

A.Y. 2025-26

DIRECT TAX

Volume-I

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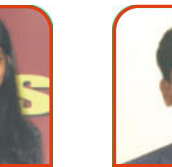
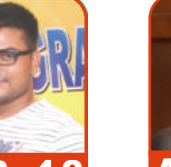
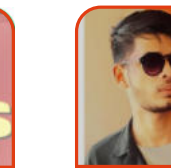
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MRP. 400/-



**THIS BOOK HAS BEEN A REALITY
ONLY BECAUSE OF MY FAMILY &
STUDENTS.**

CA SURAJ AGRAWAL

*For CMA Intermediate **Dec 2025 Exam***

Direct Tax - Volume I (22nd Edition)

*Updated with the **Finance Act 2024 & the Finance (No. 2) Act 2024**
Assessment Year 2025-26 (Previous Year 2024-25)*

Date - 30.06.2025

PREFACE

Taxation is a dynamic subject, which is not only a vast subject but also difficult to comprehend in view of frequent amendments. Yet it is the scoring subject of your syllabus. In addition, practice in the field of Taxation is also highly remunerative.

My association with the students has helped me to bring this book in its present form – simplified, comprehensive and easy to understand.

The present edition of this book (**VOLUME I**) is designed to bridge the gap between theory & applications and incorporates the following:

- ❖ **Updated with the Finance (No. 2) Act 2024 [Assessment Year 2025-26]**
- ❖ Covers entire syllabus with theoretical concepts, examples etc
- ❖ Contains **more than 1000 practical problems** with solutions
- ❖ Chapter-wise short notes (separate volume) for revision purpose.

Hope this book serves the purpose of the students. I shall be thankful to the readers for their suggestions, criticism and feedback if any.

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ACKNOWLEDGEMENT

This book is a result of sincere efforts of our family members, colleagues, associates, well-wishers and students, whose contribution cannot go unacknowledged.

Master Reyaan, my wife **CA Monika Agrawal** and my family deserve special mention for the time (on which they had the first right) they allowed me for this book.

I dedicate this book to my **beloved late grandparents & parents.**

CA Suraj Agrawal

“One more step towards success”

PROFILE – CA SURAJ AGRAWAL

CA Suraj Agrawal is a Commerce Graduate [B.Com (H)] from Kolkata University and has qualified CA in November 2005 in **First Attempt** from Kolkata. He has also secured All India **27th Rank in CA-Foundation** - 1st level (First Attempt).

Besides CA, he has completed **Certification Course of International Taxation** of the ICAI in 2009. He has also qualified **CPA (Certified Public Accountant) examination from AICPA (USA)** in 2009 with **more than 90 Marks in each of four papers** in First Attempt [*Presently, he is inspired to complete CIMA, London as well as LLM in International Taxation (UK)*]

He has started his career by joining Direct Tax Department of **Reliance Industries Limited, Mumbai** and worked for near 2 years in core tax team. He has also worked in Taxation Division of **Chaturvedi & Shah (Chartered Accountants), Delhi** followed by Tax Division of **Ernst & Young, Gurgaon**, India (A Leading Big 4 Firm having International Presence). During the working tenure of more than 4 years, he is exposed to in-depth theoretical and practical knowledge of Direct Taxation & has a consultancy exposure in various industries including Energy - Oil & Gas, Airlines, Retail, Infrastructure and Shipping Industries.

With the above academic and practical knowledge, he is in teaching profession since 2010 to serve professional students (taught **25,000 CA/CMA**s Students till date). ***His in-depth coverage of legal provisions in Tax with practical approach is very well recognized among the students.*** He is also an associate member of ICAI and is also providing services as Tax Consultant to various organisations.

He was also a member in WTO, FEMA & International Tax Study Group of the NIRC of the ICAI for the year 2011-12 and was member of ***International Taxation & FEMA Research Study Group of NIRC of the ICAI*** for the year 2010-11. He is regularly contributing tax articles and various opinions on subjects of Direct Taxation including International Taxation in various leading magazines [Taxmann] and professional forums.

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INTRODUCTION & OVERVIEW

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

Taxes are levied by the Governments to meet the common welfare expenditure of the society.

There are two types of taxes - direct taxes and indirect taxes.

Direct Taxes: If tax is levied directly on the income or wealth of a person, then, it is a direct tax. **The person who pays the tax to the Government cannot recover it from somebody else** i.e. the burden of a direct tax cannot be shifted. e.g. Income-tax.

Indirect Taxes: If tax is levied on the price of a good or service, then, it is an indirect tax e.g. Goods and Services Tax (GST) or Custom Duty. **In the case of indirect taxes, the person paying the tax passes on the incidence to another person.**

Why are taxes Levied?

The reason for levy of taxes is that **they constitute the basic source of revenue to the Government.** Revenue so raised is utilized for meeting the expenses of Government like defence, provision of education, health-care, infrastructure facilities like roads, dams etc.

Power to levy taxes

The Constitution of India, in Article 265 lays down that "No tax shall be levied or collected except by authority of law." Accordingly for levy of any tax, a law needs to be framed by the government.

Constitution of India gives the power to levy and collect taxes, whether direct or indirect, to the Central and State Government. **The Parliament and State Legislatures are empowered to make laws on the matters enumerated in the Seventh Schedule by virtue of Article 246 of the Constitution of India.**

Seventh Schedule to Article 246 contains **three lists** which enumerate the matters under which the Parliament and the State Legislatures have the authority to make laws for the purpose of levy of taxes.

The following are the lists:

- (i) **Union List:** Parliament has the exclusive power to make laws on the matters contained in Union List.
- (ii) **State List:** The Legislatures of any State has the exclusive power to make laws on the matters contained in the State List.
- (iii) **Concurrent List:** Both Parliament and State Legislatures have the power to make laws on the matters contained in the Concurrent list.

Income-tax is the most significant direct tax. **Entry 82 of the Union List i.e., List I in the Seventh Schedule to Article 246 of the Constitution of India has given the power to the Parliament to make laws on taxes on income other than agricultural income.**

COMPONENTS OF INCOME TAX**INCOME TAX ACT' 1961**

- The levy of income-tax in India is governed **by the Income-tax Act, 1961** ('Act').
- It extends to the whole of India.
- This Act came into force on 1st April, 1962.
- The Act contains **XXIII Chapters divided into 298 Sections and XIV Schedules**.
- Each Section is **further divided into sub-section, clauses and sub-clauses** which further clarify the provisions contained in section with explanations and Proviso.

- When each part of the section is independent of each other and one is not related with other, such parts are called a "Clause".
- "Sub section", on the other hand refers to such parts of a section where each part is related with other and all sub sections taken together completes the concept propounded in that section.

- **The Proviso(s)** to a section/sub-section/clause spells out the exception(s)/condition(s) to the provision contained in the respective section/sub-section/clause, i.e., the proviso spells out the cases where the provision contained in the respective section/sub-section/clause would not apply or where the provision would apply with certain modification.
- **The Explanation** to a section/sub-section/clause gives a clarification relating to the provision contained in the respective section/sub-section/clause.

The Income-tax Act, 1961 undergoes change every year with additions and changes brought in by the Annual Finance Act passed by Parliament. Sometimes, legislative amendments are made for amending the provisions of the Income-tax Act, 1961 through legislations **like The Taxation Laws (Amendment) Act, 2021**.

The Finance Act [Finance Act, 2024 or Finance (No. 2) Act, 2024**]**

Every year, the Finance Minister of the Government of India introduces the Finance Bill in the Parliament's Budget Session. **When the Finance Bill is passed by both the houses of the Parliament and gets the assent of the President**, it becomes the Finance Act. Amendments are made every year to the Income-tax Act, 1961 and other tax laws by the Finance Act.

Income-tax Rules, 1962

The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT).

- *The **CBDT is empowered to make rules** for carrying out the purposes of the Act.*
- *For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called **Income-tax Rules, 1962**.*
- *Rules also have sub-rules, provisos and Explanations.*

Circulars

- ***Circulars are issued by the CBDT** from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.*
- *Circulars are issued **for the guidance** of the officers and/or assesseees.*
- ***The department is bound by the circulars.** While such circulars are not binding on the assesseees, they can take advantage of beneficial circulars.*

Notifications

- *Notifications are **issued by the Central Government** to give effect to the provisions of the Act.*
- *The **CBDT is also empowered** to make and amend rules for the purposes of the Act by issue of notifications which are binding on both department and assesseees.*

Case Laws

Case Laws refer to decision given by courts. The study of case laws is an important and unavoidable part of the study of Income-tax law. It is not possible for Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assesseees and the department and give decisions on various issues.

The Supreme Court is the Apex Court of the Country and the law laid down by the Supreme Court is the law of the land. The decisions given by various High Courts will apply in the respective states in which such High Courts have jurisdiction.

BASIS OF CHARGE [Charge of income-tax (Section 4)]

1. Where any **Central Act enacts** that income-tax shall be charged for **any assessment year** at any **rate or rates**, income-tax at that rate or those rates **shall be charged for that year** in accordance with, and subject to the provisions (including provisions for the levy of additional income-tax) of, this Act in respect of the **total income of the previous year of every person** :

Provided that where by virtue of any provision of this Act income-tax is to be charged in respect of the income of a period other than the previous year, income-tax shall be charged accordingly.
2. In respect of income chargeable under sub-section (1), income-tax shall be deducted at the source or paid in advance, **where it is so deductible or payable under any provision of this Act.**

Note:

Section 4 of the Income-tax Act, 1961 is the charging section which provides that:

- i. Tax shall be charged at the rates prescribed for the year by the Annual Finance Act or the Income-tax Act, 1961 or both.
- ii. The charge is on every person specified under section 2(31);
- iii. Tax is chargeable on the total income earned during the previous year and not the assessment year. (There are certain exceptions);
- iv. Tax shall be levied in accordance with and subject to the various provisions contained in the Act.

This section is the back bone of the law of income-tax in so far as it serves as the most operative provision of the Act. The tax liability of a person springs from this section.

TOTAL INCOME

Total income has to be computed as per the provisions contained in the Income-tax Act, 1961.

The following steps has to be followed for computing the total income of an assessee:

- Step 1:** Determination of residential status
- Step 2:** Classification of income under different heads
- Step 3:** Computation of income under each head **after providing for permissible deductions / exemptions**
- Step 4:** Clubbing of income of spouse, minor child etc.
- Step 5:** Set-off or carry forward and set-off of losses
- Step 6:** Computation of Gross Total Income
- Step 7:** Deductions from Gross Total Income
- Step 8:** Computation of Total income

TAX LIABILITY

Tax has to be computed by applying the rates of tax mentioned in the Annual Finance Act and the rate specified under the Income-tax Act, 1961, as the case may be.

Rates of Tax

Income-tax is to be charged at the rates fixed for the year by the Annual Finance Act.

