assets were distributed to the shareholders in the proportion of their shareholding. The market value of land as on 30.06.2024 is ₹ 1,00,00,000. Discuss the tax consequences in the hands of Mr X.

ILLUSTRATION 21 (easy)

ABC Pvt Ltd has bonus share capital of ₹ 5 lakh and general reserve of ₹ 7 lakh and the company has given a loan of ₹ 8 lakh to one of the shareholders who is holding 10% of the voting power. Compute the amount of dividend.

ILLUSTRATION 22 (easy)

Mr X is holding 10% equity shares in ABC Pvt Ltd. a closely-held company and he has taken a loan of ₹ 3 lakhs on 01.10.2024. The loan was repaid after ten days. The company has accumulated profits of ₹ 10 lakhs. Compute the amount of dividend.

ILLUSTRATION 23 (easy)

Mr X holds shares carrying 25% of voting power in a domestic company in which public are not substantially interested. On 01.09.2024, he obtained a loan of ₹ 5 lakhs @14%, p.a. from the company, as on that date the company had accumulated profit of ₹ 4 lakhs. Explain the tax implications in the hands of the company and also in the hands of shareholder.



ILLUSTRATION 24 (easy)

Accumulated profits of ABC Pvt Ltd. a closely-held company are ₹ 3 lakhs on 01.07.2024. A loan of ₹ 2 lakhs was advanced to Mr X holding 13% shares on 01.07.2024 and a loan of ₹ 1.5 lakhs was advanced to Mr Y on 01.10.2024 holding 11% shares. Compute the amount of dividend.

ILLUSTRATION 25 (average)

A closely held company has accumulated profits of ₹ 10 lakhs. A loan of ₹ 7 lakhs was given to a shareholder who is holding 10% of voting power and subsequently loan of ₹ 6 lakhs was given to another similar shareholder. Compute amount of dividend and discuss its taxability.

ILLUSTRATION 26 (difficult)

State under which head the following amounts are taxable:

Particulars	Head Of Income
Amount received from Keyman insurance policy by family members after employee's death	
Amount received from Keyman insurance policy by businessman	
Amount received from Keyman insurance policy by employee	

ILLUSTRATION 27 (average)

Compute income u/h other sources with the help of following information:

Dividend from Indian Companies	₹ 10,500
Winning from lotteries net of TDS [TDS ₹ 3,000]	₹ 7,000

Additional Information:

- (i) The assessee has received ₹ 24,000 being honorarium for valuing examination answer books.
- (ii) The assessee has paid ₹ 2,500 for purchase of lottery tickets.

ILLUSTRATION 28 (average)

Mr X has one factory building with machines and furniture, which has been let out at ₹ 50,000 p.m. Repair charges of building - ₹ 10,000; insurance premium of building - ₹ 7,000; repair charges of P&M - ₹ 3,000:



insurance premium of P&M - ₹ 1,000 and depreciation with regard to building, P&M is ₹ 12,000. Compute his income u/h other sources.

ILLUSTRATION 29 (easy)

Mr X has loss from owning & maintaining of race horses ₹ 4 lakhs and income from owning & maintaining of race camels ₹ 4 lakhs. Determine his tax liability for AY 2025-26.

ILLUSTRATION 30 (easy)

Mr X has earned the following incomes/incurred the following losses during PY 2024-25:

- Income from business of owning and maintaining race camels - ₹ 60,000;
- Loss from owning and maintaining race horses - ₹ 7,000; and
- Income from horse races - ₹ 7,000.

He has brought forward business loss of ₹ 7,000 pertaining to AY 2005-06 and brought forward business loss of ₹ 7,000 pertaining to AY 2021-22. Compute his tax liability for AY 2025-26.

ILLUSTRATION 31 (difficult)

Discuss the taxability or otherwise in the hands of the recipients as per the provisions of the Income Tax Act:

- Mr A received an advance of ₹ 50,000 on 1-09-2024 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 50,000 was forfeited.
- Mr N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is ₹ 10 lacs as per the Registrar of stamp duty.
- Mr Kumar gifted a car to his sister's son (Sunil) for achieving good marks in CA Final exam. The fair market value of the car is ₹ 5,00,000.

ILLUSTRATION 32 (difficult)

Ms Julie received following amounts during PY 2024-25. Discuss the tax implications, if any, arising from these transactions in her hand with reference to AY 2025-26.:

- (1) Received loan of ₹ 5,00,000 from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹ 2,00,000 on the date of the loan.



- [2] Received interest on enhanced compensation of ₹ 5,00,000. Out of this, ₹ 1,50,000 relates to PY 2021-22, ₹ 1,90,000 relates to PY 2022-23 and ₹ 1,60,000 relates to PY 2023-24. She paid ₹ 1 lakh to her advocate for his efforts in the matter.

ILLUSTRATION 33 (difficult)

Examine whether the following are chargeable to tax and the amount liable to tax:

- i. Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2025 from Government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to Previous Year 2022-23.
- ii. Narayanan transferred 1,000 shares of BS Ltd to AB Pvt Ltd on 01-06-2024 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was effected off-market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
- iii. Mr A received ₹ 5,00,000 on 1st March 2025 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered u/s 12AB of Income Tax Act.

ILLUSTRATION 34 (difficult)

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

- (i) Dividend of ₹ 50,000 received in April 2024. The dividend was declared by the company, ie LMN Limited, at its annual general meeting held in October 2023.
- (ii) Advance forfeited amounting to ₹ 1,00,000 on 01.05.2024 as the negotiation for transfer of capital asset did not result in transfer of capital asset.
- (iii) Cash gift received from non-relative on the occasion of marriage of son, ₹ 51,000.
- (iv) During FY 2024-25, he received ₹ 99,000 as pension from employer of deceased wife.

ILLUSTRATION 35 (difficult)

Mr Lalit, a dealer in shares and securities, has entered into the following transactions during PY 2024-25:

- i. Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- ii. Cash gift of ₹ 21,000 each from his four friends.



- iii. Land at Jaipur on 1st May 2024 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr Kabra in PY 2001-02 for ₹ 2 lakhs.

Mr Lalit purchased from his friend Mr Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd @ ₹ 400 each on 19th June 2024 the fair market value of which was ₹ 600 each on that date. Mr Lalit sold these shares in the course of his business on 23rd June 2024.

Further, on 1st November 2024, Mr Lalit took possession of his residential house booked by him two years back at ₹ 20 lakhs. The stamp duty value of the property as on 1st November 2024 was ₹ 32 lakhs and on the date of booking was ₹ 24 lakhs. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the XYZ Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st July 2024, he sold the plot of land at Jaipur for ₹ 8 lakhs. The value of the cost inflation index is 100 and 363 for PYs 2001-02 and 2024-25 respectively.

Compute the income of Mr Lalit chargeable under the head "Other Sources" and "Capital Gains" for AY 2025-26.



SOLUTIONS**Taxation Of Gifts - Section 56(2)(x)****Answer 12**

- As per Section 56(2)(x), where any sum of money is received without consideration by any person from any other person and the aggregate value of all such sums received during the previous year exceeds ₹ 50,000, the entire aggregate value of such sum is included in the total income of such individual/HUF u/h "income from other sources".
- However, in order to avoid hardship in genuine cases, certain sums of money received have been exempted, which includes, inter-alia, any sum received on the occasion of the marriage of the individual and any sum received from any relative. As such, ₹ 2 lakhs received from friends on the occasion of marriage is exempt.
- However, brother of father-in-law is not included in the definition of relative. Hence, ₹ 1 lakh is taxable u/h "income from other sources". Therefore, the statement that ₹ 3 lakhs is includible in A's income is false.

Answer 13

- Mr P has received gift of ₹ 50,000 in cash from his friend; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from his brother; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from his mother's sister; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from his father's brother; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from his cousin; it will be chargeable to tax,
- Mr P has received gift of ₹ 2,50,000 in cash from brother of his spouse; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from his grand-father; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from spouse of his brother; it will not be considered to be his income.
- Mr P has received gift of ₹ 2,50,000 in cash from husband of his sister; it will not be considered to be his income.



- j) Mr P has received gift of ₹ 2,50,000 in cash from sister of his brother's wife; it will be considered to be his income.
- k) Mr P has received gift of ₹ 2,50,000 in cash from the sister of his spouse; it will not be considered to be his income.
- l) Mr P has received gift of ₹ 6,000 in cash on his birthday from each of his eleven friends; it will be considered to be his income because the total amount is exceeding ₹ 50,000.
- m) Mr P has received gift of ₹ 2,50,000 in cash from his friend on the occasion of his marriage; it will not be considered to be his income.
- n) Mr P has received gift of ₹ 1,00,000 in cash from his fiancée. Such gift shall be considered to be his income.

Answer 14

(i) Not Taxable - Cash gift of ₹ 51,000 received from his sister, being a relative, would not be taxable in the hands of Mr Sanjay Kamboj u/s 56(2)(x), even though the amount exceeds ₹ 50,000.

(ii) Not Taxable - Car is not included in the definition of "property", for the purpose of taxability of gifts in kind, in the hands of the recipient under the head "Income from other sources". Hence, ₹ 5,50,000, being the FMV of car received for inadequate consideration from his friend is not taxable u/s 56(2)(x) in the hands of Mr Sanjay Kamboj, even though the difference between the purchase price and FMV exceeds ₹ 50,000 and the gift is received from a non-relative.

Answer 15

- I. Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age. The gift of ₹ 51,000 received from a non-relative is chargeable to tax u/s 56(2)(x) in the hands of Mrs Hemali.
- II. The provisions of Section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable u/s 56(2)(x), even though jewellery falls within the definition of "property".
- III. To be exempt from the applicability of Section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual



is chargeable to tax u/s 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has not been defined u/s 56(2)(x). Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs Hemali: ≥ The first view is that FD does not fall within the meaning of "sum of money" and therefore, the provisions of Section 56(2)(x) are not attracted. It may be noted that FD is also not included in the definition of "property".

> However, another possible view is that FD assigned in favour of Mrs Hemali falls within the meaning of "sum of money" received.

Income Assessable As "Income From Other Sources":

> If the first view is taken, the total amount chargeable to tax as "income from other sources" would be ₹ 51,000, being cash gift received from a friend on her Shasthiaptha Poorthi.

> As per the second view, the provisions of Section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "income from other sources" of Mrs Hemali would be ₹ 1,02,000 (₹ 51,000 + ₹ 51,000).

Answer 16

Computation Of Taxable Income Of Mrs Rashmi From Gifts For AY 2025-26:

Particulars	Taxable Amount	Reason For Taxability/Non-Taxability
Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable.
Cousin of Mrs X's mother	₹ 18,000	Cousin of Mrs Rashmi's mother is not a relative. Hence, gift is taxable.
Elder brother of husband's grandfather	₹ 25,000	Brother of husband's grandfather is not a relative. Hence, gift is taxable.
Friend	₹ 2,000	Gift from friend is taxable.
Aggregate Value Of Gifts	₹ 45,000	

Since the aggregate value of gifts received by Mrs Rashmi during PY 2024-25 does not exceed ₹ 50,000, the same is not chargeable to tax u/s 56 of the Income Tax Act, 1961. Further, gift received from the employer in kind upto ₹ 5,000 is exempt from income tax and amount in excess of ₹ 5,000, ie ₹ 16,000 is taxable u/h salary.

Particulars	Amount (₹)
Income under the head Salary	16,000



Income under the head Other Sources [Casual Income]	4,00,000
GROSS TOTAL INCOME	4,16,000
Less: Deductions u/s 80C to 80U	Nil
Total Income	4,16,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on normal income of ₹ 16,000 at slab rates	Nil
Tax on casual income of ₹ 4,00,000 @ 30% u/s 115BB	1,20,000
Tax before Rebate and Health & Education Cess	1,20,000
Less: Rebate u/s 87A	[12,500]
Tax after Rebate but before Health & Education Cess	1,07,500
Add: Health & Education Cess @ 4%	4,300
Tax Liability	1,11,800

Answer 17**Computation Of Amount Chargeable To Tax In Hands Of Smt Laxmi For AY 2025-26:**

S.No.	Particulars	Amount (₹)
(i)	Cash gift of ₹ 1,20,000 received on the occasion of her marriage is not taxable since gifts received by an individual from any person on the occasion of marriage are excluded u/s 56(2)(x).	Nil
(ii)	Even though mother's maternal uncle does not fall within the definition of "relative" u/s 56(2)(x), gift of ₹ 40,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Smt Laxmi without consideration from non-relatives [other than on the occasion of marriage] during PY 2024-25 does not exceed ₹ 50,000.	Nil



(iii)	Immovable property whose SDV is ₹ 1,80,000 has been purchased for ₹ 1,05,000, resulting in a gift of ₹ 75,000. The gift of ₹ 75,000 would be taxable in the hands of Smt Laxmi u/s 56(2)(x) because the gift amount exceeds ₹ 50,000 as well as 10% of purchase price (ie 10% of ₹ 1,05,000 = ₹ 10,500).	75,000
(iv)	Since shares are included in the definition of "property" and difference b/w the purchase value and FMV of shares exceeds ₹ 50,000, the difference of ₹ 55,000 (₹ 1,15,000 - ₹ 60,000) would be taxable u/s 56(2)(x).	55,000
Amount Chargeable To Tax		1,30,000

Answer 18**Computation of Total Income of Mrs X for AY 2025-26:**

Particulars	Amount (₹)
Gift received on the occasion of marriage is exempt	Nil
Cash gift from cousin of Mrs X's mother is taxable u/s 56 (Cousin of Mrs X's mother is not a relative)	2,50,000
Mobile phone gifted by her friend is not taxable since it is not included in the definition of "property"	Nil
Cash gift received from elder brother of husband's grandfather is taxable (Brother of husband's grandfather is not a relative)	2,40,000
Cash gift from friend is taxable	6,00,000
Since bullion is included in the definition of property, therefore bullion received without consideration having FMV exceeding Rs 50,000 is taxable as gift in the hands of the recipient	4,75,000
Difference of ₹ 2,50,000 in the value of jewellery purchased from her friend, is not taxable as it represents SIT of Mrs X and gift provisions do not apply in case of SIT. When such jewellery is subsequently sold in the course of her business, its cost shall be taken as ₹ 2,50,000.	Nil
Income u/h Other Sources (Total Income)	15,65,000



Computation Of Tax Liability	Amount (₹)
Tax on ₹ 15,65,000 at slab rates	2,82,000
Add; Health & Education Cess @ 4%	11,280
Tax Liability	2,93,280

Answer 19

The total shareholding of Mr X in ABC Ltd is 1% (100 shares/10,000 shares). Total accumulated profits are ₹ 10,00,000. Therefore, Mr X's share in accumulated profits would come out to ₹ 10,000 (₹ 10,00,000 * 1%). The amount of ₹ 10,000 would be treated as dividend u/s 2(22)(c) and such dividend shall be taxable in the hands of Mr X as a normal income.