Section 2 of the Finance (No. 2) Act, 2024 read with **Part I** of the First Schedule to the Finance (No. 2) Act, 2024, seeks to specify the rates at which income-tax is to be levied on income chargeable to tax **for the assessment year 2024-25.**

Part II lays down the rate at which tax is to be deducted at source during the **financial year 2024-25** from income subject to such deduction under the Income-tax Act, 1961;

Part III lays down the rates for charging income-tax in certain cases, rates for deducting income-tax from income chargeable under the head "salaries" and the rates for computing advance tax **for the financial year 2024-25 where the assessee exercises the option to shift out of the default tax regime provided under section 115BAC(1A).**

Part III of the First Schedule to the Finance (No. 2) Act, 2024 will become **Part I** of the First Schedule to the Finance Act, 2025 and so on.

Part IV gives the rules for computing net agricultural income.

HEADS OF INCOME [SEC. 14]

According to Sec.14 of the Act, all income of a person shall be classified under the following five heads:

1. **Salaries;**
2. **Income from house property;**
3. **Profits and gains of business or profession;**
4. **Capital gains;**
5. **Income from other sources.**

[For computation of income, all taxable income should fall under any of the five heads of income as mentioned above. If any type of income does not become part of any one of the above mentioned first four heads, it should be part of the fifth head, i.e. Income from other sources, which may be termed as the residual head.]

Discuss the significance of Heads of Income**1. Significance of Heads of income:**

- (a) Income chargeable under a particular head cannot be charged under any other head.
- (b) The Act has self contained provisions in respect of each head of income.
- (c) If any income is charged under a wrong head of income, the assessee will lose the benefit of deduction available to him under that head.

2. Relevance of method of accounting for heads of income:

Heads of Income	Relevance of Method of Accounting
Chapter IV-A <u>Salaries</u> [Section 15 -17]	(a) Taxable on due basis or on receipt basis, whichever is earlier. (b) The Method of accounting is not relevant.
Chapter IV-C <u>House Property</u> [Section 22 - 27]	(a) Income from house property is taxable only on accrual basis. (b) The Method of accounting is not relevant.
Chapter IV-D <u>Business Income</u> [Section 28 - 44DB]	The assessee may follow either Cash or Mercantile system of accounting
Chapter IV-E <u>Capital Gains</u> [Section 45 - 55A]	a. Income from Capital Gains shall be taxable during the previous year in which the Capital Asset is transferred. b. The method of accounting is not relevant.
Chapter IV-F <u>Other Sources</u> [Section 56 - 59]	The assessee may follow either Cash or Mercantile system of accounting

MEANING OF ASSESSMENT YEAR AND PREVIOUS YEAR**Assessment year [Section 2(9)]**

“This means a period of 12 months commencing on 1st April every year”.

SATC NOTE: The year in which tax is paid is called the assessment year while the year in respect of the income of which the tax is levied is called the previous year. **For example, for the AY 2025-26, the relevant PY is 2024-25 (1.4.2024 to 31.3.2025).**

Assessment year always starts from 1st April and it is always a period of 12 months

Previous year [Section 3]

For the purposes of this Act, "previous year" means the financial year immediately preceding the assessment year.

[2 marks] - Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the said financial year, the previous year shall be the period beginning with the date of setting up of the business or profession or, as the case may be, the date on which the source of income newly comes into existence and ending with the said financial year.

CERTAIN CASES WHEN INCOME OF A PREVIOUS YEAR WILL BE ASSESSED IN THE PREVIOUS YEAR ITSELF [EXCEPTION TO SECTION 4]

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, this rule does not apply and the income is taxed in the previous year in which it is earned. **The exceptions are as follows:**

Shipping business of non-resident [Section 172]

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.

Persons leaving India [Section 174]

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.

Example

Suppose Mr. X is leaving India for USA on 10.6.2024 and it appears to the Assessing Officer that he has no intention to return. Before leaving India, Mr. X may be asked to pay income-tax on the income earned during the P.Y. 2023-24 as well as on the total income earned during the period 1.4.2024 to 10.06.2024.

AOP/BOI/Artificial Juridical Person formed for a particular event or purpose [Section 174A]

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.

Persons likely to transfer property to avoid tax [Section 175]

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.

Discontinued business [Section 176]

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.

PERSON [Section 2(31)]

Section 2(31) - The definition is inclusive i.e. a person includes.

- (A) An Individual
- (B) A Hindu Undivided family [HUF]
- (C) A Company
- (D) A Firm (including LLP)
- (E) An AOP or a BOI, whether incorporated or not
- (F) A local authority
- (G) Every artificial juridical person, not covered above, but which are separate entities in the eye of law

Individual

The term 'individual' means only a natural person, i.e., a human being.

- It includes both males and females.
- It also includes a minor or a person of unsound mind.

HUF

Under the Income-tax Act, 1961, a Hindu undivided family (HUF) is treated as a separate entity for the purpose of assessment. It is included in the definition of the term "person" under section 2(31). The levy of income-tax is on "every person". Therefore, income-tax is payable by a HUF.

"Hindu undivided family" has not been defined under the Income-tax Act, 1961. The expression is, however, defined under the Hindu Law as a family, which consists of all males lineally descended from a common ancestor and includes their wives and daughters.

Some members of the HUF are called **co-parceners**. They are related to each other and to the head of the family. HUF may contain many members, but members within four degrees including the head of the family (Karta) are called co-parceners. A Hindu Coparcenary includes those persons who acquire an interest in joint family property by birth. Earlier, only male descendants were considered as coparceners. With effect from 6th September, 2005, daughters have also been accorded coparcenary status. It may be noted that only the coparceners have a right to partition.

A daughter of coparcener by birth shall become a coparcener in her own right in the same manner as the son. Being a coparcener, she can claim partition of assets of the family. The rights of a daughter in coparcenary property are equal to that of a son. **However, other female members of the family, for example, wife or daughter-in-law of a coparcener are not eligible for such coparcenary rights.**

The relation of a HUF does not arise from a contract but arises from status. There need not be more than one male member or one female coparcener to form a HUF. **The Income-tax Act, 1961 also does not indicate that a HUF as an assessable entity must consist of at least two male members or two coparceners.**

Under the Income-tax Act, 1961, Jain undivided families and Sikh undivided families would also be assessed as a HUF.

Schools of Hindu Law:

There are two schools of Hindu law. They are –

1. Mitakshara school of Hindu law
2. Dayabhaga school of Hindu law

Mitakshara law is followed by entire India except West Bengal and Assam. There is a basic difference between the two schools of thought with regard to succession.

Under the Mitakshara law, the inheritance is by birth. 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.

Dayabagha law prevails in West Bengal and Assam. In **Dayabagha law, nobody acquires the right, share in the property by birth as long as the head of family is living**, that is, 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. Thus, the father and his brothers would be the coparceners of the HUF

DOMESTIC COMPANY [Section 2(22A)]

Domestic Company means an Indian company or any other company which, in respect of its income liable to income-tax, has **made the prescribed arrangements** for the declaration and payment of dividends (including dividends on preference shares) within India, payable out of such income.

As per Rule 27, the prescribed arrangements are:

- (a) The share register of the company for all its shareholders must be kept and maintained at its principle place of business in India.
- (b) The general meeting for passing of the accounts for the PY and declarations of dividends shall be held at any place within India
- (c) Dividends declared in India shall be payable within India.

INDIAN COMPANY [Section 2(26)]:

Two conditions should be satisfied so that a company can be regarded as an Indian company:

- (a) the company should have been formed and registered under any law relating to companies which was or is in force in any part of India, **and**
- (b) the registered office or the principal office of the company should be in India.

FOREIGN COMPANY [SECTION 2(23A)]:

Foreign company means a company which is not a domestic company.

Association of Persons (AOP)

When persons **combine together for promotion of joint enterprise** they are assessable as an AOP, if they do not in law constitute a partnership. **In order to constitute an association, 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.** Co-heirs, co-legatees or co-donees joining together for a common purpose or action would be chargeable as an AOP.

Example: Mr. Yash, AB & Co. (Firm) and X (P) Ltd. join together to carry on construction activity otherwise than as a partnership firm, such an association will be recognized as an association of persons.

Body of Individuals (BOI)

It 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.

Income-tax shall not be payable by an assessee in respect of the receipt of share of income by him from BOI and on which the tax has already been paid by such BOI. For e.g., mutual trade associations, members club, etc.

Section 2(31) further explains that an association of persons or a body of individuals shall be treated as a person, **whether or not it was formed with the object of deriving income, profits or gains**. Accordingly, even if such entities have been formed not for earning any income/ profit still they are "person" for the purpose of the Act and are covered by the provisions of the Act.

Difference between AOP and BOI:

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.

Local Authority

The term "Local Authority" means a municipal committee, district board, body of port commissioners or other authority legally entitled to or entrusted by the Government with the control or management of a municipal or local fund.

Note: A local authority is taxable in respect of that part of its income which arises from any business carried on by it in so far as that income **does not arise from the supply of a commodity or service within its own jurisdictional area**. However, income arising from the supply of water and electricity even outside the local authority's own jurisdictional area **is exempt from tax**.

Artificial Juridical Persons

Artificial Juridical Persons are the entities which are not natural persons but are separate entities in the eyes of law. **This is a residual category could cover all artificial persons with a juristic personality not falling under any other category of persons**. Deities, Bar Council, Universities are some important examples of Artificial Juridical Persons.

Definition of "Assessee" – 4 Marks

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 Income-tax Act, 1961 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 Income-tax Act, 1961;
- Every person who **is deemed to be an assessee-in-default** under any provision of the Income-tax Act, 1961.

Income [Section 2(24)] - FOR READING ONLY

According to the definition given by Section 2(24), Income includes-

- a) profits and gains of business or profession ;
- b) dividend ;
- c) voluntary **contributions received by a Charitable Trust/Religious Trust or University/Educational Institution or Hospital**
- d) the value of any perquisite or profit in lieu of salary taxable u/s 17 and any special allowance or benefit, specifically granted either to meet personal expenses or for performance of duties of an office or an employment of profit.
- e) the value of any benefit or perquisite, whether convertible into money or not, received by a director or any of his relatives including the sums paid by the company which otherwise would have been payable by those persons;
- f) the value of any benefit or perquisite, whether convertible into money or not, obtained by a representative assessee or by any person on whose behalf or for whose benefit any income is received by the representative assessee, including any sum paid by the representative assessee, which would otherwise have been payable by the beneficiary;
- g) any sum chargeable to tax under sub-clauses (ii),(iii),(iiia),(iiib),(iiic),(iv),(v),(va) of Section 28, 41 or 59;
- h) **the fair market value of inventory referred to in clause (via) of section 28**
- i) any **capital gains** chargeable under Section 45;
- j) the profits and gains of business of insurance carried on **by a mutual insurance company or by a co-operative society**, computed in accordance with Section 44;
- k) The profits and gains of any business of banking (including providing credit facilities) carried on **by a co-operative society with its members**;
- l) any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature whatsoever ;
- m) any sum **received by the assessee from his employees** towards welfare fund contributions such as Provident Fund, Superannuation Fund etc.
- n) any **sum received under a Keyman insurance policy** including the sum allocated by way of bonus.
- o) any sum referred to in Section 56(2)(vii)/(viiia)/(viiib)/(x).
- p) any sum of money referred to in section 56(2)(ix).
- q) **any compensation or other payment referred to in section 56(2)(xi)/Section 56(2)(xii)/Section 56(2)(xiii).**
- r) **assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called)** by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee **other than**
 - (i) *the subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to Section 43(1) or*
 - (ii) **the subsidy or grant by the CG for the purpose of the corpus of a trust or institute established by the CG or a SG, as the case may be.**

It may be noted that the above mentioned definition merely describes certain receipts as being income. This does not define the term income itself. **Judicial pronouncements, however, have held that the term income is of widest connotation. Therefore, any other receipts that fall within the natural meaning of the term may also be included for this purpose.**

Concept of Income under the Income-tax Act, 1961**For Reading Only**

Regular receipt vis-a-vis casual receipt: Income, in general, means a periodic monetary return which accrues or is expected to accrue regularly from definite sources. However, under the Income-tax Act, 1961, even certain casual receipts which do not arise regularly are treated as income for tax purposes e.g. Winnings from lotteries, crossword puzzles.

Revenue receipt vis-a-vis Capital receipt: Income normally refers to revenue receipts. Capital receipts are generally not included within the scope of income in general parlance. However, the Income-tax Act, 1961 has specifically included certain capital receipts within the definition of income e.g., Capital gains i.e., gains on sale of a capital assets like land.

Net receipt vis-a-vis Gross receipt: Income means net receipts and not gross receipts. Net receipts are arrived at after deducting the expenditure incurred in connection with earning such receipts. The expenditure which can be deducted while computing income under each head is prescribed under the Income-tax Act, 1961. Income from certain eligible businesses/ professions is also determined on presumptive basis i.e., as a certain percentage of gross receipts.

Due basis vis-a-vis receipt basis: Income is taxable either on due basis or receipt basis. For computing income under the heads "Profits and gains of business or profession" and "Income from other sources", the method of accounting regularly employed by the assessee should be considered, which can be either cash system or mercantile system. Some receipts are taxable only on receipt basis, like, income by way of interest received on compensation or enhanced compensation.

DIVERSION & APPLICATION OF INCOME

There is a **very thin line** of difference between Diversion of income & Application of income.

Diversion of income:

Where **by virtue of an obligation, income is diverted before it reaches** to the assessee, it is known as diversion of income & it is not taxable (i.e. even if the assessee were to collect the income he does so on behalf of the person to whom it is payable).

Example: A, B and C are co-authors of a book. The publisher of the book gave the whole royalty of ₹ 6,00,000 to A. A paid ₹ 2,00,000 to B and C each. **Such payment is not application of income but diversion of income.**

Application of income:

Whereas, application of income means to discharge an obligation (which is gratuitous or self-imposed) **after such income reaches** the assessee & hence it is taxable.

TAX PLANNING, TAX AVOIDANCE AND TAX EVASION

- ✓ There are three methods which are commonly used by the taxpayers to reduce their tax liabilities:
 - Tax Planning;
 - Tax Avoidance; and
 - Tax Evasion
- ✓ The issue involving the distinction among tax planning, tax avoidance and tax evasion **is a debatable one that has resulted into diverse legal judgments in the past.**
- ✓ **The income-tax law provides for a tax-payer to plan his taxes so that his tax liability is minimal.** Thus, when a person arranges his financial affairs within the scope of the law in a manner that would give him the maximum benefit of the various exemptions, deductions, rebates and reliefs to reduce his tax liability, **it would be called tax planning.**
- ✓ Nevertheless, the distinction between tax planning and tax avoidance is **extremely thin and can be made only with respect to the intention of the tax-payer.**

Any device that twists the law or purports to defeat the spirit of the law, may be called tax avoidance. **Tax avoidance is illegal.**
- ✓ **Tax evasion**, on the other hand is taking resort to various means such as suppression of facts and figures, furnishing false details, etc., **with a clear intention to deceive. It is a crime against society** and is punishable under the law.

DISTINGUISH BETWEEN TAX PLANNING, TAX AVOIDANCE, TAX EVASION & TAX MANAGEMENT

Points of distinction	Tax planning	Tax Avoidance	Tax Evasion	Tax Management
Definition	It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief.	It is an exercise by which the assessee legally takes advantage of the loopholes in the Act.	It is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee	It is a procedure to comply with the provisions of the law.
Feature	Tax planning is a practice to follow the provisions of law within the moral framework.	Tax avoidance is a practice of bending the law without breaking it	Tax evasion is illegal, both in script & moral	It is implementation or execution part of taxation department of an organisation
Object	To reduce tax liability by applying script & moral of law.	To reduce the tax liability to the minimum by applying script of law only	To reduce tax liability by applying unfair means	To comply with the provisions of laws.
Approach	It is futuristic and positive in nature. The planning is made today to avail benefits in future.	It is futuristic but short term in nature, as loophole of the law will be corrected in future by amendments of the law.	It is concerned with past and applied after the liability of tax has arisen. It is done with negative approach to avail benefits by killing the moral of law.	It is a continuous approach, which is concerned with past (rectification, revisions etc.), present (filing of return, etc.) & future (corrective action).
Benefit	Generally, arises in long run.	Generally, arises in short run.	Generally, benefits do not arise but it causes penalty and prosecution.	Penalty, interest & prosecution can be avoided.
Treatment of Law	It uses benefits of the law.	It uses loopholes in the law.	It overrules the law.	It implements the law
Practice	It is tax saving.	It is tax hedging	It is tax concealment	It is tax administration.
Need	It is desirable	It is avoidable	It is objectionable	It is essential
Morality	It is moral in nature	It is immoral in nature	It is illegal.	It is duty

DISTINCTION BETWEEN CAPITAL EXPENDITURES AND REVENUE EXPENDITURES**For Reading Only**

The distinction between capital expenditure and revenue expenditure is of utmost importance, because the Income-tax Act normally **allows revenue expenditure, while capital expenditures are by and large disallowed.**

For example, lump sum and periodic payment or the magnitude of payment or treatment in the books of account is not the material consideration for distinguishing between capital and revenue expenditures. Further, in distinguishing between capital and revenue expenditures, it does not matter whether the amount is paid voluntarily or involuntarily.

A few distinguishing tests for capital and revenue expenditures are discussed below:

- a. **Acquiring asset or advantage of enduring nature:** When an expenditure is made for the purpose of bringing into existence an asset or an advantages of enduring nature, such expenditure is to be regarded as capital expenditure.
- b. **Capital assets belonging to third parties:** Even though an expenditure results in the creation of a capital asset, if the capital asset belongs to a third party, such expenses will be treated as revenue expenditure.
- c. **Expenditure which facilitates assessee's business:** If an expenditure facilitates the assessee's trading operations or helps the assessee to carry out business more efficiently, then irrespective of the consideration that the benefit may be of enduring nature, it will be treated as revenue expenditure.
- d. **Expenditure related to fixed capital and circulating capital:** Any expenditure in relation to fixed capital or capital asset is capital expenditure. Expenditure related to stock-in-trade or circulating capital is revenue in character.
- e. **Initial expenditure:** Expenditure connected with the basic framework of business, or incurred in connection with the extension of business or for substantial replacement of equipment are capital in nature.
- f. **Expenditure for goodwill, route permits, etc.:** Expenditure incurred for acquiring goodwill is capital expenditure. Similarly, amount paid by a transport operator for route permit is also capital expenditure.
- g. **Buying off competition:** Any payment made to a competitor so as to prevent them to compete, is a benefit of enduring nature. It is, therefore, capital expenditure.

Legal expenses for maintenance of asset: Expenditure incurred by the assessee to maintain the asset in good conditions or legal expenses incurred to defend assessee's title to the assets is held to be revenue expenditure.

Concept of revenue and capital receipts**For Reading Only**

The Act contemplates a levy of tax on income and not on capital and hence it is very essential to distinguish between capital and revenue receipts. Capital receipts cannot be taxed, unless they fall within the scope of the definition of "income" and so the distinction between capital and revenue receipts is material for tax purposes.

Certain capital receipts which have been specifically included in the definition of income are compensation for modification or termination of services, income by way of capital gains etc.

It is not possible to lay down any single test as permanent or any single criterion as decisive, final and universal in application to determine whether a particular receipt is capital or revenue in nature.

Hence, the capital or revenue nature of the receipt must be determined with reference to the facts and circumstances of each case.

Criteria for determining whether a receipt is capital or revenue in nature

The following are some of the important criteria which may be applied to distinguish between capital and revenue receipts.

Fixed capital or Circulating capital: A receipt referable to fixed capital would be a capital receipt whereas a receipt referable to circulating capital would be a revenue receipt. The former is not taxable while the latter is taxable.

Tangible and intangible assets which the owner keeps in his possession for making profits are in the nature of fixed capital. The circulating capital is one which is turned over and yields income or loss in the process.

Income from transfer of capital asset or trading asset:

Profits arising from the sale of a capital asset are chargeable to tax as capital gains under section 45 whereas profits arising from the sale of a trading asset being of revenue nature are taxable as income from business under section 28 provided that the sale is in the regular course of assessee's business or the transaction constitutes an adventure in the nature of trade.

Capital Receipts vis-a-vis Revenue Receipts: Tests to be applied

(1) Transaction entered into the course of business: Profits arising from transactions which are entered into in the course of the business regularly carried on by the assessee, or are incidental to, or associated with the business of the assessee would be revenue receipts chargeable to tax.

Example: A banker's or financier's dealings in foreign exchange or sale of shares and securities, a shipbroker's purchase of ship in his own name, a share broker's purchase of shares on his own account would constitute transactions entered and yielding income in the ordinary course of their business.

Whereas building and land would constitute capital assets in the hands of a trader in shares, the same would constitute stock-in-trade in the hands of a property dealer.

(2) Profit arising from sale of shares and securities: In the case of profit arising from the sale of shares and securities, the nature of the profit has to be ascertained from the motive, intention or purpose with which they were bought.

If the shares were acquired as an investor or with a view to acquiring a controlling interest or for obtaining a managing or selling agency or a directorship, the profit or loss on their sale would be of a capital nature; but if the shares were acquired in the ordinary course of business as a dealer in shares, it would constitute his stock-in-trade.

If the shares were acquired with speculative motive, the profit or loss (although of a revenue nature) would have to be dealt with separately from the profit or loss of other businesses.