Answer 20**Tax Implications In The Hands Of Mr X (Shareholder):**

Particulars	Amount (₹)
Mr X holds 1/10th of the shareholding of the company:	
Market value of land received (1/10th of ₹ 1,00,00,000)	10,00,000
Cash at bank [1/10th of (₹ 10,50,000 - ₹ 3,00,000)]	75,000
Total	10,75,000
Less: Deemed Dividend u/s 2(22)(c) [1/10th of (₹ 40,00,000 - ₹ 50,000)]	(3,95,000)
Consideration for computing capital gains (ie Full Value of Consideration)	6,80,000
Less: Cost of Acquisition of shares	(1,20,000)
Short Term Capital Gains	5,60,000

Note: Dividend of ₹ 3,95,000 shall be taxable in the hands of Mr X as a normal income.

Answer 21

In the present case, total accumulated profits are ₹ 12 lakhs out of which ₹ 5 lakhs have been capitalized. Dividend u/s 2(22)(e) is limited to the amount of accumulated profits available excluding capitalized profits. Therefore, an amount of ₹ 7 lakhs would be treated as deemed dividend u/s 2(22)(e),



Answer 22

Repayment of loan after ten days is immaterial. The amount of ₹ 3 lakhs shall be treated as deemed dividend as per Section 2(22)(e),

Answer 23

In the given case, there will be deemed dividend u/s 2(22)(e) to the extent of ₹ 4 lakhs. No tax implications would arise in the hands of the company in respect of such dividend. The shareholder would be liable to pay income tax in respect of such dividend as a normal income.

Answer 24

In this case, an amount of ₹ 2 lakhs would be deemed as dividend u/s 2(22)(e) at the time of advancement of loan to Mr X.

Thereafter, an amount of ₹ 1 lakh would be deemed as dividend u/s 2(22)(e) at the time of advancement of loan to Mr Y because for the purpose of Section 2(22)(e), accumulated profits shall get reduced by the amount of dividend already charged u/s 2(22)(e) as decided in the case of CIT v G.Narasimhan.

Answer 25

In this case, an amount of ₹ 7 lakhs would be deemed as dividend u/s 2(22)(e) at the time of advancement of loan to the first shareholder. Thereafter, an amount of ₹ 3 lakhs would be deemed as dividend u/s 2(22)(e) at the time of advancement of loan to the second shareholder because for the purpose of Section 2(22)(e), accumulated profits shall get reduced by the amount of dividend already charged u/s 2(22)(e) as decided in the case of CIT v G.Narasimhan.

Answer 26

Particulars	Head of Income
Amount received from Keyman insurance policy by family members after death of employee	Other Sources
Amount received from Keyman insurance policy by businessman	Business/Profession
Amount received from Keyman insurance policy by employee	Salary



Answer 27

Particulars	Amount (₹)
Dividend from Indian companies	10,500
Winnings from lotteries (₹ 7,000 + ₹ 3,000) - Note 1	10,000
Honorarium for valuing examination answer books	24,000
Taxable Income	44,500

Note: As per Section 58(4), no deduction in respect of any expenditure or allowance is allowable in respect of winnings from lotteries. Hence, 2,500 paid for purchase of lottery tickets is not allowable as deduction.

Answer 28

Particulars	Amount (₹)
Gross Rent (₹ 50,000 x 12)	6,00,000
Less: Repair charges of building	(10,000)
Less: Insurance premium of building	(7,000)
Less: Repair of plant and machinery	(3,000)
Less: Insurance premium of plant and machinery	(1,000)
Less: Depreciation	(12,000)
Income u/h Other Sources	5,67,000

Answer 29

Particulars	Amount (₹)
Income u/h PGBP (owning & maintaining race camels)	4,00,000
Total Income	4,00,000
Tax on ₹ 4,00,000 at slab rates	7,500
Less: Rebate u/s 87A	(7,500)
Tax Liability	Nil
Loss from owning & maintaining race horses c/f to AY 2026-27	4,00,000



Answer 30**Computation Of Total Income:**

Particulars	Amount (₹)	Amount (₹)
Income u/h Business/Profession:		
Income from owning & maintaining race camels	60,000	
Less: Brought forward business loss pertaining to AY 2021-22	[7,000]	53,000
Income u/h Other Sources:		
Income from horse races [casual income]	7,000	7,000
Total Income		60,000

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on casual income of ₹ 7,000 @ 30%	2,100
Tax on ₹ 53,000 at slab rates	Nil
Less: Rebate u/s 87A	[2,100]
Tax Liability	Nil

Note: Loss of ₹ 7,000 from owning and maintaining race horses shall be carried forward for a period of 4 years.

Answer 31

Part (i): Taxable. Any sum of money received as an advance in the course of negotiations for transfer of a capital asset would be chargeable to tax u/h "income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset. Therefore, the amount of ₹ 50,000 received as advance would be chargeable to tax in the hands of Mr A u/h "income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.

Part (ii): Not Taxable. As per Section 56[2](x), immovable property received without consideration by a HUF from its relative is not taxable. In the present case, since Mr N is a member of his father's HUF, he is a relative of the



HUF. Hence, ₹ 10 lakhs, being the SDV of house property received by HUF, without consideration, would not be chargeable to tax in the hands of the HUF. However, income from such asset would be clubbed in the hands of Mr N u/s 64(2).

Part (iii): Not Taxable. Car is not included in the definition of "property", for the purpose of taxability u/s 56(2)(x), in the hands of the recipient u/h "income from other sources". Further, the same has been received by Sunil from his mother's brother, who falls within the definition of "relative". Hence, ₹ 5,00,000, being the FMV of car received without consideration from a relative is not taxable in the hands of Sunil, even though its value exceeds ₹ 50,000.

Answer 32

- 1] Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ₹ 5 lakhs given by ABC Pvt Ltd to Ms Julie, loan to the extent of ₹ 2 lakhs would be treated as deemed dividend for the AY 2025-26. Such dividend would be fully taxable in the hands of Julie.
- 2] Interest on enhanced compensation is chargeable to tax under the head "Income from other sources" in the year of receipt, after providing for deduction of 50% of such income. Accordingly, ₹ 2,50,000 [₹ 5,00,000 - ₹ 2,50,000, being 50% of ₹ 5 lakhs] would be chargeable to tax in the hands of Ms Julie under the head "Income from Other Sources" for AY 2025-26.

Answer 33

(i) Interest on enhanced compensation received on 31.03.2025 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to PY 2023-24) would be deemed to be the income of PY 2024-25, being the year in which it is received irrespective of the method of accounting followed by the assessee. Such interest is chargeable to tax during PY 2024-25 after providing deduction of 50% u/s 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head "income from other sources".

(ii) In The Hands Of Mr Narayanan: Since the consideration of ₹ 2,00,000 is less than ₹ 3,00,000, being the fair market value of unquoted shares of BS Ltd. the fair market value of shares i.e., ₹ 3,00,000 would be deemed to be the full value of consideration. Accordingly, ₹ 25,000 [₹ 3,00,000 - ₹ 2,75,000, being indexed cost of acquisition] would be liable to tax as long-term capital gains in the hands of Mr Narayanan.

In The Hands Of AB Pvt Ltd: Shares received by AB Pvt Ltd from Mr Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds ₹ 50,000. Accordingly, ₹ 1,00,000 (being the difference between aggregate Fair Market Value of the shares, ie ₹ 3,00,000 and consideration paid, ie ₹ 2,00,000) would be chargeable to tax under the head "income from other sources".



[iii] The sum of ₹ 5L received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr A, since the same is received from a trust registered u/s 12AB.

Answer 34**Computation Of Taxable Amount Of Mr L For FY 2024-25:**

S.No.	Particulars	Amount (₹)
1.	Dividend from LMN Ltd would be chargeable to tax u/h "Income from Other Sources". Since dividend was declared by LMN Ltd at its annual general meeting held in October 2023, the amount of dividend was taxable in FY 2023-24. Accordingly, the dividend of ₹ 50,000 would not be taxable in the current FY 2024-25. Note: Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis.	Nil
2.	Advance of ₹ 1,00,000 forfeited on 1.5.2024 would be subject to tax u/h "Income from Other Sources" as per Section 56.	1,00,000
3.	Cash gifts from non-relative on marriage of son of ₹ 51,000 - Since gift is received by Mr L from a non-relative on the occasion of marriage of his son, it would be taxable in his hands u/h "Income from Other Sources" as per Section 56(2)(x).	51,000
4.	If an employee passes away, any amount received as family pension is taxable in the hands of the recipient family member u/h "Income from Other Sources" as per Section 56. Lower of the following two figures is available as deduction:	84,000
	- ₹ 15,000; or	
	- 1/3rd of the family pension received (ie, 1/3rd of ₹ 99,000 = ₹ 33,000)	
	Thus, taxable pension is ₹ 84,000 (₹ 99,000 - ₹ 15,000)	
Total Income		2,35,000

Answer 35**Computation Of "Income From Other Sources" Of Mr Lalit For AY 2025-26:**

Particulars	(₹)



(i)	Motor car is not included in the definition of "property" for the purpose of Section 56(2)(x), hence, value of the same is not taxable, even though it is received without any consideration.	-
(ii)	Cash gift is taxable u/s 56(2)(x), since the aggregate amount of gift exceeds ₹ 50,000	84,000
(iii)	SDV of plot of land at Jaipur, received without consideration, is taxable u/s 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv)	Mr Lalit is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business. Gift of shares received by Mr Lalit is not taxable as it represents stock-in-trade for him and gift provisions don't apply in case of gift of stock-in-trade. The cost of such stock shall be taken as ₹ 4,00,000 and the amount received in excess of ₹ 4,00,000 on their sale shall be chargeable as business income.	
(v)	Since booking amount has been paid by an account payee cheque, SDV as on the date of agreement (ie ₹ 24 lakhs) can be adopted for calculation of gift amount. The gift amount would come out to ₹ 4 lakhs {SDV as on the date of agreement (₹ 24 lakhs) - Purchase Price (₹ 20 lakhs)}. The gift of ₹ 4 lakhs would be taxable in the hands of Mr A u/s 56(2)(x) because the gift amount exceeds ₹ 50,000 as well as 10% of purchase price (ie, 10% of ₹ 20 lakhs = ₹ 2,00,000).	4,00,000
(vi)	Distribution of assets by XYZ Ltd on liquidation attributable to the accumulated profits (genera] reserve) of the company is taxable as dividend u/s 2(22)(c). As chargeable u/h "Other Sources" irrespective of the fact whether the recipient of income is a dealer in shares or not. per Section 56, dividend income is	1,25,000
Income Taxable Under The Head "Income From Other Sources"		12,09,000

Computation Of "Capital Gains" Of Mr Lalit For AY 2025-26;

Particulars	(₹)
Sale Of Land At Jaipur: {Time Period - 1st May 2024 To 1st July 2024; Since the gift is taxable in the hands of the Mr Lalit, period of holding of previous owner (ie, Mr Kabra) shall not be included} Sale Consideration	8,00,000
Less: Cost Of Acquisition {As per Sec 49, SDV of the plot on the date of gift shall be taken as COA}	(6,00,000)
Short-Term Capital Gains	2,00,000



Distribution Of _ Assets On Liquidation Of X ⁵ / ₆ E Ltd:	
FMV of assets distributed (+) Cash received	2,00,000
Less: Deemed dividend u/s 2(22)(c)	(1,25,000)
Full Value Of Consideration For Computing Capital Gains	75,000
Less: Cost of acquisition of shares of XYZ Ltd (Not given in the question)	(Not Available)
Capital Gains	Can't Be Computed





CHAPTER - 13

INCOME TAX LIABILITY - COMPUTATION AND OPTIMISATION

ILLUSTRATION 1 (average)

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. 2024-25. 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, 2025 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. 2025-26 in the most beneficial manner.

SOLUTION

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

Particulars	₹
Salaries	
Basic Salary [₹ 50,000 x 12]	6,00,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received [₹ 20,000 x 12]	2,40,000
Gross salary	10,20,000
Less: Standard deduction u/s 16(ia)	[75,000]



	9,45,000
Income from house property	
Interest on housing loan	-
Gross Total Income	9,45,000
Less: Deductions under Chapter VI- A	
Section 80C	
Contribution in PPF	-
Section 80CCD	
Contribution to pension scheme	-
Section 80D	
Mediclaime insurance premium for self and parents	-
Total Income	9,45,000
Tax liability	
Tax @5% on ₹ 4,00,000 [₹ 7,00,000 - ₹ 3,00,000]	
20,000	
Tax @10% on ₹ 2,45,000 [₹ 9,45,000 - ₹ 7,00,000]	44,500
24,500	
Add: Health & Education cess @ 4%	1,780
Total Tax Liability	46,280

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

Particulars		₹
Salaries		
Basic Salary [₹ 50,000 x 12]		6,00,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received	2,40,000	
Less: Least of the following exempt u/s 10(13A)	2,40,000	-
HRA Received	2,40,000	



Actual rent paid – 10% of salary [₹ 3,00,000 – ₹ 60,000]	2,40,000	
50% of salary	3,00,000	
Gross salary		7,80,000
Less: Standard deduction u/s 16[ia]		[50,000]
		7,30,000
Income from house property		
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹ 2,00,000, in case of self-occupied property, which would represent loss from house property]		[2,00,000]
Gross Total Income		5,30,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to PPF		1,50,000
Section 80CCD(1B)		
Own contribution to pension scheme		50,000
Section 80D		
Mediclaime insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	
		75,000
Total Income		2,55,000
Tax liability		
Tax @ 5% on ₹ 5,000 [₹ 2,55,000 - ₹ 2,50,000]		250
Less: Rebate u/s 87A		250
Total Tax Liability		-

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.