Note: However, securities held by Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992 would be treated as a capital asset. Even if the nature of such security in the hands of the Foreign Portfolio Investor is stock-in-trade, the same would be treated as a capital asset and the profit on transfer would be taxable as capital gains.

- (3) **A single transaction - Can it constitute business?** Even a single transaction may constitute a business or an adventure in the nature of trade even if it is outside the normal course of the assessee's business. Repetition of such transactions is not necessary. Thus, a bulk purchase followed by a bulk sale or a series of retail sales or bulk sale followed by a series of retail purchases would constitute an adventure in the nature of trade and consequently, the income arising therefrom would be taxable.

Purchase of any article with no intention to resell it, but resold under changed circumstances would be a transaction of a capital nature and capital gains arise.

However, where an asset is purchased with the intention to resell it, the question whether the profit on sale is capital or revenue in nature depends upon

- (i) the conduct of the assessee,
- (ii) the nature and quantity of the article purchased,
- (iii) the nature of the operations involved,
- (iv) whether the venture is on capital or revenue account, and
- (v) other related circumstances of the case.

- (4) **Liquidated damages:** Receipt of liquidated damages directly and intimately linked with the procurement of a capital asset, which lead to delay in coming into existence of the profit-making apparatus, is a capital receipt.

The amount received by the assessee towards compensation for sterilization of the profit earning source is not in the ordinary course of business. Hence, it is a capital receipt in the hands of the assessee.

- (5) **Compensation on termination of agency:**

Where an assessee receives compensation on termination of the agency business being the only source of income, the receipt is of capital nature, but taxable under section 28(ii)(c).

However, where the assessee has a number of agencies and one of them is terminated and compensation is received therefor, the receipt would be of a revenue nature since taking up an agency and exploiting the same for earning income is in the ordinary course of business. The loss of one agency would be made good by profit from another agency.

Compensation received from the employer or from any person for premature termination of the service contract is a capital receipt, but is taxable as profit in lieu of salary under section 17(3) or as income from other sources under section 56(2)(xi), respectively.

Compensation received or receivable in connection with the termination or the modification of the terms and conditions of any contract relating to its business shall be taxable as business income.

- (6) **Gifts:** Normally, gifts constitute a capital receipt in the hands of the recipient. However, certain gifts are brought within the purview of income-tax, for example, receipt of property without consideration is brought to tax under section 56(2)(x).

For example, any sum of money or value of property received without consideration or for inadequate consideration by any person, other than a relative, is chargeable under the head "Income from Other Sources."

APPLICABLE RATE OF TAX

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

If Individual, HUF, AOP, BOI or AJP 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 (means under the normal provisions of the Act):

Tax rates prescribed by the Annual Finance Act under the optional tax regime (regular provisions of the Act)

(A) Individuals [except (B) & (C)], HUF, AOP's & BOI's & every Artificial Juridical Person:

<u>TOTAL INCOME</u>	<u>AMOUNT OF TAX</u>
Up to ₹ 2,50,000	NIL
On next ₹ 2,50,001 - 500,000	5%
On next ₹ 5,00,001 – 10,00,000	20%
On the balance amount [Above ₹ 10,00,000]	30%

(B) For a Resident individual, being a Sr. Citizen, Age $\geq$ 60 yrs (but less than 80 years) at any time during the PY.

<u>TOTAL INCOME</u>	<u>AMOUNT OF TAX</u>
Up to ₹ 3,00,000	NIL
On next ₹ 300,001 - ₹ 500,000	5%
On next ₹ 500,001 - ₹ 10,00,000	20%
On the balance amount [Above ₹ 10,00,000]	30%

(C) For a resident individual, being a Very Sr. Citizen, Age $\geq$ 80 yrs at any time during the PY.

<u>TOTAL INCOME</u>	<u>AMOUNT OF TAX</u>
Up to ₹ 5,00,000	NIL
On next ₹ 500,001 – ₹10,00,000	20%
On the balance amount ₹ 10,00,001 & above	30%

Special Rates [Income taxable at special rates]:

Rates of tax in respect of certain incomes are provided under the Income tax Act, 1961 itself. Slab rates are not applicable under both the tax regimes in respect of such incomes. For instance, the rates of tax for Long term capital gains on certain assets (Example: listed equity shares), Long term capital gain on other assets, Certain short term capital gains (Example: listed equity shares), Winnings from lotteries, crossword puzzles, races and Winnings from online games etc. are prescribed in sections 112A, 112, 111A, 115BB and 115BBJ, respectively.

Surcharge on Individual / HUF / AOP (Other than AOP consisting of only companies as members) / BOI / Artificial Juridical Person

Surcharge is an additional tax payable over and above the income tax. Surcharge is levied as a percentage of income-tax.

If Individual, HUF, AOP, BOI or AJP 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 (means under the normal provisions of the Act)

Total Income	Surcharge Rate
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 50 Lakhs but not exceeding ₹ 1 crores	10% of income-tax
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 1 crores but not exceeding ₹ 2 crores Or Total Income (including dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 2 crores but not covered below	15% of income-tax
Total Income (excluding dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 2 crores but not exceeding ₹5 crores	25% of income-tax (15% of income tax related to dividend income & Income covered u/s 111A, 112 & 112A)
Total Income (excluding dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 5 crores	37% of income-tax (15% of income tax related to dividend income & Income covered u/s 111A, 112 & 112A)

“Health and Education cess” on Income-tax - All Assessee

The amount of income-tax as increased by the union surcharge, if applicable, should be further increased by an **additional surcharge called the “Health and Education cess on income-tax”**, calculated at the rate of 4% of such income-tax and surcharge, if applicable.

Health and education cess is leviable in the case of all assesseees i.e. individuals, HUF, AOP/BOI, firms, local authorities, co-operative societies and companies.

*It is leviable to fulfill the commitment of the Government to **provide and finance quality health services and universalised quality basic education and secondary and higher education.***

Clarification regarding attaining prescribed age of 60 years/80 years on 31st March itself, in case of senior/very senior citizens whose date of birth falls on 1st April

An individual who is resident in India and of the age of 60 years or more (senior citizen) and 80 years or more (very senior citizen) is eligible for a higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000, respectively **[in case he is shifting out from default tax regime]**.

The CBDT has clarified that a person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday. In particular, the question of attainment of age of eligibility for being considered a senior/very senior citizen would be decided on the basis of above criteria.

Therefore, a resident individual **whose 60th birthday falls on 1st April, 2025**, would be treated as having attained the age of 60 years in the P.Y. 2024-25, and would be eligible for higher basic exemption limit of ₹ 3 lakh in computing his tax liability for A.Y. 2025-26.

Likewise, a resident individual **whose 80th birthday falls on 1st April, 2025**, would be treated as having attained the age of 80 years in the P.Y. 2024-25, and would be eligible for higher basic exemption limit of ₹ 5 lakh in computing his tax liability for A.Y. 2025-26.

CONCEPT OF MARGINAL RELIEF – Applicable in case of all assessee

Total amount of income-tax payable (together with surcharge) on such income should not exceed the amount of income-tax and surcharge payable on total income of ₹ 1 Crores by more than the amount of income that exceeds ₹ 1 Crores. [refer class examples]

Calculation of Marginal Relief:

Marginal Relief	Tax on Total Income including Surcharge Less: A. Total Income - ₹ 1 Crore B. Tax on ₹ 1 Crore including surcharge if applicable Marginal Relief	XXXXXXXX XXXXXXXX XXXXXXXX XXXXXXXX
Tax Payable	Tax on Total Income including Surcharge Less: Marginal Relief as computed above Tax before Cess Add: H&EC Total tax Payable	XXXXXXXX XXXXXXXX XXXXXXXX XXXXXXXX XXXXXXXX

Note: Marginal Relief is available at all levels – ₹ 50 Lakhs / ₹ 1 Crores / ₹ 2 Crores / ₹ 5 Crores / ₹ 10 Crores [refer class examples]

Rounding-off of Income [Section 288A] - All Assessee

The Total Income computed under this Act, **shall be rounded off to the nearest multiple of ₹ 10.**

Rounding-off of Tax [Section 288B] - All Assessee

The amount of tax including Tax Deducted at Source (TDS) and advance tax, interest, penalty, fine or any other sum payable, and the amount of refund due under the Income Tax Act, **shall be rounded off to the nearest multiple of ₹ 10.**

Rebate for Resident Individuals [Section 87A]**A. Rebate to Resident Individual paying tax under optional tax regime (normal provisions of the Act)**

If **total income** of such individual **does not exceed ₹ 5,00,000**, the rebate shall be equal to the amount of income-tax payable on the total income for any assessment year or an amount of ₹ 12,500, **whichever is less**.

B. Rebate to Resident Individual paying tax under default regime u/s 115BAC

- i.** If total income of such individual **does not exceed ₹ 7,00,000**, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of ₹ 25,000, **whichever is less**.
- ii.** If 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: (A) Total income (-) ₹ 7 lakhs

Step 2: (B) Compute income-tax payable on total income

Step 3: If (B) > (A), rebate under section 87A would be a [(B) – (A)].

REFER CLASS EXAMPLE

This rebate will be available from income-tax (before adding Health & Education Cess).

However, rebate under section 87A is not available in respect of tax payable on long-term capital gains taxable under section 112A.

In case of other category of Persons [Assessment Year 2025-26]

<u>Persons</u>	<u>AMOUNT OF TAX</u>	<u>SURCHARGE</u>
FIRM & LLP	@30%	@ 12% of Tax Payable if TOTAL INCOME > ₹ 1 Crore
Local Authority	@30%	@ 12 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore
Co-operative Societies (Not opting for the provisions of Section 115BAD & Section 115BAE)	On first ₹ 10,000 @10% On next ₹ 10,000 @20% For the Balance @30%	@ 7 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore @ 12 % of Tax Payable if TOTAL INCOME > ₹ 10 Crore

Note: A manufacturing co-operative society, resident in India, can opt for concessional rates of tax under section 115BAE and other co-operative societies, resident in India, can opt for concessional rates of tax under section 115BAD.

Tax rate in case of a manufacturing co-operative society, resident in India (set up and registered on or after 1.4.2023 and commences manufacture of article or thing before 31.3.2024) opting for concessional tax regime u/s 115BAE

15% of income derived from or incidental to manufacturing or production of an article or thing

Tax rate in case of other resident co-operative society opting for concessional tax regime u/s 115BAD:

22% of total income

Note - Co-operative society, resident in India, can opt for concessional rate of tax u/s 115BAD or 115BAE, as the case may be, subject to certain conditions. The total income of such co-operative societies would be computed without giving effect to deduction under section 10AA, 33AB, 33ABA, 35(1)(ii)/(iia)/(iii), 35(2AA), 35AD, 35CCC, additional depreciation under section 32(1)(iia), deductions under Chapter VI-A (other than section 80JJAA) etc. and set off of loss and depreciation brought forward from earlier years relating to the above deductions. **The provisions of alternate minimum tax under section 115JC would not be applicable to a cooperative society opting for section 115BAD or 115BAE.**

In case of a co-operative society opting for section 115BAD or section 115BAE

Surcharge @10% of income-tax computed under section 115BAD or section 115BAE would be leviable.

Since there is no threshold limit for applicability of surcharge, consequently, there would be no marginal relief.

Company (Not opting for the provisions of Section 115BAA or Section 115BAB)	Domestic Company : @30% (If Total Turnover / Gross receipts <u>during PY 2022-23 does not exceeds ₹ 400 Crore</u> then Tax rate is 25%)	@ 7 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore @ 12 % of Tax Payable if TOTAL INCOME > ₹ 10 Crore
	Foreign Company: @35% [Tax Rate was 40% upto AY 2024-25]	@ 2 % of Tax Payable if TOTAL INCOME > ₹ 1 Crore @ 5 % of Tax Payable if TOTAL INCOME > ₹ 10 Crore

In all above cases, Income Tax (including surcharge, if any) shall be further increased by Health and Education Cess @ 4%.

Note:

In case of a domestic manufacturing company (set up and registered on or after 1.10.2019 and commences manufacture of article or thing including business of generation of electricity before 31.3.2024) exercising option u/s 115BAB:

15% of income derived from or incidental to manufacturing or production of an article or thing.

In case of a domestic company exercising option u/s 115BAA:

22% of total income

Domestic company can opt for section 115BAA or section 115BAB, as the case may be, subject to certain conditions. The total income of such companies would be computed without giving effect to deductions under section 10AA, 33AB, 33ABA, 35(1)(ii)/(ia)/(iii), 35(2AA), 35(2AB), 35AD, 35CCC, 35CCD, Chapter VI-A (except section 80JAA or section 80M), additional depreciation under section 32(1)(ia) etc. and without set-off of brought forward loss and unabsorbed depreciation attributable to such deductions.

Surcharge @10% of income-tax computed under section 115BAA or section 115BAB would be leviable. **Since there is no threshold limit for applicability of surcharge, consequently, there would be no marginal relief.**

Surcharge Rate - An AOP consisting of only companies as members

A. In case of an AOP consisting of only companies as members, whose total income > ₹ 50 lakhs but is ≤ ₹ 1 crore

Where the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore, surcharge is payable at the rate of 10% of income-tax

B. In case of an AOP consisting of only companies as members, whose total income > ₹ 1 crore

Where the total income exceeds ₹ 1 crore, surcharge is payable at the rate of 15% of income-tax

Alternate Minimum Tax (AMT) - Section 115JC

The Income-tax Act, 1961 contains profit-linked and investment-linked deductions in order to encourage investment in various industries and infrastructure facilities. Taxpayers who exercise the option to shift out of the default tax regime under section 115BAC and are eligible to claim such deductions end up paying no income-tax or marginal income-tax though they are capable of paying higher taxes.

It has to be kept in mind that our Government also needs regular/consistent inflow of tax, which is one of its major source of revenue, to fund various expenses for the welfare of the country. Hence, in order to ensure payment of reasonable tax by such zero-tax paying/marginal-tax paying entities, the concept of alternate minimum tax has been introduced in the Income-tax Act, 1961.

Section 115JC provides for minimum tax to be paid by the taxpayers on their total income without providing profit linked and investment linked deductions. However, the taxpayer can claim the tax credit of the excess tax paid over the regular income-tax payable.

Chapter XII-BA contains the special provisions for levy of alternate minimum tax in case of persons other than a company. Any person other than a company, who has claimed deduction under any section (other than section 80P) included in Chapter VI-A under the heading “C – Deductions in respect of certain incomes” or under section 10AA or investment-linked deduction under section 35AD would be subject to AMT.

Where the regular income-tax payable by a person for a previous year computed as per the normal provisions of the Income-tax Act, 1961 is less than the AMT payable for such previous year, the adjusted total income shall be deemed to be the total income of the person. Such person shall be liable to pay income-tax on the adjusted total income @18.5% [15% in case of cooperative society] plus surcharge, if applicable, and HEC @4%.

“Adjusted total income” would mean the total income as increased by

- i. the deductions claimed, if any, under section 10AA;*
- ii. the deduction claimed under section 35AD, as reduced by the depreciation allowable under section 32, as if no deduction under section 35AD was allowed in respect of the asset for which such deduction is claimed; and*
- iii. the deduction under any section included in Chapter VI-A under the heading C - Deductions in respect of certain incomes.*

The provisions of AMT would, however, not be applicable to an individual, HUF, AOPs, BOIs, whether incorporated or not, or artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.

Individual/ HUF/ AoP/ BoI and artificial juridical person, paying tax under default tax regime under section 115BAC, are NOT liable to alternate minimum tax under section 115JC.

DEFAULT TAX REGIME FOR INDIVIDUAL, HUF, AOP, BOI & AJP**[Amended by the Finance (No. 2) Act, 2024]**

Individuals, HUF, AOPs (other than cooperative society), Bols and Artificial Juridical Persons can pay tax at concessional rates under the default tax regime under section 115BAC. However, he/it has to forego certain exemptions and deductions under this regime. **Alternatively, they can exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the regular provisions of the Act at the tax rates prescribed by the Annual Finance Act of that year.**

(A) Concessional tax slab rates [Default Tax Regime] – Section 115BAC(1A) [AY 2025-26]

Individuals / HUF/ AoPs / Bols or Artificial Judicial Persons, **other than those who exercise the option to opt out this regime under section 115BAC(6)**, have to pay tax in respect of their total income (other than income chargeable to tax at special rates under Chapter XII such as section 111A, 112, 112A, 115BB, 115BBE, 115BBJ etc.) at the following concessional rates, subject to certain conditions specified under section 115BAC(2)

S. NO.	Total Income	Rate of Tax
1	Upto ₹ 3,00,000	NIL
2	From ₹ 3,00,001 to ₹ 7,00,000	5%
3	From ₹ 7,00,001 to ₹ 10,00,000	10%
4	From ₹ 10,00,001 to ₹ 12,00,000	15%
5	From ₹ 12,00,001 to ₹ 15,00,000	20%
6	Above ₹ 15,00,000	30%

S. NO.	Total Income	Rate of Tax
1	Upto ₹ 3,00,000	NIL
2	From ₹ 3,00,001 to ₹ 6,00,000	5%
3	From ₹ 6,00,001 to ₹ 9,00,000	10%
4	From ₹ 9,00,001 to ₹ 12,00,000	15%
5	From ₹ 12,00,001 to ₹ 15,00,000	20%
6	Above ₹ 15,00,000	30%

(B) Conditions to be satisfied for availing concessional rates of tax:

- (1) **Certain deductions/exemptions not allowable:** Section 115BAC(2) provides that while computing total income, **the following deductions/exemptions would not be allowed:**

Section	Exemption/Deduction	SATC Hint Chapters Name
10(5)	Leave Travel Concession	Salary
10(13A)	House Rent Allowances	Salary
10(14)	Special Allowances (other than those as may be prescribed) – few is permitted	Salary
10(17)	Allowances to MP/MLA	IOS
10(32)	Exemption in respect of income of minor child included in the income of parent	Clubbing
10AA	Deduction to units in SEZ (Tax holiday)	SEZ Unit
16	Deduction against Gross Salary ~~Section 16(ia) – Statutory Deduction~~ Section 16(ii) - Entertainment allowances deduction Section 16(iii) - Professional Tax deduction	Salary 
24(b)	Interest on Housing Loan in respect of one or two self-occupied properties	House Property
32(1)(iia)	Additional Depreciation	Depreciation/PG BP
33AB	Tea/Rubber/Coffee development Account	PGBBP
33ABA	Site Restoration Fund	PGBBP
35(1)(ii), (iia), (iii) & 35(2AA)	Deduction in respect of contribution to ✓ notified approved research association/university/college/other institutions for scientific research [Section 35(1)(ii)] ✓ approved Indian company for scientific research [Section 35(1)(iia)] ✓ notified approved research association/university/college/other institutions for research in social science or statistical research [Section 35(1)(iii)] ✓ An approved National laboratory/university/IIT/specified person for scientific research undertaken under an approved programme [Section 35(2AA)]	PGBBP
35AD	Investment linked tax incentives for specified Businesses [Capital Expenditure]	PGBBP

35CCC	Deduction in respect of expenditure incurred on notified agriculture project	PGBP
57(iia)	~~Deduction in respect of Family Pension~~	IFOS 
80C to 80U	Deduction under chapter VI-A <u>except</u> Section 80CCD(2) : Employer's contribution to NPS Sec 80CCH(2): CG's contribution to Agnipath Scheme Section 80JJAA : Employment of New Employee Section 80LA(1A): Units in IFSC	Deduction under Chapter VI-A

(2) **Certain losses not allowed to be set-off:**

While computing total income, set-off of any loss -

- carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in (1) above; or
- under the head house property with any other head of income;

would **not** be allowed. **[Carry forward of such losses are also not allowed]**

(3) **Depreciation or additional depreciation:**

Depreciation u/s 32 is to be **determined in the prescribed manner**. Depreciation in respect of any block of assets entitled to more than 40%, **would be restricted to 40%** on the written down value of such block of assets.

Additional depreciation u/s 32(1)(iia), however, cannot be claimed.

(4) **Exemption or deduction for allowances or perquisite:** While computing total income, any exemption or deduction for allowances or perquisite, by whatever name called, **provided under any other law for the time being force in India would not be allowed.**

Additional points:

Total income under default tax regime should be computed without set-off of any loss brought forward or depreciation from any earlier assessment year, where such loss or depreciation is attributable to any of the deductions listed in (1) above. **Such loss and depreciation would be deemed to have been already given effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year.**

Where income-tax on total income of the assessee is computed under this section and there is a depreciation allowance in respect of a block of asset from an earlier assessment year attributable to additional depreciation u/s 32(1)(iia), which has not been given full effect to prior to A.Y. 2025-26 and which is not allowed to be set-off in the A.Y. 2025-26 due to section 115BAC, **corresponding adjustment shall be made to the WDV of such block of assets as on 1.4.2024 in the prescribed manner i.e., the WDV as on 1.4.2024 will be increased by the unabsorbed additional depreciation not allowed to be set-off.**

Example: Let us consider the case of Mr. X, who carries on business of manufacturing of steel. He has unabsorbed depreciation as on 1.4.2024, which includes amount attributable to additional depreciation u/s 32(1)(iia) of P.Y. 2023-24 or any earlier previous year in respect of block of plant and machinery. If he pays tax under default tax regime under section 115BAC for P.Y. 2024-25 relevant to A.Y. 2025-26, **the amount so attributable to additional depreciation of earlier year remaining unabsorbed as on 1.4.2024 would not be eligible for set-off against current year income and no further deduction for such loss or depreciation shall be allowed for any subsequent year. Accordingly, the WDV of the block as on 1.4.2024 has to be increased by the said amount not allowed to be set-off.**

(C) Time limit for exercise of option [Section 115BAC(6)]:**(1) In case of an assessee having no income from business or profession:**

Where such individual/HUF/AoP/Bol or Artificial Juridical person is **not** having income from business or profession, he/it can exercise an option to shift out/opt out of the default tax regime under this section **and such option has to be exercised along with the return of income to be furnished under section 139(1) for a previous year relevant to the assessment year.**

In effect, such individual/HUF/AoP/Bol or Artificial Juridical person can choose whether or not to exercise the option of shifting out of the default tax regime in each previous year. **He may choose to pay tax under default tax regime under section 115BAC in one year and exercise the option to shift out of default tax regime in another year.**

(2) In case of an assessee having income from business or profession:

Such individual/HUF/AoP/Bol or Artificial Juridical person having income from business or profession **has an option to shift out/ opt out of the default tax regime** under this section and the option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for such previous year **and once such option is exercised, it would apply to subsequent assessment years.**

Such person who has exercised the above option of shifting out of the default tax regime for any previous year **shall be able to withdraw such option only once** and pay tax under the default tax regime under section 115BAC for a previous year other than the year in which it was exercised.