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

ILLUSTRATION 2 (difficult)

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

SOLUTION

Computation of tax liability of Kadam under both the options

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000 Less: Exempt u/s 10(13A) – least of the following - – 50% of Basic Salary ₹ 2,46,000 – Actual HRA received ₹ 84,000 – Rent paid less 10% of salary ₹ 22,800 ₹ 22,800	61,200	
Gross Salary	5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	5,03,200	4,91,200
Tax on total income	13,140	12,060
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,000, since total income does not exceed ₹ 5,00,000	Nil	12,060



Add: Health and Education cess@4%	13,140	Nil
	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
Net Inflow	4,90,330	4,92,000

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation

**TEST YOUR KNOWLEDGE**

3. Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for the A.Y.2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. **(average)**
4. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2024 and came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 01.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025
 - From parents of husband ₹ 51,000
 - From married sister of husband ₹ 11,000
 - From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)
 a) Determine her residential status and compute the total income chargeable to tax along with



the amount of tax liability on such income for the A.Y. 2025-26 if she opts out of the default tax regime under section 115BAC.

- b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

(difficult)

5. Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2025 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- Clinic equipments are:
1.4.2024 Opening W.D.V. - ₹ 5,00,000
7.12.2024 Acquired (cost) by cheque - ₹ 2,00,000
- Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2023, has been included in "administrative expenses".



- iv. She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- v. Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2024-25.
- vi. She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- vii. An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2025 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.

(difficult)

6. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

(difficult)

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
		Taxation services	15,40,300	
Incentive to articled Assistants	13,000	Consultancy	12,70,000	55,98,300
		Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and stationery	12,22,000	Honorarium received from Various institutions for Valuation of answer papers		15,800
Meeting, seminar and conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			



Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- Allowable rate of depreciation on motor car is 15%.
- Value of benefits received from clients during the course of profession is ₹ 10,500.
- Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2024 to 30-09-2025.
- Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- She invested an amount of ₹ 10,000 in National Saving Certificate.
- She has paid ₹ 70,000 towards advance tax during the P.Y. 2024-25.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2025-26 in a most beneficial manner.

- Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2025 revealed the following information:

(difficult)

- The net profit was ₹ 11,20,000.



- II. The following incomes were credited in the profit and loss account:
- Income from UTI ₹ 22,000 [Gross]
 - Interest on debentures ₹ 17,500 [Gross]
 - Winnings from horse races ₹ 15,000 [Gross]
- III. It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
- Opening stock ₹ 8,000.
 - Closing stock ₹ 12,000.
- IV. ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- V. Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- VI. Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- VII. Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- VIII. Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2025 for distribution of the company's product to the warehouses.
- IX. Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- X. Drawings of ₹ 10,000 debited in the books.
- XI. Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the A.Y. 2025-26 under optional tax regime as per normal provisions of the Act.

8. Balamurugan furnishes the following information for the year ended 31-03-2025:

(difficult)

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning [Gross]	5,00,000



Speculation business income	1,00,000
Income by way of salary [Computed]	2,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

9. Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.

(difficult)

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2024) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services [Gross]	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI [includes interest of ₹ 88,000]	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car [acquired in Jan. 2025 by A/c payee cheque]	4,25,000
		Medical insurance premium (for self and wife)[paid by A/c Payee cheque]	18,000
		Books bought on 1.07.2024 [annual publications by A/c payee cheque]	20,000
		Computer acquired on 1.11.2024 by A/c payee Cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000



		Motor car maintenance	10,000
		Closing balance (31.3.2025) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2005-06, when the housing loan was taken.
- Motor car was put to use both for official and personal purpose. One- fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
[Air-conditioners, Photocopiers, etc.] Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.

10. From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2025-26. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which



was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- a) Municipal taxes paid by Mr. Siddhant ₹ 4,300 [per annum]
- b) House Insurance ₹ 860
- c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- d) In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @ 19% per annum.
- e) Siddhant received a gift of ₹ 30,000 each from four friends.
- f) He contributed ₹ 50,000 to Public Provident Fund.

11. Ramdin, aged 33 years, working as Manager [Sales] with Frozen Foods Ltd., provides the following information for the year ended 31.03.2025:

(difficult)

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lacs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2024 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.



- Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 [Net] from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

12. From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income and tax payable for the assessment year 2025-26, assuming that he opts out of the default tax regime under section 115BAC.

(average)

- a) Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2025.
- f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

13. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2025:

(difficult)



S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2025-26 and tax thereon assuming both exercised the option to shift out of the default tax regime.

14. Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 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 ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

(difficult)

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000



Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility [before considering deduction under Section 35AD]	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

ANSWERS

3. Computation of tax liability of Mr. Gupta for the A.Y.2024-25 under default tax regime

A. Income-tax [including surcharge] computed on total income of ₹ 1,02,00,000

₹ 3,00,000 – ₹ 7,00,000 @5%	₹ 20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 1,02,00,000 @30%	<u>₹ 26,10,000</u>	
Total	₹ 27,50,000	
Add: Surcharge @ 15%	<u>₹ 4,12,500</u>	₹ 31,62,500

B. Income-tax computed on total income of ₹ 1crore

(₹ 1,40,000 plus ₹ 25,50,000)	₹ 26,90,000	
Add: Surcharge@10%	<u>₹ 2,69,000</u>	
		₹ 29,59,000

C. Total Income Less ₹ 1crore ₹ 2,00,000

D. Income-tax computed on total income of ₹ 1 crore
plus the excess of total income over ₹ 1 crore **(B +C)** ₹ 31,59,000

E. **Tax liability: lower of (A) and (D)** ₹ 31,59,000

Add: Health and education cess @4% ₹ 1,26,360

Tax liability (including cess) ₹ 32,85,360



F. Marginal Relief (A – D)

₹ 3,500

Alternative method -

A. Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000

₹ 3,00,000 – ₹ 7,00,000 @5% ₹ 20,000

₹ 7,00,001 – ₹ 10,00,000 @10% ₹ 30,000

₹ 10,00,001 – ₹ 12,00,000 @15% ₹ 30,000

₹ 12,00,001 – ₹ 15,00,000 @20% ₹ 60,000

₹ 15,00,001 – ₹ 1,02,00,000 @30% ₹ 26,10,000

Total ₹ 27,50,000

Add: Surcharge @ 15% ₹ 4,12,500 ₹ 31,62,500

B. Income-tax computed on total income of ₹ 1 crore

[(₹ 1,40,000 plus ₹ 25,50,000) plus surcharge@10%] ₹ 29,59,000

C. Excess tax payable (A)-(B) ₹ 2,03,500

D. Marginal Relief (₹ 2,03,500 – ₹ 2,00,000, being the amount
of income in excess of ₹ 1,00,00,000) ₹ **3,500**

E. Tax liability (A)-(D) ₹ 31,59,000

Add: Health and education cess @4% ₹ 1,26,360Tax liability (including cess) ₹ **32,85,360****4.**

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

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

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



Therefore, the residential status of Miss Charlie, an American National, for A.Y.2025-26 has to be determined on the basis of her stay in India during the P.Y.2024-25 and in the preceding four previous years.

Her stay in India during the P.Y.2024-25 and in the preceding four years are as under:

01.04.2024 to 19.09.2024	172 days
27.03.2025 to 31.03.2025	5 days
Total	177 days
Four preceding previous years	
P.Y. 2023-24 [1.4.2023 to 31.3.2024]	16 days
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	Nil
P.Y. 2021-22 [1.4.2021 to 31.3.2022]	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	Nil
Total	16 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2025-26.

Computation of total income of Miss Charlie for the A.Y. 2025-26

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025 @ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] [See Note 1 below]		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	95,000



Income from other sources

Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.

- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. [See Note 2 below]

Nil

Nil

1,72,000

1,72,000

Total income**2,67,000****Computation of tax liability by Miss Charlie for the A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	884
Total tax liability(rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information [i.e. Municipal value, fair rental value and standard rent] in the question.
- If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received [i.e. the aggregate value of taxable gifts received] is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2025-26, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lakhs.



- b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2024-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2024-25.

5. **Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime**

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16[ia]		75,000	15,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		



	(iii) Winning from game show on TV.(net of TDS) taxable under the head "Income from other sources"	35,000		
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000 @ 15%	75,000		
	on ₹ <u>2,00,000 @ 7.5%</u>	15,000	90,000	
	[On equipments acquired during the year in December 2023, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year]			
			2,72,450	
	Add: Items of expenditure not allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 35 [not allowed under default tax regime]	1,50,000		
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV	Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI [taxable in the hands of unit holders]		10,500	
	(c) Winnings from TV game show [₹35,000 + ₹15,000]		50,000	60,950
	Gross Total Income			5,72,900
	Less: Deductions under Chapter VI- A:			
	(a) Section 80C [Not allowed under default tax regime]			Nil



	(b) Section 80D [Not allowed under default tax regime]			Nil
	(c) Section 80E [Not allowed under default tax regime]			Nil
	Total income			5,47,900

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

	Particulars	₹	₹
	Gross Total Income as per default tax regime		5,47,900
	Less: Items of expenditure allowable while computing business income under normal provisions of the Act		
	Add: Standard deduction of Rs. 25,000, being the excess amount allowed u/s 115BAC		25,000
	100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
	Gross Total Income as per normal provisions of the Act		4,22,900
	Less: Deductions under Chapter VI-A:		
	(a) Section 80C – Tuition fee paid to university for full time education of her daughter	1,00,000	
	(b) Section 80D – Medical insurance premium [fully allowed since she is a senior citizen]	28,000	
	(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
	Total income		2,39,900

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" [₹35,000 + ₹15,000]. Thereafter, while computing tax liability, TDS



of ₹15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.

- iii. Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

6. Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property [See Working Note 1]		57,820
Profit and gains of business or profession [See Working Note 2]		9,20,200
Income from other sources [See Working Note 3]		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹3,00,000	Nil	
₹3,00,001 - ₹7,00,000 @5%	20,000	
₹7,00,001 - ₹10,00,000 @10%	30,000	
₹10,00,001 - ₹10,11,940 @ 15%	1,791	51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		53,863
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(17,949)
Tax Payable/ (Refundable) (rounded off)		(17,950)



Computation of total income and tax payable under normal provisions of the Act

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI-A [See Working Note 4		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹2,50,000	Nil	
₹2,50,001 – ₹5,00,000 @5%	12,500	
₹5,00,000 – ₹10,00,000 @20%	1,00,000	
₹10,00,000 – ₹10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:**1. Income from House Property**

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

2. Income under the head “Profits & Gains of Business or Profession”

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(iii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head “Income from other sources”)	10,524	
(ii) Income from UTI (taxable under the head “Income from other sources”)	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% [See Note (i) below]		12,000



		9,20,200

Notes :

- i. It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- ii. Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- iii. Repairs and maintenance paid in advance for the period 1.4. 2024 to 30.9.2024 i.e. for 6 months amounting to ₹1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- iv. ₹32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

3. Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company [taxable in the hands of shareholders]	10,524
Income from UTI [taxable in the hands of unit holders]	7,600
Honorarium for valuation of answer papers	15,800
	33,924

4. Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C [Investment in NSC]	10,000
Deduction under section 80D [See Notes (i) & (ii) below]	Nil
Total deduction under Chapter VI-A	10,000



Notes:

- Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in the definition of “family” u/s 80D.
- Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

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

Particulars	₹
Profits and gains of business or profession [See Working Note 1 below]	11,21,500
Income from other sources [See Working Note 2 below]	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C [Investment in NSC]	15,000
Total Income	11,61,000

Working Notes:**1. Computation of profits and gains of business or profession**

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable ($₹78,000 \times \frac{1}{4}$)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000



Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures [taxable under the head "Income from other sources"]	17,500	
Winnings from horse races [taxable under the head "Income from other sources"]	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹35,000 is applicable [i.e. payment of upto ₹35,000 can be made in cash without attracting disallowance under section 40A(3)]
- Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹50,000. It has been assumed that, in the said figure of ₹50,000, only the proportional depreciation [i.e., 75% for business purposes] has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000



Interest on debentures	17,500
Winnings from races	15,000
	54,500

8. Computation of total income of Balamurugan for the year ended 31.03.2025

Particulars	₹	₹
Salaries	2,70,000	
Less: Loss from house property [Cannot be set off against income under any other head]	-	2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹1,35,000 set-off to the extent of ₹1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

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

Particulars	₹
On total income of ₹2,70,000 [excluding lottery winning and LTCG]	Nil
On LTCG of ₹5,000 @20% [balance unexhausted basic exemption limit of ₹30,000 can be adjusted against LTCG taxable u/s 112]	1,000



On lottery winnings of ₹5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹6,040 (₹1,57,040 – ₹1,50,000) is less than ₹10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

9. Computation of total income of Mr. Rajiv for the A.Y.2025-26

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan 50% of ₹88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000		



Interest on housing loan (50% of ₹88,000)	44,000	62,000	[2,000]	
Loss from house property				(32,000)
Profits and gains of business or profession				
Fees from professional services			59,38,000	
Less: Expenses allowable as deduction				
Staff salary, bonus and stipend	21,50,000			
Other administrative expenses	11,48,000			
Office rent	30,000			
Motor car maintenance (10,000 x 4/5)	8,000			
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000		
		26,02,000		
Less: Depreciation				
Motor car ₹4,25,000 x 7.5% x 4/5	25,500			
Books being annual publications@40%	8,000			
Furniture and fittings@10% of ₹60,000	6,000			
Plant and machinery@15% of ₹80,000	12,000			
Computer@40% of ₹50,000	20,000			
Computer (New) ₹30,000 @ 40% x 50%	6,000	77,500		25,24,500
Gross Total income				24,92,500
Less: Deductions under Chapter VI-A				
Deduction under section 80C				
Housing loan principal repayment	1,00,000			
PPF subscription	20,000			
Life insurance premium	24,000			
Total amount of ₹1,44,000 is allowed as		1,44,000		
deduction since it is within the limit of				
₹1,50,000				
Deduction under section 80D				
Medical insurance premium paid		18,000		1,62,000



Total income		23,30,500

10. Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2025-26

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV ₹11,310		
(ii) Interest on loan from LIC @15% of ₹1,60,000 [See Note 2] ₹24,000	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹4,200 from cotton speculation business set-off to the extent of ₹2,700	2,700	Nil
Balance loss of ₹1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		



(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends [taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹50,000]	1,20,000	1,29,500
Gross Total Income		5,29,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,29,890

Particulars	₹
Tax on total income [5% of ₹2,29,890 (₹ 5,29,890 - ₹3,00,000)]	11,495
Less: Rebate u/s 87A, since total income does not exceed ₹7,00,000	11,495
Tax liability	Nil

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

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890
Add: Standard Deduction [Rs. 25,000 being excess amount allowed under section 115BAC]		2,5000
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant		1,500
Gross total income (under the normal provisions of the Act)		5,53,390
Less: Deductions under Chapter VI-A		
Under section 80C [Contribution to PPF]		50,000
Total Income		5,03,390



Particulars	₹
Tax on total income [5% of ₹2,50,000 + 20% of ₹3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to **not** to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

1. It is assumed that the entire loan of ₹1,60,000 is outstanding as on 31.3.2025;
2. Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

11. Computation of Total Income of Mr. Ramdin for the A.Y.2025-26 under normal provisions of the Act

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹15,000 x 12)		1,80,000
Dearness Allowance (₹12,000 x 12)		1,44,000
Commission on Turnover (0.5% of ₹50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund Actual contribution [20% of ₹1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	



Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹10,000 on 25th wedding anniversary by employer [See Note 3]		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹7,500 p.m. for each of the two light goods vehicle [₹7,500 x 2 x 12]. He cannot claim lower profit and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures [₹6786 x 100/90]	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G [See Note 4]		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹1,90,690 (i.e., ₹4,40,690 – ₹2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹5,00,000		9,535



Tax liability		Nil
Less: Tax deducted at source (₹7,540 – ₹6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{₹}1,80,000 + (50\% \text{ of } \text{₹}1,44,000) + \text{₹}25,000)$
 $= 12\% \text{ of } 2,77,000 = \text{₹}33,240$
3. An alternate view possible is that only the sum in excess of ₹5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹5,000. In such a case the Income from Salaries would be ₹4,00,760.
4. **Deduction under section 80G is computed as under:**

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹11,000) (amount contributed ₹11,000 or 10% of Adjusted Total Income i.e. ₹45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D = ₹5,99,160 - ₹1,47,870 = ₹4,51,290.

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

Particulars	₹	₹
Income from Salaries		
Basic salary (₹25,000 x 9 months)		2,25,000



House rent allowance:		
Actual amount received (₹6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
Profits and gains of business or profession		2,63,000
Business loss of ₹80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income(Nil, since it is lower than the basic exemption limit of ₹2,50,000)		Nil

Notes:

- As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹6,500 – ₹2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500



2. Gratuity of ₹3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service $[(₹25,000 \times 15/26) \times 26]$ years]	3,75,000
(iii) Statutory limit	20,00,000

3. Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary $(₹24,500 \times 10)$	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired [See Note 4 below]	3,18,500
(iv) Statutory limit	25,00,000

4. Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	$= 30 \text{ days/year} \times 26 = 780 \text{ days}$
Less: Leave taken /availed by Mr. X during the period of his service	$= 15 \text{ days/year} \times 26 = 390 \text{ days}$
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	$= 390 \times ₹24,500/30 = ₹3,18,500$



13. Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I)	Salaries		
	Pension recd from State Govt. ₹60,000		
	Less: Standard deduction u/s 16(ia) ₹50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction u/s 24(a)@30%	18,000	9,000
		42,000	21,000
	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA Deduction u/s 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
	Deduction u/s 80D – Mediclaim premium paid		25,000
		40,000	55,000



Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
Total income [A-B]	1,22,000	3,50,000
Tax liability of Mrs. Rosy for A.Y.2024-25		
Tax on long-term capital gains @20% of ₹1,00,000	20,000	
Tax on short-term capital gains @15% of ₹20,000	3,000	
Tax on balance income of ₹2,000	Nil	
	23,000	
Tax liability of Mrs. Mary for A.Y.2024-25		
Tax on STCG @15% of ₹ 1,00,000 [i.e., ₹2,50,000 less ₹1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
Less: Rebate u/s 87A would be lower of ₹12,500 or tax liability, since total income does not exceed ₹5,00,000		12,500
		2,500
Add: Health and Education cess@4%	920	100
Total tax liability	23,920	2,600

Notes:

1. Long-term capital gains on sale of land on 15.5.2024, is chargeable to tax @ 20% as per section 112.
2. Short-term capital gains on transfer of equity shares on 23.4.2024 in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A
3. In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.



4. Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹2,50,000 against long-term capital gains of ₹100,000 and the balance limit of ₹1,50,000 [i.e., ₹2,50,000 – ₹1,50,000] against short-term capital gains.
5. Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹5,00,000, since she is non-resident for the A.Y. 2024-25.

14. Computation of total income and tax liability of Mr. X for A.Y.2025-26 (under default tax regime under section 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs [normal depreciation under section 32 is allowable]	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹1,38,50,000		38,45,000
Add: Surcharge@15%		5,76,750
		44,21,750
Add: Health and Education cess@4%		1,76,870
Total tax liability		45,98,620

Notes:

1. Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC[2]. However, normal depreciation u/s 32 is allowable.
2. Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.



Computation of total income and tax liability of Mr. X for A.Y.2025-26 (under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on ₹48,00,000		17,32,500
Add: Health and Education cess@4%		69,30
Total tax liability		18,01,800

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹1 crore)		3,84,338
		29,46,588



Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2025-26**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income- tax Act, 1961	18,01,800
	12,62,650

Notes:

1. Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}} \times 50\%$$

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = 16,00,000$$

2. Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.



Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs [i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land] has been incurred in the F.Y.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

ILLUSTRATION 15 [average]

Mr Xavier, an Indian resident individual, set up a unit in Special Economic Zone (SEZ) in FY 2019-20 for production of mobile phones. The unit fulfills all the conditions of Section 10AA of the Income Tax Act, 1961.

During FY 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 ₹ 93L [including cost of land ₹ 13L]. The warehouse became operational wef 1st April 2024 and the expenditure of ₹ 63L [including cost of land ₹ 13L] was capitalized in the books on that date.

Further details relevant for FY 2024-25 are as follows:

Particulars	Amount (₹)
Profit from operation of warehousing facility before claiming deduction u/s 35AD	1,10,00,000
Net Profit of SEZ Unit (Mobile Phone)	50,00,000
Export Sales of SEZ Unit (Mobile Phone)	90,00,000
Domestic Sales of SEZ Unit (Mobile Phone)	60,00,000

Compute income tax [including AMT u/s 115JC] payable by Mr Xavier for AY 2025-26 assuming that he has shifted out of the default tax regime prescribed u/s 115BAC.

ILLUSTRATION 16 [average]

From the following particulars furnished by Mr Suresh, aged 53 years, a resident Indian for the previous year ended March 31, 2025, you are requested to compute his total income and tax payable for AY 2025-26 assuming that he has shifted out of the default tax regime u/s 115BAC.

- He sold his vacant land on 09.06.2024 for ₹ 15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was ₹ 19 lakhs. The fair market value of the land as on 1st April 2001 was ₹ 6 lakhs [SDV is ₹ 5 lakhs]. This land was acquired by him on 05.09.1996 for ₹ 3.40 lakhs. He had incurred registration



expenses of ₹ 15,000 at that time. The Cost Inflation Index for the year 2024-25 and 2001-02 are 363 and 100, respectively.

- ii. He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during FY 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.

ILLUSTRATION 17 [average]

Compute the tax liability of Ms Kajal for AY 2025-26, a female resident aged 40 years, where her total income is ₹ 2,00,50,000 comprising of business income. Ms Kajal wishes to pay tax as per the default tax regime prescribed u/s 115BAC.

ILLUSTRATION 18 [average]

Mr Sailesh constructed a house in PY 2017-18 with 3 independent units. During PY 2024-25, Unit 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2025 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr Sailesh is occupied by the tenant. Unit 1 remains vacant for February and March 2025 when it is not put to any use.

Unit 2 (25% of the floor area) is used by Mr Sailesh for the purpose of his business, while Unit 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

- > Municipal valuation - ₹ 2,88,000
- > Fair rent - ₹ 2,98,000
- > Standard rent under the Rent Control Act - ₹ 2,78,000
- > Municipal taxes - ₹ 30,000 paid by Mr Sailesh
- > Repairs - ₹ 7,000
- > Interest on capital borrowed for the construction of the property - ₹ 90,000
- > Ground rent - ₹ 6,000
- > Fire insurance premium paid - ₹ 60,000



Income of Sailesh from the business is ₹ 2,40,000 [without debiting house rent and other incidental expenditure]. Determine the taxable income of Mr Sailesh for AY 2025-26 if he wishes to pay tax as per the default tax regime prescribed u/s 115BAC. ,

ILLUSTRATION 19 (difficult)

Mr Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for FY 2024-25:

Particulars	Amount (₹)
Income from salary	3,40,000
Long-term capital loss on sale of shares of Reliance Ltd. STT both at the time of acquisition & sale	(1,15,000)
Loss from let-out property in Delhi	(75,000)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery tickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business [after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000]	96,000
Long-term capital gains on sale of house property [occurring before July 23, 2024]	1,40,000

Other details of brought forward losses and unabsorbed depreciation pertaining to AY 2023-24 are as follows:

Particulars	Amount (₹)
Brought forward business loss from manufacturing business	35,000
Unabsorbed normal depreciation	10,000
Brought forward loss from the activity of owning and maintaining the race horses	50,000

Compute the Gross Total Income of Mr Rajesh for AY 2025-26 and the amount of loss, if any, that can be carried forward if he wishes to pay tax as per the default tax regime prescribed u/s 115BAC.

ILLUSTRATION 20 (difficult)



Dr Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2025.

Receipts	(₹)	Payments	(₹)
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March 2024 received in April 2024	85,000	Entertainment Expenses	1,10,000
IPD - 40,000: OPD - 45,000		Purchase of Television	48,000
		Gift to daughter-in law	60,000
Dividend from shares (net)	18,900	Interest on loan for repairs to property	65,000
Fees received during the year	10,25,000	Personal medical expenses	70,000
Gifts received from relatives of patients	45,000	Deposits in PPF A/c	55,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Nursing Home expenses	3,75,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Prof, fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

- (a) He keeps his books of accounts on cash basis and has not opted for the provisions of Section 44ADA.
- (b) Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.
- (c) Entertainment expenses include ₹ 25,000 for dinner to doctors in a five star hotel.
- (d) Interest on loan for repairs to property includes ₹ 40,000 for his residential property.
- (e) His daughter in law earned income of ₹ 10,000 from the amount received as gift.
- (f) Fixed Assets values as on 01.04.2024 are as under:



Nursing Home Equipments ₹ 2,20,000, Medical Books (including annual publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.

[g] Television purchased for nursing home purpose on 21.09.2024 is put to use on 03.10.2024.

[h] He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2024.

You are required to:

- Compute the total income and tax payable by him for AY 2025-26 as per the regular provisions of the Income Tax Act. Assume that he has exercised the option of opting out from default regime prescribed u/s 115BAC.
- What will be his total income and tax payable, if he opts for the provisions of Section 44ADA? Will it be more beneficial for him to adopt 44ADA?

ILLUSTRATION 21 (difficult)

Mr Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:

Expenditure	Amount (₹)	Income	Amount (₹)
To Employee's Remuneration	15,00,000	By Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To Rates and Taxes	15,000	By Interest on Savings Bank Account	25,000
To Interest Expenses	80,000	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	36,97,500		



	64,24,500		64,24,500

The following details relates to FY 2024-25:

- i. Employees' Remuneration includes a sum of ₹ 3,00,000 paid to his wife, Mrs Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.
- ii. Mr Bhasin owns a big house with 2 independent units. Unit-1 (with 50% floor area) has been let out for residential purposes at a monthly rent of ₹ 20,000 for the entire year. Unit-2 (with the balance 50% of the floor area) is used by Mr Bhasin as his office. Other particulars of the house are:
 - > Municipal Valuation ; ₹ 3,60,000 p.a.
 - > Fair Rent : ₹ 4,20,000 p.a.
 - > Standard Rent under Rent Control Act : ₹ 4,00,000 p.a.
- iii. Rates and Taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.
- iv. Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in FY 2011-12. Neither loan nor interest was paid till ITR due date.
- v. Based on the actual rent received for Unit-1, Mr Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.
- vi. The expenses on insurance premium of ₹ 72,000 represents lump-sum health insurance premium paid by Mr Bhasin for 3 years effective from 1st July, 2024 to 30th June, 2027 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
- vii. The expenses on professional fees paid includes a sum of 11,00,000 paid to a Mr Raunak, an Indian resident on which no tax was deducted at source.
- viii. There was only one block containing computers which came into existence only on 2nd April, 2024 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% on the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.
- ix. Mr Bhasin has also taken a loan of ₹ 5,00,000 from nationalised bank for higher education of his son. During FY 2024-25, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.



You are required to compute the total income under proper heads of income of Mr Bhasin for AY 2025-26 under regular provisions of Income-tax Act 1961, assuming that he has opted to opt out of the default tax regime as prescribed u/s 115BAC. Also calculate the total tax payable by him.

ILLUSTRATION 22 (difficult)

Mrs Mitul, a resident individual aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs Mitul for the year, ending 31st March 2025 is as under;

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Expenses	2,90,000	By Salary received from True Care Hospitals (P) Ltd	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
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:

a) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under;

- > Basic Pay - ₹ 13,000 p.m.
- > Transport Allowance - ₹ 2,000 p.m.
- > Total - ₹ 15,000 p.m.

Further, during PY 2024-25, her son had undergone a medical treatment in True Care Hospitals (P) Ltd free of cost. The hospital would have charged a sum of ₹ 60,000 for a similar treatment to un-related patients.

b) She owns a residential house. 'Ground floor of the house is self-occupied by her while first floor has been



rented out since 01/10/2024. The reconstruction of the house was started on 01-04-2024 and was completed on 30-09-2024. The monthly rent is ₹ 10,000.

- c) The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 12 lakhs on 01-04-2024. Interest on housing loan for the period 01-04-2024 to 30-09-2024 was ₹ 60,000 and for the period 01-10-2024 to 31-03-2025 was ₹ 40,000. During the year, she also paid municipal taxes for FY 2023-24 ₹ 5,000 and for FY 2024-25 ₹ 5,000.