Thereafter, such person shall never be eligible to exercise option under this section, **except where such person ceases to have any business income in which case, option under (1) above would be available.**

(D) AMT liability not attracted:

Individual/HUF/AoP/Bol or Artificial Juridical person paying tax under default tax regime under section 115BAC is **not** liable to alternate minimum tax u/s 115JC. Such person would not be eligible to claim AMT credit also.

(E) Other Points:

(1) It may be noted that in case of Individual/HUF/AoP/Bol or Artificial Juridical person **not having income from business or profession**, the total income and tax liability (including provisions relating to AMT, if applicable under normal provisions) may be computed every year **both in accordance with the regular provisions of the Income-tax Act, 1961 and in accordance with the provisions of section 115BAC**, in order to determine which is more beneficial and accordingly **such person may decide whether to pay tax under default tax regime under section 115BAC or exercise the option to shift out and pay tax under normal provisions of the Act for that year.**

(2) Exemption provided in respect of free food and non-alcoholic beverage provided by employer **through paid voucher** shall not apply to an employee, **being an assessee, who is paying tax under default tax regime under section 115BAC.**

(3) **Rule 2BB [Section 10(14) – Salaries Head]**

- a) An employee, being an assessee, **who is paying tax under default tax regime under section 115BAC** would be entitled for exemption **only in respect of travelling allowance, daily allowance and conveyance allowance under Section 10(14)(i).**
- b) An employee, being an assessee, **who is paying tax under default tax regime under section 115BAC** would be entitled for exemption **only in respect of transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of ₹ 3,200 p.m. under Section 10(14)(ii).**

Surcharge on Individual / HUF / AOP (Other than AOP consisting of only companies as members) / BOI / Artificial Juridical Person – Under Section 115BAC

Total Income	Surcharge Rate
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 50 Lakhs but not exceeding ₹ 1 crores	10% of income-tax
Total Income (including dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 1 crores but not exceeding ₹ 2 crores Or Total Income (including dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 2 crores but not covered below	15% of income-tax
Total Income (excluding dividend income & capital gains chargeable to tax under Section 111A, Section 112 & Section 112A) exceeds ₹ 2 crores	25% of income-tax (15% of income tax related to dividend income & Income covered u/s 111A, 112 & 112A)

Note:

- Standard deduction u/s 16(ia) - Maximum ₹ 50,000 if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(6) **and ₹ 75,000 if the assessee is paying tax under default tax regime i.e. Section 115BAC.**
- In the case of income in the nature of family pension: A deduction [Section 57] of a sum equal to 33-1/3 per cent of such income or ₹ 15,000 (in case of option regime i.e. regular tax) or ₹ 25,000 (in case of default regime i.e. section 115BAC), whichever is less, is allowable.



AGRICULTURAL INCOME

AGRICULTURE INCOME - Exempt u/s Section 10(1)

Section 10(1) provides that agricultural income is not to be included in the total income of the assessee.

CONCEPT OF TAXATION OF THE AGRICULTURE INCOME

Agriculture Income is totally exempt under the Act, **but shall be included in the total income in case of certain assessee for the purpose of determining the rate of tax** on the non-agriculture income known as **partial integration of taxes**. *It is applicable to Individuals, HUF, AOP, BOI and Artificial Juridical Persons.*

Two conditions which need to be satisfied for partial integration are:

1. The Net Agricultural Income should **exceed ₹ 5,000 p.a., AND**
2. **Non-Agricultural Income** should **exceed the maximum amount not chargeable to tax.** (i.e., If such person is paying tax under default tax regime u/s 115BAC, then ₹ 3,00,000 is the basic exemption limit irrespective of the age of the person. If such person has exercised the option to shift out of the default tax regime, then, the basic exemption limit would be ₹ 5,00,000 / ₹ 3,00,000 / ₹ 2,50,000, as the case may be). **Only if non-agricultural income exceeds this limit, partial integration would be required.**

It may be noted that aggregation provisions do not apply to company, firm, co-operative society and local authority. The object of aggregating the net agricultural income with non-agricultural income is to tax the non-agricultural income at higher rates.

Tax calculation in such cases is as follows:

Step 1: Add non-agricultural income with net agricultural income. Compute tax on the aggregate amount.

Step 2: Add net agricultural income and the maximum exemption limit available to the assessee. Compute tax on the aggregate amount.

Step 3: Deduct the amount of income tax calculated in step 2 from the income tax calculated in step 1 i.e. Step 1 – Step 2.

Step 4: The sum so arrived at shall be:

- increased by surcharge, if applicable,
- reduced by the rebate, if any, available u/s 87A.

Step 5: Thereafter, it would be increased by health and education cess @4%.

[Note: In case TOTAL INCOME excluding LTCG / STCG (Section 111A) / Casual Income does not exceed the maximum exemption limit, partial integration of tax will not be applicable.]

Example:

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

- i. Income from PGBP - ₹ 2,80,000
- ii. Income from house property - ₹ 5,00,000
- iii. Agricultural Income - ₹ 1,90,000
- iv. Expenses incurred for earning above agricultural income - ₹ 1,20,000

Compute his tax liability assuming his age is 45 years if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Solution:

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

Particulars	Amount (₹)
Income from PGBP	2,80,000
Income from house property	5,00,000
Net agricultural income [₹ 1,90,000 – ₹ 1,20,000]	70,000
Less: Exempt under section 10(1)	<u>(70,000)</u>
Gross Total Income	7,80,000
Less: Deductions under Chapter VI-A	-
Total Income	7,80,000

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

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

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:

Step 1: ₹ 7,80,000 + ₹ 70,000 = ₹ 8,50,000.

Tax on ₹ 8,50,000 = ₹ 82,500

Step 2: ₹ 70,000 + ₹ 2,50,000 = ₹ 3,20,000.

Tax on ₹ 3,20,000 = ₹ 3,500 (i.e. 5% of ₹ 70,000)

Step 3 : ₹ 82,500 – ₹ 3,500 = ₹ 79,000.

Step 4 : Total tax payable = ₹ 79,000 + 4% of ₹ 79,000
= ₹ 82,160.

DEFINITION OF AGRICULTURAL INCOME [Section 2(1A)]

Agricultural income may arise in any one of the following three ways:-

- (1) It may be **Rent or Revenue** derived from **land situated in India** and used for agricultural purposes.
- (2) It may be income derived from such land
 - a. through agriculture or
 - b. through the performance of a process ordinarily employed by a cultivator or receiver of rent in kind to render the produce fit to be taken to the market or
 - c. through the sale of such agricultural produce in the market.
- (3) It may be derived from **any Farm Building** required for agricultural operations

Further, 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.

SOME IMPORTANT ASPECTS

1. “AGRICULTURE” and “AGRICULTURE PURPOSES”:

- (a) **“Agriculture” means** tilling of the land, sowing of the seeds and similar operations. These are basic operations and require the expenditure of human skill and labour on land itself.
- (b) Operations to be performed after the produce sprouts from the land (e.g., weeding, digging etc.) **are subsequent operations. These subsequent operations would be agricultural operations only when taken in conjunction with and as a continuation of the basic operations.**
- (c) However, the term ‘agriculture’ cannot be extended to all activities which have some distant relation to land *like dairy farming, breeding and rearing of live stock, butter and cheese making and poultry farming.*
- (d) Income derived from cultivation is agricultural income. Even when income derived is rental income, it should be in the nature of rent for the use of such land for agricultural purposes.
- (e) **Assessee growing mulberry leaves, feeding them to silk worms and obtaining silk cocoons; will not result in agricultural income.** Section 2(1A), which defines the term agricultural income, does not contemplate sale of commodity different from what is for market and not to bring about an altogether new commodity. **Income attributable to growing mulberry leaves alone shall be treated as agricultural income.**

2. GAIN ARISING ON TRANSFER OF URBAN AGRICULTURE LAND:

The capital gains arising from the transfer of such urban agricultural land would not be treated as agricultural income under section 10 but will be taxable under section 45.

INCOME WHICH IS NOT REGARDED AS AGRICULTURAL INCOME

1. Income from butter and cheese making	6. Income from fisheries, poultry farming, dairy farming and animal husbandry.
2. Commission as a percentage of Agriculture Income:	7. Income from supply of water for irrigation purposes is not an agriculture income.
3. Dividend from a company engaged in Agriculture Activity	8. Income from Brick Making
4. Income from sale of forest trees of spontaneous growth.	9. Income from land used for storing agriculture produce
5. Royalties Income of mines.	