Other Information:

- a) Conveyance expenses include a sum of ₹ 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd and vice-versa in relation to her employment.
- b) Power & fuel expenses include a sum of ₹ 6,000 incurred for generator fuel for providing power back-up to the tenant.
- c) Administrative expenses include a sum of ₹ 10,000 paid as municipal taxes for her house.
- d) Details of clinic equipments: Opening WDV of clinic equipments as on 01-04-2024 was ₹ 1,00,000 and fresh purchase made on 28-08-2024 is ₹ 25,000 which was paid in cash.
- e) She also paid tuition fee of ₹ 40,000 for her grand-daughter, which has been debited to her Capital A/c.
- f) She availed a loan of ₹ 8,00,000 from bank for higher education of her son. She repaid principal of ₹ 50,000 and interest of ₹ 26,000 during PY 2024-25.

You are required to compute her net taxable income and net tax liability for the AY 2025-26 assuming that he has opted to opt out of the default tax regime, as prescribed u/s 115BAC.

ILLUSTRATION 23 (difficult)

Mr Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for PY 2024-25 after debiting/crediting the following items:

Debits:

- ₹ 20,000 paid to a Gurudwara registered u/s BOG of the Income Tax Act, in cash where no cheques are accepted.
- ₹ 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid ₹ 1,67,000 on loan taken for purchase of e-vehicle on 15-05-2022 from a bank. The e-vehicle was purchased for the personal use of his wife.
- His firm has purchased timber under a forest lease of ₹ 20,00,000 for the purpose of business.



Credits:

1. Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2016-17. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for AY 2017-18.

Other Information:

1. Depreciation in books of accounts is computed by applying the rates prescribed under the income tax laws.
2. Mr Krishna purchased a new car of ₹ 12,00,000 on 1st September 2024 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
3. Mr Krishna had sold a house on 30th March 2022 and deposited the LTCG of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March 2025, he sold another house property in which he resided for ₹ 1 crore. He earned a LTCG of ₹ 50,00,000 on sale of this property. On 25th March 2025, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
4. Mr Krishna also made the following payments during PY 2024-25:
 - Lump-sum premium of ₹ 30,000 paid on 30th March 2025 for the medical policy taken for self and spouse. The policy shall be effective for five years, ie from 30th March 2025 to 29th March 2030.
 - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr Krishna for AY 2025-26 assuming that he has opted to opt out of the default tax regime as prescribed u/s 115BAC.

ILLUSTRATION 24 (difficult)

Mr Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March 2025 is as under :

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp	3,14,000	By Interest on PPF A/c	60,000
To General Expenses	75,000	By Interest on Savings Bank A/c	20,000



To Electricity Expenses	65,000	By Interest on NSC VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to FY 2024-25:

- (i) The expenses on Employee's Remuneration & Benefits includes:
- Family planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - Payment of salary of ₹ 25,000 per month to sister-in-law of Mr Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr Ashish as Employees' Contribution to EPF for the month of February 2025 - ₹ 10,000 was also deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April 2024 were as follows:
- Professional Books - ₹ 90,000
 - Computers - ₹ 35,000
- (vi) The new furniture as appearing in the Income & Expenditure A/c was purchased on 31st August 2024 and was put to use on the same day. The payment was made as under:
- ₹ 18,000 paid in cash at the time of purchase of new furniture on 31/08/2024.
 - ₹ 19,000 paid by account payee cheque on 05/09/2024 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31/08/24 to the transporter as freight charges for the new furniture.



(vii) Mr Ashish purchased a car on 02/04/2023 for ₹ 3,35,000 for personal use. However, on 30/04/2024 he brought the said car for use in his profession. The fair market value of the car as on 30/04/2024 was ₹ 2,50,000.

(viii) Mr Ashish made a contribution of ₹ 1,00,000 in his PPF A/c on 31/01/2025.

(ix) The gross professional receipts of Mr Ashish for PY 2023-24 was ₹ 52,00,000.

Compute the total income and tax liability of Mr Ashish for AY 2025-26, assuming that he has exercised the option to opt out from the default regime prescribed u/s 115BAC. Ignore provisions relating to AMT.

ILLUSTRATION 25 [difficult]

Mr Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit u/s 44AB of Income Tax Act, 1961. He has provided following information:

Profit & Loss A/c For The Year Ended 31st March 2025:

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery [Net of TDS @ 30%]	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	15,74,500		
Total	60,61,500	Total	60,61,500

Explanatory Information:

- Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 4,50,000 and closing stock of ₹ 5,58,000 was shown.
- Salaries & wages include following items;



- a) Contributed 20% of basic salary in National Pension Scheme referred u/s 80CCD regarding salary paid to an employee, Mr Ganesh who has withdrawn basic salary of ₹ 3,00,000, and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
- b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 2,40,000 was paid to them on 1st January, 2025.
- iii. Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 taken from State Bank of India for purchase of new electric car of ₹ 15,00,000. The loan was sanctioned during PY 2022-23 but it was disbursed on 01.05.2023. The car is used for personal purposes.
- iv. Depreciation allowable as per Income Tax Rules, 1962 is ₹ 4,50,000 but during the calculation of such depreciation following addition was not considered :
Motor car purchased for ₹ 3,00,000 for supply of finished goods to dealers on 25-08-2024.
- v. An asset was purchased for ₹ 6,00,000 on 17-11-2023 for conducting scientific research and the deduction was claimed u/s 35 of the Income Tax Act, 1961. This asset was sold on 05-09-2024 for a consideration of ₹ 8,00,000.

Other Information: A plot of industrial land which was used by Mr Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 07.05.2024. The compensation of ₹ 12,00,000 was received on 27.02.2025. Such property was purchased by him on 08.08.2005 for ₹ 2,00,000. He has purchased another plot of industrial land on 21.04.2025 for ₹ 6,00,000. Government has also paid ₹ 54,000 as interest on such compensation on 28.03.2025.

Cost Inflation Indices: FY 2024-25 is 363; FY 2005-06 is 117

Compute the total income and tax liability of Mr Shivansh for AY 2025-26 assuming that he has exercised the option of opting out of the default regime as prescribed u/s Section 115BAC. Ignore provisions relating to AMT.

ILLUSTRATION 26 (difficult)

From the following details, compute the total income of Kamal, a resident individual aged 54 years, for the year ended 31st March 2025. Tax payable need not be calculated. Kamal has opted out of Section 115BAC.

Particulars	Amount (₹)
Salary including dearness allowance	5,00,000
Bonus	15,000
Salary to Servant provided by employer	12,000



Bill paid by employer for gas, electricity and water provided free of cost at his flat	14,500
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 Cooperative Housing Society in Delhi for ₹ 10,75,000 in April 2019 by taking loan from State Bank of India amounting to ₹ 5,00,000 @ 15% per annum interest, ₹ 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 ₹ 5,500. The outstanding amount of loan is ₹ 1,60,000.
2. Municipal taxes paid by Kamal during PY 2024-25 are ₹ 4,500.
3. Insurance in respect of the said flat ₹ 1,275.
4. Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of ₹ 20,200 in speculation business of cotton.
5. During FY 2021-22, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr Mohan @ 15% per annum interest.
6. Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.
7. He contributed ₹ 10,500 to Public Provident Fund and ₹ 6,000 to Unit Linked Insurance Plan.
8. He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.
9. He has taken a policy on life for his married daughter on 01.04.2024 and paid a premium of ₹ 25,000. The sum assured for policy is ₹ 2,00,000.

ILLUSTRATION 27 (difficult)

Mr Rishabh, a resident individual aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per P&L A/c after debiting and crediting the following items:

- i. Depreciation - ₹ 15,40,000
- ii. STC occurring on 1/7/2024 on transfer of listed equity shares in a company on which STT is paid - ₹ 10,00,000
- iii. He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550
- iv. Dividend income from Indian companies - ₹ 15,00,000

Additional Information:



9643036663 (only WhatsApp)

- a) Mr Rishabh installed P&M for ₹ 65L on 1.10.2024 which was put to use on 1.1.2025. Total depreciation [including additional depreciation] on this amount of ₹ 65L is included in the depreciation debited to P&L A/c which has been computed as per Income Tax Rules..
- b) Mr Rishabh took a loan from SBI of ₹ 50L on 15.9.2024 @ 10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has been paid on 31.3.2025 and the same has been debited to P&L A/c.
- c) Advance tax paid during the year is ₹ 17,50,000.
- d) Rishabh purchased goods for ₹ 40L from Mr Ram, his brother. The market value of the goods is ₹ 35L.
- e) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.
- f) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- g) On 1.7.2024, Mr Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr Rishabh for AY 2025-26, in the manner so that he can make maximum tax savings.

ILLUSTRATION 28 (average)

Considering the information given in Question 1, compute income tax liability [including AMT u/s 115JC] of Mr X for AY 2025-26 both as per regular provisions of the Income Tax Act and as per Section 115BAC for A Y 2025-26. Advise Mr X whether he should pay tax under default tax regime or normal provisions of the Act.

ILLUSTRATION 29 (difficult)

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

- a) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September 2025 is ₹ 2,30,000.
- b) He owns an industrial undertaking established in a SEZ and which had commenced operation during FY 2019-20. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of Section 10AA of the Income Tax Act, 1961. Profit from this industry is ₹ 25 lakhs.



- c) He also sold his vacant land on 10.07.2024 for ₹ 13 lakhs. The SDVof land at the time of transfer was ₹ 17 lakhs. The FMVof the land as on 1st April 2001 was ₹ 4,75 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.75 lakhs. He had incurred registration expenses of ₹ 20,000 at that time. The cost inflation index for FY 2024-25 and FY 2001-02 are 363 and 100 respectively.
- d) Received ₹ 40,000 as interest on saving bank deposits.
- e) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.
- f) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.
- g) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.
- You are required to compute the total income and tax liability of Mr Rakesh under normal provisions as well as u/s 115BAC for AY 2025-26. Ignore AMT provisions.



SOLUTION

Answer 15

- Computation Of Total Income & Tax Liability Of Mr Xavier (As Per Regular Provisions of Income Tax Act 1961):**

Computation Of Total Income	Amount (₹)	Amount (₹)
Profit from SEZ unit	50,00,000	
Less: Exemption/Deduction u/s 10AA {50L x 90L/150L x 50%}	(15,00,000)	
Business Income of SEZ Unit Chargeable to Tax		35,00,000
Profit from operation of warehousing facility	1,10,00,000	
Less: Deduction u/s 35AD {63L - 13L Cost of Land}	(50,00,000)	
Business Income of Warehousing Facility Chargeable to Tax		60,00,000
Total Income		95,00,000
Computation Of Tax Liability		Amount (₹)
Tax on ₹ 95,00,000 as per applicable slab rates		26,62,500
Add: Surcharge @ 10% [Since Total Income exceeds ₹ 50L]		2,66,250
Tax + Surcharge		29,28,750
Add: Health & Education Cess @ 4%		1,17,150
Tax Liability		30,45,900

- Computation Of 'Adjusted Total Income' <5% Tax Liability Of Mr Xavier (As Per AMT Provisions):**

Computation of 'Adjusted Total Income'	Amount (₹)
Total Income [As Computed Above]	95,00,000



Add: Deduction/Exemption u/s 10AA	15,00,000
Add: Deduction u/s 35AD	50,00,000
Less: Depreciation u/s 32 on Building (₹ 50L @ 10%) [Assumed that the entire capital expenditure is incurred on building]	[5,00,000]
'Adjusted Total Income'	1,55,00,000
Computation of Tax Liability	Amount (₹)
AMT @ 18.5% on ₹ 1,55,00,000	28,67,500
Add: Surcharge @ 15% [Since Adjusted Total Income exceeds ₹ 1 crore]	4,30,125
Tax + Surcharge	32,97,625
Add: Health & Education Cess @ 4%	1,31,905
Tax Liability u/s 115JC	34,29,530

- Conclusion: Since the regular income tax payable is less than AMT payable, the 'Adjusted Total Income' shall be deemed to be the total income and accordingly, the tax liability would come out to ₹ 34,29,530 [18.5% of Adjusted Total Income + Applicable Surcharge + 4% H&EC].
- AMT Credit To Be Carried-Forward u/s 115JEE:

Particulars	Amount (₹)
Tax Liability [As per Section 115JC]	34,29,530
Less: Tax Liability [As per regular provisions of the Income Tax Act, 1961]	[30,45,900]
AMT Credit To Be Carried-Forward	3,83,630

Answer 16**Computation Of Total Income And Tax Payable By Mr Suresh For AY 2025-26 Under Regular Provisions Of The Income Tax Act, 1961:**

Particulars	Amount (₹)	Amount (₹)
Income u/h PGBP:		
Income from SEZ Unit	30,00,000	
Less: Exemption u/s 10AA [Since PY 2024-25 is the 6th year of operation of the SEZ unit, benefit u/s 10AA shall be 50% of export profits. Export Profits = ₹ 30L x ₹ 120L / ₹ 300L = ₹ 12L; thus exemption u/s-10AA shall be ₹ 6L]	[6,00,000]	



Net Income u/h Business/Profession		24,00,000
Capital Gains [LTCG 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 SDV since it exceeds 110% of actual sale consideration	19,00,000	
Less: Indexed cost of acquisition [$\text{₹ } 5,00,000 \times 363/100$]	[18,15,000]	
LTCG		85,000
Note 1: Cost of acquisition, being higher of		
- Actual cost ($\text{₹ } 3,40,000 + \text{₹ } 15,000 = \text{₹ } 3,55,000$)		
- Lower of FMV of $\text{₹ } 6,00,000$ and stamp duty value of $\text{₹ } 5,00,000$ as on 1.4.2001		
Other Sources:		
Income from crossword puzzles	10,000	
Interest on fixed deposit	15,000	25,000
Gross Total Income		25,10,000
Less: Deduction u/s 80C [Tuition fees of two children]		[24,000]
Total Income		24,86,000
Tax on LTCG @ 20% of $\text{₹ } 85,000$		17,000
Tax on income from crossword puzzles @ 30% of $\text{₹ } 10,000$		3,000
Tax on remaining amount of $\text{₹ } 23,91,000$ [$\text{₹ } 4,17,300$ (30% of $\text{₹ } 13,91,000$) + $\text{₹ } 1,12,500$]		5,29,800
Tax before H&EC		5,49,800
Add: H&EC @ 4%		21,992
Tax Liability		5,71,792
Tax Liability [Rounded Off u/ 288B]		5,71,790

Computation Of Adjusted Total Income And Alternate Minimum Tax (AMT) Payable:

Particulars	Amount (₹)
Total income computed under the regular provisions of the Act	24,86,000
Add: Deduction u/s 10AA	6,00,000



Adjusted Total Income	30,86,000
Since Adjusted Total Income exceeds ₹ 20 lakhs, AMT provisions are attracted in this case.	
Alternate Minimum Tax @ 18.5%	5,70,910.00
Add: H&EC @ 4%	22,836.40
AMT Liability	5,93,746.40
AMT Liability [Rounded Off a/ 288B]	5,93,750
Since the regular income tax payable is less than the AMT payable, the adjusted total income of ₹ 30,86,000 shall be deemed as the total income and tax is leviable @ 18.5% thereof plus cess @ 4%. Therefore, his tax liability would be ₹ 5,93,750. However, he would be entitled to AMT credit of ₹ 21,960 (₹ 5,93,750 - ₹ 5,71,790)	

Answer 17**Computation Of Tax Liability Of Ms Kajal For AY 2025-26 (As Per Section 115BAC):**

Particulars	Amount (₹)
Tax on ₹ 2,00,50,000 as per concessional slabs given u/s 115BAC	57,05,000
> First ₹ 3,00,000 - Nil	
> Next ₹ 4,00,000 - ₹ 20,000 (5%)	
> Next ₹ 3,00,000 - ₹ 30,000 (10%)	
> Next ₹ 2,00,000 - ₹ 30,000 (15%)	
> Next ₹ 3,00,000 - ₹ 60,000 (20%)	
> Balance ₹ 1,85,50,000 - ₹ 55,65,000 (30%)	
Add: Surcharge @ 25%	14,26,250
Tax Before Marginal Relief	71,31,250
Less: Marginal Relief (WN 1)	(5,37,750)
Tax After Marginal Relief	65,93,500
Add: Health & Education Cess @ 4%	2,63,740
Tax Liability	68,57,240

WN 1



Tax + Surcharge of 25% on Income of ₹ 2,00,50,000	71,31,250
Less: Tax (+) Surcharge of 15% on Income of ₹ 2,00,00,000	65,43,500
Increase in Tax	5,87,750
Increase in Income	50,000
Marginal Relief (5,87,750 - 50,000)	5,37,750

Answer 18**Computation Of Income From House Property Of Mr Sailesh For AY 2025-26:**

Particulars	Amount (₹)
A. UNIT 1 - RENTED UNIT (50% OF TOTAL AREA)	
Step I - Computation of Expected Rent:	
• Municipal valuation (₹ 2,80,000 x 50%)	1,40,000
• Fair rent (₹ 2,98,000 x 50%)	1,49,000
• Standard rent (₹ 2,78,000 x 50%)	1,39,000
ER is higher of municipal valuation and fair rent, but restricted to standard rent	1,39,000
Step II - Computation of Gross Rent R/R & Effective Rent R/R:	
• Gross Rent R/R:	
Actual Rent R/R for the whole year without vacancy (₹ 20,000 x 12M) - Unrealised Rent (₹ 20,000) - ₹ 2,20,000	
• Effective Rent R/R:	
Actual Rent R/R after considering vacancy (₹ 20,000 x 10M) - Unrealised Rent (₹ 20,000) = ₹ 1,80,000	
Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.	
Gross Annual Value (GAV)	1,80,000
Less: Municipal taxes (50% of ₹ 30,000)	(15,000)
Net Annual Value (NAV)	1,65,000
Less: Deduction u/s 24(a) {30% of NAV}	(49,500)
Less: Deduction u/s 24(b) {Interest on borrowed capital (₹ 90,000/2)}	(45,000)



Taxable Income from Let Out Portion	70,500
B. UNIT 3 - SELF-OCCUPIED UNIT (25% OF TOTAL AREA)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Not allowed as Mr Sailesh is opting for Section 55BAC}	Nil
Taxable Income from Self-Occupied Portion	Nil
Income from House Property (₹ 70,500 + Nil)	70,500

Computation Of PGBP Income Of Mr Sailesh For AY 2025-26:

Business Income {Without Deducting Expenditure Of Unit 2 (25% Floor Area Used For Business Purposes)}	2,40,000
Less: Expenditure In Respect Of Unit 2:	
> Municipal taxes (25% of ₹ 30,000)	(7,500)
> Repairs (25% of ₹ 7,000)	(1,750)
> Interest on loan (25% of ₹ 90,000)	(22,500)
> Ground rent (25% of ₹ 6,000)	(1,500)
> Fire insurance premium (25% of ₹ 60,000)	(15,000)
PGBP Income	1,91,750

Total Income of Mr Sailesh For AY 2025-26 is ₹ 2,62,250.**Answer 19****Computation Of Gross Total Income Of Mr Rajesh For AY 2025-26:**

	Particulars	Amount (₹)	Amount (₹)
I	Income from Salary:		
	Salary Income	3,40,000	
	Less: Current year HP Loss (Loss from house property is not allowed to be set-off with any other head of income since Mr Rajesh is opting for Section 115BAC)	Nil	



	Income u/h Salary		3,40,000
II	Income from House Property:		
	Net Annual Value (NAV) {Self-Occupied Property}	Nil	
	Less: Deduction u/s 24(a) {30% of NAV}	Nil	
	Less: Deduction u/s 24(b) {Where Section 115BAC is opted for, interest u/s 24(b) is not allowed in case of a self-occupied property}	Nil	
	Income u/h HP		Nil
III	Income from Business/Profession:		
	Profit and gains from manufacturing business	96,000	
	Add: Additional depreciation not allowable in case of Section 115BAC	4,000	
	Less: B/f loss from manufacturing business	(35,000)	
	Less: B/f unabsorbed normal depreciation	(10,000)	
	Income u/h PGBP		55,000
IV	Capital Gains:		
	LTCG on sale of house property	1,40,000	
	Less: LT capital loss on sale of shares on which STT is paid can also be set-off as per Section 74, since LTCG gain arising on sale of such shares is taxable u/s 112A	(1,15,000)	
	Income u/h Capital Gains		25,000
V	Income from Other Sources:		
	Winnings from lottery tickets		40,000
	Gross Total Income		4,60,000

Losses To Be Carried Forward To AY 2026-27:

Particulars	Amount (₹)
• Loss from let out property in Delhi	75,000
• Loss from the activity of owning and maintaining the race horses	50,000



Note 1: As per Section 74A, loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses.

Note 2: As per Section 58, no expenditure is allowed from the lottery winnings.

Answer 20

(i) Computation Of Total Income And Tax Payable By Dr Rohan for AY 2025-26 As Per Regular Provisions:

Particulars	(₹)	(₹)
House Property:		
Annual value[Assuming residential property self-occupied]	Nil	
Less: Section 24(b) {Interest on loan for repairs to property, ₹ 40,000, restricted to}	(30,000)	
Loss From Self-Occupied Property		(30,000)
[Can be set-off against PGBP Income or Other Sources Income]		
Profits & Gains Of Business/Profession:		
Gross Receipts:		
Fees from visits to other hospitals [5,85,000/90%]	6,50,000	
Fees for March 2024 received in April 2024 [Fees for March 2024 is chargeable to tax during PY 2024-25, since Dr Rohan is following cash system of accounting]	85,000	
Fees received during the year	10,25,000	
Gifts received from relatives of patients [taxable as business income]	45,000	
Sub-Total	18,05,000	
Permissible Deductions:		
Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed u/s	2,90,000	
40A(3), since such cash payment exceeds ₹ 10,000] [13,50,000 - ₹ 60,000]		
Taxes and insurance	26,000	
Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000	



Interest on loan for repair to property to the extent relating to business {₹ 65,000 - ₹ 40,000, relating to residential property}	25,000	
Nursing home expenses	3,75,000	
Professional fees paid for consulting services	1,20,000	
Depreciation on nursing home equipment [2,20,000 x 15%]	33,000	
Depreciation on medical books [35,000 x 40%]	14,000	
Depreciation on laptop [40,000 x 40%]	16,000	
Depreciation on Television [48,000 x 15%, since the television is put to use for 180 days during the PY 2024-25]	7,200	
Sub-Total	10,16,200	
PGBP Income (Gross Receipts - Permissible Deductions)		7,88,800
Other Sources:		
Dividend from shares [18,900/90%]	21,000	
Honorarium for painting services in Jai Hind Art School [22,500/90%]	25,000	
Interest on income-tax refund	1,500	
	10,000	
Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr Rohan is includible in the hands of Dr Rohan]		57,500
Income u/h Other Sources		
Gross Total Income		8,16,300
Less: Deduction Under Chapter VI-A		
Deduction u/s 80C (Deposits in PPF)	55,000	
Deduction u/s 80D (Medical expenses to the extent of ₹ 50,000 since Dr Rohan is a senior citizen, assuming he has not taken any medical insurance policy)	50,000	
Deduction u/s 80G (Donation towards PM CARES Fund)	10,000	(1,15,000)
Total Income		7,01,300
Tax Payable		
Upto ₹ 5,00,000 [Since Dr Rohan is aged 80 years or above]	Nil	



₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300 @20%]	40,260	40,260
Add: HEC @ 4%		1,610
Tax Liability		41,870
Less: TDS on fees from visits to other hospitals	65,000	
Less: TDS on dividend from shares	2,100	
Less: TDS on honorarium for painting services	2,500	[69,600]
Tax Refundable		27,730

(ii) Computation Of Total Income And Tax Payable By Dr Rohan For AY 2025-26 If He Opts For Section 44ADA:

Particulars	[₹]	
House Property:	[30,000]	
Loss from self-occupied property		
Profits & Gains Of Business/Profession:	9,02,500	
Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]		
Other Sources:	57,500	
Gross Total Income	9,30,000	
Less: Deduction under Chapter VI-A	[1,15,000]	
Total Income	8,15,000	
Tax Payable		
Upto ₹ 5,00,000	Nil	
₹ 5,00,001 to ₹ 8,15,000 [3,15,000 @20%]	63,000	63,000
Add: HEC @4%		2,520
Tax Liability		65,520
Less: TDS		[69,600]
Tax Refundable		4,080



Note: Since tax refundable in case Dr Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books

of account audited and declare income under the regular provisions.

Answer 21

Computation Of Total Income Of Mr Bhasin For AY 2025-26:

Particulars	Amount (₹)	Amount (₹)
Income u/h PGBP:		
Net Profit as per Income & Expenditure A/c	36,97,500	
Add: Inadmissible Expenses		
• Remuneration to Mrs Beena {It is assumed that the remuneration paid to Mrs Beena is for the legitimate needs of the profession carried on by Mr Bhasin and the amount paid to Mrs Beena is justifiable in so far as the benefits accrue to the profession because of such payment. Accordingly, the remuneration paid to Mrs Beena is allowable as deduction while computing PGBP income of Mr Bhasin.}	Nil	
• Municipal taxes pertaining to 50% let-out portion (10,000 x 50%)	5,000	
• Interest on loan taken for construction of house for 50% let-out portion (80,000 x 50%)	40,000	
• Interest on loan taken for construction of house pertaining to 50% portion used as office (80,000 x 50%) {Disallowed as per Section 43B as the Same hasn't been paid till the last date of filing of return of income; interest on loan taken from nationalized bank is allowed to be deducted only if paid till the last date of filing of return of income}	40,000	
• Notional rent of Unit-2 used for the purposes of profession {Notional expenses are not allowed to be debited}	2,40,000	
• Insurance premium {It's a personal expenditure, not allowed to be debited to PAL A/c}	72,000	



• 30% of professional fees paid to Mr Raunak {Since the professional turnover of Mr Bhasin for preceding FY exceeds ₹ 50L, Mr Bhasin is required to deduct TDS on such payment u/s 194J. 30% expenditure is being disallowed as per Section 40(a)(ia) as the payment was made without deduction of TDS}	30,000	
• Excess depreciation on computers {₹ 1,20,000 - 40% of ₹ 2L}	40,000	
Less: Ineligible Incomes		
• Interest on savings bank account	[25,000]	
• Lottery winnings	[99,500]	
• Rent received	[2,40,000]	
Income u/h Business/Profession		38,00,000
Income u/h Salary:		
Remuneration received by Mrs Beena clubbed in the hands of Mr Bhasin {Since Mrs Beena doesn't possess any technical/professional qualification, remuneration received by Mrs Beena from Mr Bhasin's profession shall be clubbed in the hands of Mr Bhasin as per Sec 64}	3,00,000	
Less: Standard deduction u/s 16(ia)	[50,000]	
Income u/h Salary		2,50,000
Income u/h House Property {From Let-Out Portion}:		
Gross Annual Value {Higher of Actual Rent & Expected Rent}	2,40,000	
Actual Rent {₹ 20,000 x 12}	₹ 2,40,000	
Expected Rent {50% of ₹ 4,00,000}	₹ 2,00,000	
Less: Municipal Taxes	[5,000]	
Net Annual Value	2,35,000	
Less: Deduction u/s 24(a) @ 30% of NAV	[70,500]	
Less: Interest on capital borrowed u/s 24(b)	[40,000]	
Income u/h House Property		1,24,500
Income from Other Sources:		
• Interest on savings bank account	25,000	
• Lottery winnings {No expense is allowed to be deducted from lottery income}	1,00,000	



Income u/h Other Sources	1,25,000
Gross Total Income	42,99,500
Less: Deduction u/s 80D [Medical insurance premium paid for single premium policy to be apportioned in four instalments as the policy is effective for 4 FYs, ie FY 2024-25 to FY 2027-28] (₹ 72,000/4 years)	(18,000)
Less: Deduction u/s 80E [Interest paid on loan taken for higher education of son]	(40,000)
Less: Deduction u/s 80TTA [Interest paid on savings bank account, subject to maximum ₹ 10,000]	(10,000)
• Total Income	42,31,500

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on causal income of ₹ 1,00,000 @ 30% u/s 115BBB	30,000
Tax on normal income of ₹ 41,31,500 as per standard slabs of ₹ 2,50,000	10,51,950
Sub-Total	10,81,950
Add: Health & Education Cess @ 4%	43,278
Tax Liability	11,25,228
Less: TDS on lottery winnings @30% u/s 194B	(30,000)
Tax Liability [After Rounding off u/s 288B]	10,95,230