Instances of agricultural income: The following are some examples of incomes which have been held to be agricultural income:

- ✓ Profit on sale of crops after harvest, made by cultivator or receiver of rent-in-kind.
- ✓ Compensation received from insurance company for damage caused to the crops by hailstorm or flood.
- ✓ Salary, interest on capital, share of profits, etc., received by a partner of a firm having agricultural income.
- ✓ Income from running a dairy **which is purely incidental to agriculture**
- ✓ Income from growing flowers and creepers.
- ✓ Income from saplings and seedlings grown in nursery

Instances of non-agricultural income: The following are some examples of incomes which have been held to be non-agricultural income:

- ✓ Income from sale of trees, flowers and fruits **growing spontaneously** in forests
- ✓ Profits arising from purchase and sale of **standing crops**
- ✓ Remuneration received by a manager as a percentage of profit from a firm having agricultural income
- ✓ Annuity received for transfer of agricultural land
- ✓ **Interest on arrears of rent payable** in respect of agricultural land
- ✓ **Interest received by a money lender in the form of crops**

INCOME FROM COMPOSITE ACTIVITY OF AGRICULTURE AND BUSINESS

Where the agricultural produce like tea, cotton, tobacco, sugarcane etc. are subjected to a manufacturing process and the manufactured product is sold, the profit on such sales will consist of agricultural income as well as business income. That portion of the profit representing agricultural income will be exempted. For this purpose, **Rules 7, 7A, 7B & 8 of Income-tax Rules, 1962 provides the basis of apportionment.**

Nature of Income	Amount of Agricultural Income	Non-agricultural Income i.e. business income
1. Income from sale of TEA Grown and Manufactured by the assessee in India	60%	40%
2. Income from RUBBER plants Grown by the seller in India	65%	35%
3. Income derived from the sale of COFFEE Grown and Cured by the seller in India	75%	25%
4. Income derived from the sale of COFFEE Grown, Cured, Roasted and Grounded by the seller in India	60%	40%

Rule 7 - Agricultural produce other than Tea, rubber etc. used as Raw Material in a Manufacturing Concern

Where income is partially agricultural income and partially income chargeable to income-tax under the head 'profits and gains of business', the **market value of any agricultural produce** which has been raised by the assessee or received by him as rent in kind and which has been utilised as raw material in such business or the sale receipts of which are included in the accounts of the business shall be deducted. **No further deduction shall be made in respect of any expenditure incurred by the assessee as a cultivator or receiver of rent in kind.**

Question:

*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 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. **Compute B's business income and agricultural income.***

Rule: 7A – Income from the Growing & Manufacturing of Rubber in India

This rule is applicable when income derived from the sale of latex or cenex or latex based crepes or brown crepes manufactured from field latex or coagulum obtained from rubber plants grown by the seller in India.

Income derived from the sale of rubber obtained from rubber plants grown in India shall be computed as under:

Step: 1 – Compute the income u/h. PGBP after allowing deduction u/s. 33AB

Step: 2 – Computation of agriculture and non-agriculture income in the following manner:

- ✓ **35% of such income is liable to tax**
- ✓ **65% (balance) of such income is exempt from tax**

Illustration:

Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing latex is ₹ 8 lacs. 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 lacs – ₹ 10 lacs – ₹ 8 lacs. = ₹ 12 lacs.

Agricultural income = 65% of ₹ 12 lacs. = ₹ 7.8 lacs

Business income = 35% of ₹ 12 lacs. = ₹ 4.2 lacs

Rule: 7B – Income from the Growing & Manufacturing of Coffee in India

☞ Income derived from the sale of COFFEE GROWN AND CURED in India shall be computed as under:

Step: 1 – Compute the income under head PGBP after allowing deduction under section 33AB

Step: 2 – Computation of agriculture and non-agriculture income in the following manner:

- ✓ **25% of such income is liable to tax**
- ✓ **75% (balance) of such income is exempt from tax**

☞ Income derived from the sale of COFFEE GROWN, CURED, ROASTED AND GROUNDED in India shall be computed as under:

Step: 1 – Compute the income under head PGBP after allowing deduction under section 33AB

Step: 2 – Computation of agriculture and non-agriculture income in the following manners:

- ✓ **40% of such income is liable to tax**
- ✓ **60% (balance) of such income is exempt from tax**

Rule: 8 – Income from the Growing & Manufacturing of Tea in India

This rule applies only in cases where the assessee himself grows tea leaves and manufactures tea in India. Income derived from the sale of tea grown and manufactured in India shall computed as under

Step: 1 – Compute the income under head PGBP after allowing deduction under section 33AB

Step: 2 – Computation of agriculture and non-agriculture income in the following manners:

- ✓ **40% of such income is liable to tax** as business income under the head “PGBP”
- ✓ **60% (balance) of such income is exempt from tax.**

Practical Questions

- 1) Coimbatore Cotton Mills is engaged in the business of growing cotton and manufacturing thread. For the financial year 2024-25, the company manufactured 5000 spools of thread and sold them for a value of ₹ 60,00,000/-. They used 2000 bales of cotton grown by them. The market price per bale of cotton is ₹ 1,500/-. Cultivation expenses incurred for producing 2000 bales of cotton was ₹ 38,00,000/-. **Determine the business income chargeable to tax for AY 2025-26.**
- 2) Mr. Raman derived income of ₹ 10,00,000/- from the activity of sale of coffee grown and cured by him for the year ended 31.03.2025. **Compute the tax liability for the AY 2025-26.**
- 3) In Question No. 2, in case Mr. Raman is engaged in roasting and grounding of coffee apart from growing and curing what will be the tax liability for the AY 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?
- 4) Hind Latex Ltd. derived an income of ₹ 12 crores from sale of centrifuged latex for the year ending 31.03.2025, **Compute the taxable income of the assessee for the AY 2025-26.**
- 5) **Mr. Tony had estates in Rubber, Tea and Coffee.** He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31-3-2025, he furnishes the following particulars of his sources of income from estates and sale of plants (all amounts in ₹)

(a) Manufacture of Rubber	500000
(b) Manufacture of Coffee grown and cured	350000
(c) Manufacture of Tea	700000
(d) Sale of plants from nursery	100000

You are requested to compute the taxable income for the AY 2025-26

- 6) **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 (amounts in ₹) :**
 - (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 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 Simla. 4,00,000
 - (v) Income from sapling and seedling grown in a nursery at Cochin. 80,000
(Basic operations were not carried out by her on land)

You are required to compute the business income and agricultural income of Miss Vivitha for the AY 2025-26.

SOLUTION

Answer 5:

Computation of taxable income of Tony for the Assessment Year 2025-26

	Business income (₹)	Agricultural income (₹)
Income from growing and manufacturing rubber (Rule 7A) -35% : 65%	175,000	325,000
Income from growing and curing coffee (Rule 7B) -25% : 75%	87,500	262,500
Income from growing and manufacturing tea (Rule 8) - 40% : 60%	280,000	420,000
Sale of plants from nursery (It is an agricultural income)	0	100,000
TOTAL	542,500	1,107,500

Hence, total income of Mr. Tony = ₹ 5,42,500.

Answer 6:

Computation of taxable income of Miss Vivitha (amounts in ₹)

Particulars	Business income	Agricultural income
Income from growing & manufacturing rubber in India (Rule 7A)-35% : 65%	105,000	195,000
Income from growing and curing coffee in India (Rule 7B) -25% :75%	25,000	75,000
Income from growing/curing/roasting etc. coffee out of India in Columbo (Sri Lanka) - Since the operations have taken place outside India, hence, no part of such income can be regarded as agricultural income (Rule 7B will not apply). Since Miss Vivitha is resident in India, hence, this income will be taxed in India.	250,000	0
Income from growing and manufacturing tea in India (Rule 8) - 40% : 60%	160,000	240,000
Sale of plants from nursery (It is deemed agricultural income even if no basic operations have been carried out as per explanation)	0	80,000
TOTAL (Amount in ₹)	540,000	590,000

Always discuss about the Rule 7A, 7B & 8 regarding nature of business and percentage in working note.

Solution of Illustration:

Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales – Market value of 70% of sugarcane produce – Manufacturing expenses
 = ₹ 25 lacs – ₹ 22 lacs - ₹ 1.5 lacs
 = ₹ 1.5 lacs.

Agricultural income = Market value of sugarcane produce – Cost of cultivation
 = [₹ 10 lacs + ₹ 22 lacs] – [₹ 5 lacs + ₹ 14 lacs]
 = ₹ 32 lacs – ₹ 19 lacs = ₹ 13 lacs.

RESIDENTIAL STATUS

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

[No Amendments]

IMPORTANCE OF RESIDENTIAL STATUS

1. The incidence of tax on any assessee depends upon his Residential Status.
2. If any receipt is chargeable to tax, it has to be seen whether the assessee is liable to tax in respect of that income or not considering his Residential Status.

The taxability of a particular receipt would thus depend upon not only the nature (Capital or Revenue) of the income and the place of its accrual or receipt but also upon the assessee's residential status.

Broad Category of Tax-Payers

Taxpayers are classified into three broad categories on the basis of their residential status:

1. Resident and Ordinarily Resident ["ROR"]
2. Resident but Not Ordinarily Resident ["RNOR"]
3. Non-Resident ["NR"]

REFER CLASS CHART

RESIDENTIAL STATUS OF AN INDIVIDUAL [Section 6(1)]**Clause 1 of Section 6 [It is not a sub-section (1)]**

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 **BASIC conditions**:

1. He has been in India during the previous year for a total period of **182 days or more**,

OR
2. 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 relevant PY**.

Important Points:

1. **Year-wise Status:** Residential Status is always determined **for the previous year** because we have to determine the Total Income of the previous year only.
2. **Continuity not required:** It is not necessary that he stay should be for a continuous period or at any one place in India.
3. **India includes its** territorial waters and therefore presence in territorial waters of India would also be regarded as presence in India. **[up-to 12 Nautical Miles from Sea-base]**
4. For the purpose of counting the number of days stayed in India, both the date of departure as well as the date of arrival are considered to be in India.
5. **Resident of many countries:** A person may be resident of more than one country for any previous year.
6. **Citizenship Vs Residential Status:**
Citizenship of a country and Residential Status of that country are separate concepts. The residence of an individual for income-tax purpose has nothing to do with citizenship, place of birth or domicile. A person may be an Indian National / Citizen, but he may not be a Resident of India and vice-versa.

Exceptions:

The **following categories of individuals** will be treated as Residents **only if** the period of their stay during the relevant previous year amounts to 182 days or more.

[In other words even if such persons were in India for 365 days during the 4 preceding years and 60 days in the relevant previous year, they will not be treated as resident.]

1. **Indian Citizen** who leaves India **as a member of the crew of an Indian ship,**
2. **Indian Citizen** who leaves India **for the purpose of employment** outside India **OR**
3. **Indian Citizen or Person of Indian origin** engaged outside India **coming on a visit to India.**

Note: A person is said to be of Indian origin if he or either of his parents or either of his grandparents were born in **undivided India.**

However, such person (Indian citizen or person of Indian origin) having total income, other than the income from foreign sources exceeding ₹15 lakhs during the previous year will be **treated as resident in India if -**

1. the period of his stay during the relevant previous year amounts to 182 days or more, **or**
2. 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 120 days** in the previous year.

Note: "Income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

Period of stay of Crew Member (Indian Citizen) of Foreign Bound Ship

"In case of an Individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined in the prescribed manner and subject to the prescribed conditions"

Rule 126

For the purposes of Section 6(1), in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, **not include the period beginning on the date entered into the Continuous Discharge Certificate** in respect of joining the ship by the said individual and **ending on the date entered into the Continuous Discharge Certificate in respect of signing off** by that individual from the ship.