Answer 22**Computation Of Total Income Of Mrs Mitul For PY 2024-25:**

Particulars	Amount (₹)	Amount (₹)
I. House Property:		
1) Income From Let-Out Portion:		Nil
Gross Annual Value (₹ 10K x 6 Months) [In the absence of any information about fair rent, municipal rent & standard rent, Actual Rent R/R is taken as GAV]	60,000	



Less: Municipal taxes {Total amount paid during the year} (₹ 10,000 x 50%)	(5,000)	
Net Annual Value (NAV)	55,000	
Less: Deduction u/s 24(a) {30% of NAV}	(16,500)	
Less: Deduction u/s 24(b) {(₹ 60,000 + ₹ 40,000) x 50%}	(50,000)	
Income/(Loss)	(11,500)	
2) Income From Self-Occupied Portion:		
Gross Annual Value	Nil	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	Nil	
Less: Deduction u/s 24(a) {30% of NAV}	Nil	
Less: Deduction u/s 24(b) {Maximum deduction of ₹ 30,000 since loan has been taken for reconstruction of the house}	(30,000)	
Income/(Loss)	(30,000)	
Net Loss u/h House Property {Loss set-off against salary income as per Section 71}	(41,500)	
II. Salary:		
> Basic Salary (₹ 13,000 x 12 months)	1,56,000	88,500
> Transport Allowance (₹ 2,000 x 12 months) {Fully Taxable}	24,000	
> Cost of treatment for son in True Care Hospitals (P) Ltd {Exempt as value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite}	Exempt	
Less: Standard Deduction u/s 16(ia)	(50,000)	
Net Income u/h Salary {Before Adjustment Of Loss}	1,30,000	
Less: House Property loss set-off as per Section 71	(41,500)	
Net Income u/h Salary {After Adjustment Of Loss}	88,500	
III. Income From Business/Profession:		
Net Profit as per Income & Expenditure A/c	8,59,000	7,30,000
Add: Ineligible Expenses		



• Municipal taxes paid for house property included in administrative expenses	10,000	
• Generator fuel charges incurred for providing power back-up to the tenant included in power & fuel expenses	6,000	
• Conveyance expenses (for commuting to employer's office & return)	12,000	
• Interest on housing loan	1,00,000	
• Interest on education loan for son •	26,000	
Less: Eligible Expenses/Ineligible Incomes		
• Salary received from True Care Hospitals (P) Ltd	(1,80,000)	
• Rental income from house property	(78,000)	
• Dividend from foreign company	(10,000)	
• Donation to scientific research association notified u/s 35 {Weighted deduction of 100% available; thus no additional deduction available}	-	
• Depreciation on clinical equipment (15% of ₹ 1 lakh) {No depreciation shall be allowed on the equipment of ₹ 25,000 purchased on 28th August 2024 since the entire, payment of ₹ 25,000 has been made in a single day by way of cash}	(15,000)	
Net Income u/h PGBP	7,30,000	
IV. Other Sources:		
> Dividend from foreign companies	10,000	22,000
> Power back-up charges from the tenant (₹ 3,000 x 6 months)	18,000	
Less: Generator fuel charges incurred for providing power back-up	(6,000)	
Gross Total Income		8,40,500
Less: Deduction u/s 80C {No deduction is available where tuition fee is paid for grand-daughter}		Nil
Less: Deduction u/s 80E {Interest paid on education loan taken from bank for higher education of son is available as deduction u/s 80E; however no deduction is available for principal repayment}		(26,000)
Total Income		8,14,500

Computation Of Tax Liability Of Mrs Mitul For PY 2024-25:

9643036663 (only WhatsApp)

Particulars	Amount (₹)
Tax on ₹ 8,14,500 at slab rates	72,900
Add: Health & Education Cess @ 4%	2,916
Tax Liability (Rounded-Off u/s 2888)	75,820

Note: As per Section 44ADA, Mrs Mitul can opt to claim 50% of gross receipts (₹ 6L, being 50% of ₹ 12L) or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by her. In this case, since Mrs Mitul has maintained books of accounts, she can claim the higher sum actually earned ₹ 7,30,000 as her income from profession. The existing solution has been worked out by considering the higher sum actually earned by her, ie ₹ 7,30,000 as her income from profession. Alternatively, if professional income is computed as ₹ 6L based on presumptive provisions u/s 44ADA, her total income and tax liability would be ₹ 6,84,500 and 48,780, respectively.

Answer 23

Computation Of Total Income Of Mr Krishna for AY 2025-26:

Particulars	(₹)	(₹)
I. Income From Business Or Profession:		
Net Profit as per P&L A/c	5,64,44,700	
Add: Items Of Expenditure Debited But Not Allowable While Computing Business Income		
• Donation to Gurudwara in cash {Not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income}	20,000	
• Interest on loan taken for purchase of e-vehicle {Interest on loan for purchase of e- vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income}	1,67,000	
Less: Items Of Income Credited But Not Taxable Or Taxable Under Any Other Head		



• Royalty on patent {Not taxable as business income since Mr Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income}	[4,00,000]	
• Bad debt recovered {Actual bad debt is ₹ 2 lakhs, ie ₹ 5 lakhs less ₹ 3 lakhs, being the amount of bad debt recovered. Bad debt written off earlier in PAL A/c is ₹ 3 lakhs. Therefore, effectively bad debt has been charged excessively to P&L A/c in earlier years to the extent of ₹ 1 lakh. Such excess amount of ₹ 1 lakh needs to be added to P&L A/c. Further, the entire recovery of ₹ 3 lakhs has already been credited to P&L A/c, which now needs to be removed. So, with respect to this transaction, effectively ₹ 2 lakhs needs to be reduced from P&L A/c}	[2,00,000]	
Less: Allowable Expenditure		
• Contribution to a university approved and notified u/s 35(1)(ii) for scientific research {Eligible for deduction @ 100%. Since 100% of the expenditure is already debited to P&L A/c, nothing needs to be done separately}	Nil	
• Depreciation on car {₹ 12 lakhs x 15%: car put to use for more than 180 days}	[1,80,000]	
Net Income u/h PGBP		5,58,51,700
Capital Gains:		
LTCG on sale of house property	50,00,000	
Less: Exemption u/s 54 [Since whole amount of LTCG is invested in construction of house within the stipulated time limit]	[50,00,000]	
[Capital gain of ₹ 25L in capital gain account scheme is not taxable in PY 2024-25, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 75L invested in construction of house is eligible for exemption u/s 54, subject to a maximum of 750 lakhs being LTCG on sale of house property during PY 2024-25]		
Income From Other Sources:		
Royalty on patent {Taxable as "income from other sources", since he is engaged in business of manufacturing furniture}		4,00,000
Gross Total Income		5,62,51,700
Less: Deduction u/s 80D		[10,000]



• Medici claim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. (₹ 30,000/6) years, being relevant previous years in which the insurance is in force]	5,000	
• Preventive health check up of self and spouse [Preventive health check-up paid in cash is allowed to the extent of ₹ 5,000]	5,000	
Less: Deduction u/s 80EEB [Since the loan is sanctioned by bank during PY 2022-23, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]		[1,50,000]
Less: Deduction u/s 80G [Donation of ₹ 20,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]		Nil
Less: Deduction u/s 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakhs]		[3,00,000]
Total Income		5,57,91,700

Computation Of Tax Liability Of Mr Krishna For AY 2025-26:

Particulars	(₹)	(₹)
Tax On Total Income Of ₹ 5,57,91,700		1,65,47,510
• Upto ₹ 3,00,000	Nil	
• ₹ 3,00,001 - ₹ 5,00,000 [@ 5% of ₹ 2 lakhs]	10,000	
• ₹ 5,00,001 - ₹ 10,00,000 [@ 20% of ₹ 5,00,000]	1,00,000	
• ₹ 10,00,001 - ₹ 5,57,91,700 [@ 30% of ₹ 5,47,91,700]	1,64,37,510	
Add: Surcharge @ 37%, since total income exceeds ₹ 5,00,00,000		61,22,579
Tax (+) Surcharge		2,26,70,089
Add; H&EC @ 4%		9,06,804
Tax Liability		2,35,76,893
Less: TCS u/s 206C(1) @ 2.5% on ₹ 20 lakhs, ie timber		[50,000]
Less: TCS u/s 206C(1F) @ 1% of ₹ 12 lakhs, ie sale of motor car where consideration exceeds ₹ 10L		[12,000]
Less: TDS u/s 194-IA @ 1% of ₹ 1 crore, ie sale of immovable property where consideration is ₹ 50L or more		[1,00,000]
• Tax Payable		2,34,14,893



Tax Payable (Rounded Off u/s 288B)	2,34,14,890

Answer 24**Computation Of Total Income Of Mr Ashish For AY 2025-26:**

Particulars	(₹)	(₹)
I. Income From Business Or Profession:		
Excess of income over expenditure	39,43,000	
Add: Items Debited But Not Allowable While Computing Business Income:		
• Family planning expenditure incurred for employees {Not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee/not allowed in case of individuals, Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income}	20,000	
• Salary payment to sister-in-law in excess of market rate. {Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" for the purpose of Section 40A(2), Therefore, no adjustment is required for excess salary paid to Mr Ashish's sister-in-law}	Nil	
• Employees' Contribution to EPF {Sum received by the assessee from his employees as contribution to EPF is income of the employer. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2025 is deposited after the due date under the relevant Act, deduction would not be available}	10,000	
• Medical expenses for the treatment of father {Not allowed as deduction since it is a personal expenditure/not an expenditure incurred for the purpose of business of Mr Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income}	80,000	



• Commission to Ms Anjaleen without deduction of TDS {Mr Ashish would be liable to deduct TDS on commission since his gross receipts from profession exceeded ₹ 50 lakhs during FY 2023-24. Since commission has been paid without deduction of TDS, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed u/s 40(a)(ia) while computing the business income of AY 2025-26}	7,500	
• Depreciation as per books of accounts	90,000	
• Purchase of furniture {Not allowable, since it is a capital expenditure}	48,000	
Less: Depreciation As Per Income Tax Rules:		
• On Professional Books {₹ 90,000 x 40%}	[36,000]	
• On Computers {₹ 35,000 x 40%}	[14,000]	
• On Furniture {119,000 x 10%, since it has been put to use for more than 180 days during the year: Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an a/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture}	[1,900]	
• On Car {₹ 3,35,000 x 15%} {Actual cost of car would be the purchase price of the car to Mr Ashish, ie ₹ 3,35,000}	[50,250]	
Less: Incomes Credited But Not Taxable Or Taxable Under Any Other Head:		
• Interest on Public Provident Fund {Exempt}	[60,000]	
• Interest on savings bank account {Taxable u/h "Other Sources"}	[20,000]	
• Interest on NSC VIII Issue {3rd Year} {Taxable u/h "Other Sources"}	[21,000]	
Net Income u/h Business/Profession		39,95,350
II. Income From Other Sources:		
• Interest on savings bank account	20,000	
• Interest on National Savings Certificates VIII Issue {3rd Year}	21,000	41,000
Gross Total Income		40,36,350
Less: Deduction u/s 80C		[1,21,000]
• Contribution to PPF	1,00,000	
• Interest on NSC {3rd Year} {Reinvested}	21,000	



Less: Deduction u/s 80D	(50,000)
Medical expenses for the treatment of father {Since Mr Ashish's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000}	
Less: Deduction u/s 80TTA	(10,000)
Interest on savings bank account to the extent of ₹ 10,000	
Total Income	38,55,350

Computation Of Tax Liability Of Mr Ashish For AY 2025-26:

Particulars	(₹)
Tax on total income of ₹ 38,55,350 as per slab rates	9,69,105
Add: H&EC @ 4%	38,764
Tax Liability	10,07,869
Tax Liability (Rounded Off u/s 288B)	10,07,870

Answer 25**Computation Of Total Income Of Mr Shivansh For AY 2025-26:**

Particulars	(₹)	(₹)
(I) Income From Business Or Profession:		
Net Profit	15,74,500	
Add: Items Debited But Not Allowable/Item Not Credited But Taxable While Computing		
Business Income		
• Employer's contribution to NPS in excess of 14% of salary - Employer's contribution to the extent of 14% of salary (ie, basic salary plus dearness allowance forming part of salary) would be allowed as deduction. Thus, excess contribution, ie ₹ 24,000 {₹ 60,000, being 20% of ₹ 3,00,000 less ₹ 50,400 being 14% of ₹ 3,60,000 (₹ 3,00,000 + 20% of ₹ 3,00,000)} has to be added back.	9,600	



• VR5 Expenditure: 1/5th of expenditure on VRS is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to P&L A/c, 4/5th has to be added back (₹ 2,40,000 x 4/5).	1,92,000	
• Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, ₹ 1,65,000 [₹ 12,00,000 x 15% x 11/12] has to be added back, since the same forms part of interest on loan debited to P&L A/c.	1,65,000	
• Sale proceeds of asset acquired for conducting scientific research taxable as business income u/s 41(3) in the year of sale to the extent of lower of ₹ 6,00,000 (being the deduction allowed u/s 35) and ₹ 8,00,000 (being the sale proceeds)	6,00,000	
• Undervaluation of closing stock (₹ 5,58,000 x 10/90)	62,000	
• Depreciation as per books of A/c	6,17,000	
Less: Items Not Debited But Allowable While Computing Business Income		
• Depreciation as per Income Tax Rules	(4,50,000)	
• Depreciation on Motor car purchased for Supply of finished goods (₹ 3L x 15%)	(45,000)	
• Undervaluation of opening stock (₹ 4,50,000 x 10/90)	(50,000)	
Less: Incomes Credited To P&L A/c But Not Taxable Or Taxable Under Any Other Head:		
• Profit on sale of asset of scientific research (Taxable u/h "Capital Gains")	(2,00,000)	
• Winning from lottery (Taxable u/h "Income From Other Sources")	(31,500)	
Net Income u/h Business/Profession		24,43,600
(II) Capital Gains:		
• STCG On Sale Of Asset Acquired For Conducting Scientific Research:		
Sales consideration •	8,00,000	
Less: Cost of acquisition	(6,00,000)	
Short-Term Capital Gain		2,00,000
• LTCG On Compulsory Acquisition Of Industrial Plot Held For More Than 24M:		
Compensation received	12,00,000	
Less: Indexed cost of acquisition {₹ 2,00,000 x 363/117}	(6,20,513)	
Gross Long-Term Capital Gain	5,79,487	



Less: Exemption u/s 54D {Acquisition of industrial plot within 3 years}	(5,79,487)	
Taxable Long-Term Capital Gain		Nil
fill) Income From Other Sources:		72,000
• Winnings from lottery (₹ 31,500 x 100/70)	45,000	
• Interest on enhanced compensation {50% deduction available u/s 57; balance 50% taxable}	27,000	
Gross total Income		27,15,600
Less: Deduction u/s 80EEB {Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of ₹ 1,50,000}		(1,50,000)
Total Income		25,65,600

Computation Of Tax Liability Of Mr Shivansh For AY 2025-26;

Particulars	Amount (₹)
• Tax on winnings from lottery of ₹ 45,000 @ 30% u/s 115BB	13,500
• Tax on normal income of ₹ 25,20,600 as per the applicable slab rate of ₹ 3,00,000 as Mr Shivansh is a senior citizen	5,66,180
Tax before Health & Education Cess	5,79,680.00
Add: H&EC @4%	23,187.20
Tax Liability	6,02,867.20
Tax Liability (Rounded Off u/s 288B)	6,02,870

Answer 26**Computation Of Gross Total Income Of Mr Kamal For AY 2025-26:**

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Salary including dearness allowance	5,00,000	
• Bonus	15,000	
• Value of Perquisites:		



> Salary of servant provided by employer [Sec 17(2)(iii); Rule 3(3)]	12,000	
> Free gas, electricity and water [Sec 17(2)(iii); Rule 3(4)]	14,500	
> Laptop [Sec 17(2)(viii); Rule 3(7)(vii)]	Nil	
Less: Standard Deduction of ₹ 50,000 u/s 16[ia]	(50,000)	4,91,500
Income u/h House Property:		
Gross Annual Value (₹ 5,500 x 12 months)	66,000	
Less: Municipal Taxes paid	(4,500)	
Net Annual Value	61,500	
Less: Deductions u/s 24		
• 30% of NAV	(18,450)	
• Interest on loan from State Bank of India @ 15% of ₹ 1,60,000	(24,000)	
Income u/h House Property		19,050
Income u/h PGBP:		
Income from share speculation business	15,000	
Less: Loss from cotton speculation business	(20,200)	
Net loss from speculation business to be carried forward.	(5,200)	Nil
Income u/h Other Sources:		
• Interest income earned from advancing money to minor son after allowing an exemption of ₹ 1,500 u/s 10(32) (₹ 4,500 - ₹ 1,500)	3,000	
• Interest income of spouse clubbed (₹ 50,000 x 15%)	7,500	
• Gift (₹ 25,000 x 4)	1,00,000	1,10,500
Gross Total Income		6,21,050
Less: Deduction u/s 80C		
• Public Provident Fund		(10,500)
• Unit Linked Insurance Plan		(6,000)
• Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction u/s 80C. The deposit has to be in Mr Kamal's name.		Nil
• Life Insurance Premium [paid to insure life of married daughter is allowable] [Deduction restricted to 10% of ₹ 2L since policy taken on or after 01.04.2012]		(20,000)



Total Income	5,84,550

Notes:

1. No separate deduction is available for insurance of ₹ 1,275, while computing income u/h "house property".
2. It is assumed that ₹ 1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction u/s 80C. Interest u/s 24 has, accordingly, been calculated @ 15% of ₹ 1,60,000.
3. It is assumed that Mr Kamal's total income, before including minor's income, is higher than that of his spouse.
4. Net loss from speculation business to be c/f [As per section 73, any loss from speculation business can be set-off only against income from another speculation business. Hence, the net loss from speculation business in the current year has to be c/f to the next year for set-off against speculative business income for that year. Such loss can be c/f for a maximum of four succeeding AYs],

Answer 27

- Computation Of Total Income & Tax Liability Without Considering Provisions Of Section 115BAC:**
 - Computation Of Total Income Of Mr Rishabh (As Per Regular Provisions Of The Income Tax Act):**

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Income & Expenditure A/c	82,45,000	
Add: Inadmissible Expenses/Eligible Incomes:		
• Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction u/s 36(1)(iii). Accordingly, interest of ₹ 1,53,125 (₹ 50,00,000 x 10.5% x 3.5/12) has to be added back, since the same is debited to P&L A/c]	1,53,125	
• Purchase of goods at a price higher than the FMV {The difference between the purchase price (₹ 40L) and the FMV(₹ 35L) has to be added back as per Section 40A(2) since the purchase is from a related party, ie hrs brother and at a price higher than the FMV}	5,00,000	
Less: Ineligible Incomes/Eligible Expenses:		
• Income tax refund including interest on refund	(15,550)	
• Dividend from Indian companies	(15,00,000)	



• Short term capital gains on transfer of listed equity shares	[10,00,000]	
• Depreciation on interest on loan of ₹ 1,53,125 capitalized to plant and machinery; depreciation to be allowed at half the normal rate since plant & machinery was put to use for less than 180 days in PY 2024-25	[11,484]	
> Normal Depreciation [₹ 1,53,125 x 15% x 50%]	[15,313]	
> Additional Depreciation [₹ 1,53,125 x 20% x 50%]		
Income u/h Business/Profession		63,55,778
Income u/h Capital Gains:		
STCG on transfer of listed equity shares (STCG u/s 111 A)		10,00,000
Income u/h Other Sources:		
• Interest on income tax refund	4,550	
• Dividend from Indian companies	15,00,000	
Income u/h Other Sources		15,04,550
Gross Total Income		88,60,328
Less: Deduction u/s 80C {Life insurance premium for married daughter}		[40,000]
Less: Deduction u/s 80D {Health insurance premium paid otherwise than by way of cash for self, spouse and children is allowable as deduction, subject to a maximum limit of ₹ 25,000}		[25,000]
, Total Income		87,95,328
Total Income [Rounded Off u/s 288B]		87,95,330

- **Computation Of Tax Liability Of Mr Rishabh (As Per Regular Provisions Of The Income Tax Act, 1961):**

Particulars	Amount (₹)
Tax on STCG u/s 111A of ₹ 10,00,000 @ 15%	1,50,000
Tax on Normal Income of ₹ 77,95,330 as per slab rates	21,51,099
Tax Before Surcharge	23,01,099
Add: Surcharge @ 10% since total income exceeds ₹ 50L	2,30,110
Tax After Surcharge	25,31,209



Add: Health & Education Cess @ 4%	1,01,248
Tax Liability	26,32,457
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	[1,00,000]
Less: Advance tax paid	[17,50,000]
Tax Liability (Rounded off u/s 288B)	7,82,460

II. Computation Of Total Income & Tax Liability Considering Provisions Of Section 115BAC:

- Computation Of Total Income & Tax Liability Of Mr Rishabh (As Per Section 115BAC of The Income Tax Act):**

Computation Of Total Income	Amount (₹)
Total Income (Computed Above As Per Regular Provisions)	87,95,330
Add: All Deductions u/s 80C-80U except 80JJAA	65,000
Add: Additional depreciation on plant and machinery on total cost including capitalized interest	6,65,313
(₹ 66,53,125 x 20% x 50%)	
Total Income	95,25,643
Total Income (Rounded off u/s 288A)	95,25,640
Computation Of Tax Liability	Amount (₹)
Tax on STCG u/s 111 A of ₹ 10,00,000 @ 15%	1,50,000
Tax on Normal Income of ₹ 85,25,640 as per concessional slabs given u/s 115BAC	22,47,692
Tax Before Surcharge	23,97,692
Add: Surcharge @10% since total income exceeds ₹ 50L	2,39,769
Tax After Surcharge	26,37,461
Add: Health & Education Cess @ 4%	1,05,498
Tax Liability	27,42,959
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	[1,00,000]
Less: Advance tax paid	[17,50,000]



Tax Liability	8,92,959
Tax Liability (Rounded off u/s 288B)	8,92,960

Final Conclusion: Since tax liability as per Section 115BAC is higher than the tax liability under normal provisions of the Act, it is beneficial for Mr Rishabh to opt out of the default tax regime prescribed u/s 115BAC.

Answer 28**I. Computation Of Total Income & Tax Liability Without Considering Provisions Of Section 115BAC:**

The regular income tax payable is lower than the AMT payable, therefore the 'Adjusted Total Income' shall be deemed to be the total income and accordingly, the tax liability would come out to ₹ 30,64,450. {Refer Answer 1 For Calculations}.

II. Computation Of Total Income & Tax Liability Considering Provisions Of Section 115BAC:

Individuals/HUFs exercising option u/s 115BAC are not liable to AMT u/s 115JC. Further, deductions u/s 10AA and 35AD are not allowable as per Section 115BAC[2]. However, normal depreciation u/s 32 is allowable.

• Computation Of Total Income & Tax Liability Of Mr X (As Per Section 115BAC of The Income Tax Act):

Computation of Total Income	Amount (₹)
Total Income [Computed Above As Per Regular Provisions]	64,00,000
Add: Deduction/Exemption u/s 10AA	16,00,000
Add: Deduction u/s 35AD	65,00,000
Less: Depreciation u/s 32 on Building (₹ 65L @ 10%) [Assumed that the entire capital expenditure is incurred on building]	[6,50,000]
Total Income	1,38,50,000
Computation of Tax Liability	Amount (₹)
Tax on total income of ₹ 1,38,50,000 as per concessional slabs given u/s 115BAC	38,45,000
Add: Surcharge @ 15% [Since Total Income exceeds ₹ 1 crore]	5,76,750
Tax + Surcharge	44,21,750
Add: Health & Education Cess @ 4%	1,76,870
Tax Liability	45,98,620



Final Conclusion: Since the tax liability of Mr X u/s 115JC is lower than the tax liability as computed u/s 115BAC,

it would be beneficial for him not to opt for Section 115BAC for PY 2024-25 (AY 2025-26). Moreover, benefit of AMT Credit is also available to the extent of tax paid in excess over regular tax.

Answer 29

I. Computation Of Total Income & Tax Liability Without Considering Provisions Of Section 115BAC:

- Computation Of Total Income & Tax Liability Of Mr Rakesh (As Per Regular Provisions Of The Income Tax Act):

Computation Of Total Income	Amount (₹)	Amount (₹)
Income u/h House Property:		
• Self-Occupied Portion (Ground Floor):		
Net Annual Value	Nil	
Less: Deduction u/s 24(a) @ 30% of NAV	Nil	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from self-occupied property	Nil	
• Let-Out Portion (First Floor):		
Gross Annual Value (In the absence of any other information, rent received is taken as GAV)	2,28,000	
Less: Municipal Tax (₹ 60,000/2)	(30,000)	
Net Annual Value	1,98,000	
Less: Deduction u/s 24(a) @ 30% of NAV	(59,400)	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from let out house property	1,38,600	
Net Income u/h House Property		1,38,600
Income u/h PGBP:		
Income from SEZ Unit	25,00,000	



Less: Exemption u/s 10AA {Since PY 2024-25 is the 6th year of operation of SEZ unit, benefit available u/s 10AA shall be 50% of export profits. Export Profits = ₹ 25L x ₹ 140L/₹ 200L = ₹ 17.5L; thus 50% of export profits shall be ₹ 8,75,000}	(8,75,000)	
Net Income u/h Business/Profession		16,25,000
Income u/h Capital Gains		
Full Value of Consideration {SDV of ₹ 17 lakhs exceeds the actual consideration of ₹ 13 lakhs by more than 10% of actual consideration, thus SDV of ₹ 17 lakhs shall be taken as full value of consideration}	17,00,000	
Less: Indexed Cost of Acquisition {₹ 4.75L x 363/100} {Refer Note 1}	(17,24,250)	
LTCL From Sale Of Land (To Be Carried-Forward)	(24,250)	Nil
Income u/h Other Sources:		
• Royalty from artistic book net of expenses incurred for earning royalty (₹ 2,88,000-₹ 40,000)	2,48,000	
• Interest on savings bank deposits	40,000	
Income u/h Other Sources		2,88,000
Gross Total Income		20,51,600
Less: Deduction u/s 80C {Tuition fee paid for maximum of two children is allowable (₹ 14K x 2)}		(28,000)
Less: Deduction u/s 80C {Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr Rakesh}		(39,000)
Less: Deduction u/s 80C {Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr Rakesh}		Nil
Less: Deduction u/s 80QBB (₹ 2,88,000 x 15/18 - ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus ₹ 40,000 expenses already allowed as deduction while computing royalty income)		(1,90,000)
Less: Deduction u/s 80TTA (Interest on savings bank account)		(10,000)
Total Income		17,84,600
Computation of Tax Liability		Amount (₹)
Tax on Normal Income of ₹ 17,84,600 as per the standard slab of ₹ 2,50,000		3,47,880
Add: Health & Education Cess @ 4%		13,915



Tax Liability	3,61,795
Tax Liability (Rounded off u/s 288B)	3,61,800

Note 1: Actual cost shall be taken as higher of the following two figures:

> Actual cost of ₹ 1.75L + Registration expenses of ₹ 20,000 = ₹ 1,95,000

> FMV of ₹ 4.75L as on 1/4/2001

Therefore, actual cost shall be taken as ₹ 4,75,000.

II. Computation Of Total Income & Tax Liability Considering Provisions Of Section 115BAC;

- Individuals/HUFs exercising option u/s 115BAC are not allowed to claim the benefit of deduction/exemption u/s 10AA and deductions u/s 80C-80U except 80JJAA.
- Computation Of Total Income & Tax Liability Of Mr Rakesh (As Per Section 115BAC of The Income Tax Act):**

Computation of Total Income	Amount (₹)
Total Income (Computed Above As Per Regular Provisions)	17,84,600
Add: Deduction/Exemption u/s 10AA	8,75,000
Add: All Deductions u/s 80C-80U except 80JJAA	2,67,000
Total Income	29,26,600
Computation of Tax Liability	Amount (₹)
Tax on Normal Income of ₹ 29,26,600 as per as per concessional slabs given u/s 115BAC	5,67,980
Add: Health & Education Cess @ 4%	22,719
Tax Liability	5,90,699
Tax Liability (Rounded off u/s 288B)	5,90,700

Final Conclusion: Since tax liability as per Section 115BAC is higher than the tax liability under normal provisions of the Act, it is beneficial for Mr Rakesh to opt out of the default tax regime as prescribed u/s