"Eligible voyage" shall mean a voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where

- i. For the voyage having originated from any port in India, has as its destination any port outside India; **and**
- ii. For the voyage having originated from any port outside India, has as its destination any port in India.'

Question

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 PY 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 and last seven previous years (preceding P.Y. 2024-25) is 750 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

Answer

As per Section 6, an individual is treated as resident if he has stayed for 182 days in India during the previous year or if he has stayed for 60 days in the current previous year and 365 days in total during the four preceding previous years. However, where an Indian citizen leaves India as a member of crew of an Indian ship or for the purpose of employment outside India, he will be resident only if he stayed for atleast 182 days during the previous year.

Further, For the purposes of Section 6(1), in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, **not include the period beginning on the date entered into the Continuous Discharge Certificate** in respect of joining the ship by the said individual and **ending on the date entered into the Continuous Discharge Certificate in respect of signing off** by that individual from the ship

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic 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 beginning 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 not a resident for AY 2025-26.**

Deemed resident in India [Section 6(1A)] – Clause 1A of Section 6

An individual, being an Indian citizen, having total income, other than the income from foreign sources, exceeding ₹15 lakhs during the previous year would be deemed to be **Resident in India** in that previous year, if he is not liable to pay tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

This provision would not apply in case of an individual who is said to be resident in India in the previous year under section 6(1).

Note: "income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

Meaning of "liable to tax" [Section 2(29A)] – Liable to tax, in relation to a person and with reference to a country, means that there is an income-tax liability on such person under the law of that country for the time being in force. It also includes a person who has subsequently been exempted from such liability under the law of that country.

ADDITIONAL CONDITION [Section 6(6)]: Resident but Not-Ordinarily Resident

A Not-Ordinarily Resident person is one who satisfies any one of the conditions specified under section 6(6) which are:

1. (a) If such individual has been **Non-Resident** in India in **any 9 out of the 10 previous years** immediately preceding the relevant previous year,

OR

- (b) If such individual has during the **7 previous years** immediately preceding the relevant previous year been in India for a period of **729 days or less**.

In other words, an Individual has to satisfy the both additional conditions in order to become Ordinarily Resident (ROR) in India:-

- (a) Resident in India in **any 2 out of the last 10 previous years** immediately preceding the relevant previous year

AND

- (b) Total stay in India for **730 days or more** during **7 previous years** immediately preceding the relevant previous year.

OR

2. a citizen of India, or a person of Indian origin, having total income, other than the income from foreign sources, exceeding ₹ 15,00,000 during the previous year, who has been in India for a period or periods amounting in all to 120 days or more but less than 182 days

OR

3. a citizen of India who is deemed to be resident in India under clause (1A).

Resident but not ordinarily resident [Final Points] [Section 6(1) read with Section 6(6)]

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

- (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; **OR***
- (iii) *If such individual is*
 - *an Indian citizen or person of Indian origin*
 - *who, being outside India, comes on a visit to India in any previous year*
 - *having total income, other than the income from foreign sources exceeding ₹ 15 lakhs during the previous year,*
 - *who has been in India for 120 days or more but less than 182 days during that previous year AND for 365 days (or more) during 4 years immediately preceding the relevant previous year.*

OR

- (iv) *If such individual is an Indian citizen who is deemed to be resident in India under section 6(1A) [It may be noted that a Deemed Resident will always be a resident but not ordinarily resident].*

RESIDENTIAL STATUS OF HINDU UNDIVIDED FAMILY (HUF) [Section 6(2)]

A HUF would be **Resident in India** if the control and management of its affairs is situated **wholly or partly** in India. If the control and management of the affairs is situated **wholly outside India** it would become a non-resident.

STATUS

If Control & Management of its affairs is wholly / partly situated in India	- Resident
If Control & Management of its affairs is wholly situated outside India	- Non-Resident

Resident and Ordinarily Resident (HUF)

If the HUF is Resident, then the status of the Karta determines whether it is ROR or RNOR. For this purpose, additional conditions of Section 6(6) are relevant.

If Karta of resident HUF satisfies both the following additional conditions (as applicable in case of individual) then, resident HUF will be Resident and ordinarily resident, otherwise it will be Resident but not ordinarily resident.

1. Karta of resident HUF should be resident in at least 2 previous years out of 10 previous years immediately preceding relevant previous year.

and

2. Stay of Karta during 7 previous years immediately preceding relevant previous year should be 730 days or more.

Meaning of the term “control and management” [For Reading Purpose]

- *The expression ‘control and management’ refers to the central control and management and not to the carrying on of day to day business by servants, employees or agents.*
- *The business may be done from outside India and yet its control and management may be wholly within India. Therefore, control and management of a business is said to be situated at a place where the head and brain of the adventure is situated.*

Merely because the family has a house in India, where some of the members reside in the previous year, does not constitute that place as the seat of control and management of the affairs of the HUF unless important decisions concerning the affairs of the HUF are taken at that place.

- *The place of control may be different from the usual place of running the business and sometimes even the registered office of the assessee.*

RESIDENTIAL STATUS OF PERSONS OTHER THAN ABOVE & COMPANY [Section 6(2) & Section 6(4)]

(FIRMS/AOP/BOI/Local Authority/Artificial Judicial Persons)

STATUS

If Control & Management of its affairs is wholly / partly situated in India	- Resident
If Control & Management of its affairs is wholly situated outside India	- Non-Resident

RESIDENTIAL STATUS OF A COMPANY [Section 6(3)]

<u>IF PERSON IS:</u>		<u>STATUS</u>
An Indian Company [as defined under section 2(26)]	-	Resident

Company other than Indian Company will be Resident in India in any previous year if its Place of Effective Management [POEM], in that year, is in India.

*"POEM" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, **in substance** made.*

Example

ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2024 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for AY 2025-26.

Answer

Section 6(3) provides that a company would be resident in India in any previous year, if

- (i) it is an Indian company; or
- (ii) its place of effective management, in that year, is in India.

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y. 2024-25 only if its place of effective management, in that year, is in India.

Explanation to Section 6(3) defines "place of effective management" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made.

In the case of ABC Inc., its place of effective management for P.Y. 2024-25 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.

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

Hence, ABC Inc., being a foreign company is a non-resident for A.Y. 2025-26, since its place of effective management is outside India in the P.Y. 2024-25.

SCOPE OF TOTAL INCOME [Section 5] – Tax Incidence vs Residential Status

Section 5 provides the scope of total income in terms of the residential status of the assessee because the incidence of tax on any person depends upon his residential status.

The scope of Total Income of an assessee depends upon the following three important considerations:

- ✓ The Residential Status of the assessee;
- ✓ The place of accrual or receipt of income, whether actual or deemed; and
- ✓ The point of time at which the income had accrued to or was received by or on behalf of the assessee.

1) Resident and Ordinarily Resident [ROR]

The total income of a resident assessee would, **under section 5(1)**, consist of:

- a) income **received or deemed to be received** in India during the previous year;
- b) income which **accrues or arises or is deemed to accrue or arise** in India during the previous year; and
- c) income which **accrues or arises outside India** even if it is not received or brought into India during the previous year.

In simpler terms, a ROR has to pay tax on the total income accrued or deemed to accrue, received or deemed to be received in or outside India.

2) Resident but Not Ordinarily Resident [RNOR]

Under section 5(1), the computation of total income of RNOR is the same as in the case of ROR stated above except for the fact that the income accruing or arising to him outside India is not to be included in his total income.

However, where such income is derived from a business controlled from or profession set up in India, then it must be included in his total income even though it accrues or arises outside India.

3) Non-Resident [NR]

A Non-Resident's total income **under section 5(2)** includes:

- a) Income **received or deemed to be received in India** in the previous year; and
- b) Income which **accrues or arises or is deemed to accrue or arise in India** during the previous year.

A Tabular Presentation:

NATURE OF INCOME	R & OR	RNOR	NR
a) Income received or deemed to be received in India during the year (whether accrues in India or not) [Indian Income]	Taxable	Taxable	Taxable
b) Income accrues/arises or deemed to accrue/arise in India during year - whether received in India or not [Indian Income]	Taxable	Taxable	Taxable
(c) <u>Income accrues/arises and received outside India and derived from:</u> [Foreign Income]			
(i) A business / Profession controlled/setup in India	Taxable	Taxable	Not Taxable
(ii) A business / Profession controlled/setup from outside India	Taxable	Not Taxable	Not Taxable
(d) Past income (earned and received abroad) remitted to India in Previous year	Not Taxable	Not Taxable	Not Taxable

Explanation 1 to Section 5 specifically provides that an item of income accruing or arising outside India shall not be deemed to be received in India merely because it is taken into account in a balance sheet prepared in India.

Further, **Explanation 2 to Section 5** makes it clear that once an item of income is included in the assessee's total income and subjected to tax on the ground of its accrual/deemed accrual or receipt, it cannot again be included in the person's total income and subjected to tax either in the same or in a subsequent year on the ground of its receipt – whether actual or deemed.

CBDT Circular: CBDT has clarified that salary accrued to a non-resident seafarer for services rendered outside India on a foreign going ship (with Indian Flag or foreign flag) shall not be included in the Total Income **merely because the said salary has been credited in the NRE account** maintained with an Indian bank by the seafarer.

MEANING OF “INCOME RECEIVED OR DEEMED TO BE RECEIVED”

All assesseees are liable to tax in respect of the income received or deemed to be received by them in India during the previous year irrespective of –

- A. their residential status, and*
- B. the place of its accrual.*

*Income is to be included in the total income of the assessee immediately on **its actual or deemed receipt**. The receipt of income refers to **only the first occasion** when the recipient gets the money under his control.*

*Therefore, when once an amount is received as income, remittance or transmission of that amount from one place or person to another **does not constitute receipt of income in the hands of the subsequent recipient or at the place of subsequent receipt**.*

Income Deemed to be Received [Section 7]

The following shall be deemed to be received by the assessee during the previous year irrespective of whether he had actually received the same or not:

a) Annual accretion to the credit of Recognized Provident Fund:

- Interest credited to recognized provident fund account of an employee **in excess of 9.5% p.a.***
- Excess contribution of employer in RPF (i.e. the amount contributed in excess of 12 percent of salary)*

b) The taxable transferred balance from URPF to RPF (being the employer's contribution and interest thereon).

c) The contribution made by the CG or any other employer to the account of an employee under a pension scheme u/s 80CCD.

INCOME DEEMED TO ACCURE OR ARISE IN INDIA [Section 9]**Income Accruing/Arising from Business Connection etc. [Section 9(1)(i)]**

All income accruing or arising, whether directly or indirectly,

- ✓ through or from any Business Connection in India, or
- ✓ through or from any property in India, or
- ✓ through or from any asset or source of Income in India, or
- ✓ through the transfer of a capital asset situated in India

shall be deemed to accrue or arise in India

Note:

1. Existence of Professional connection amounts to existence of business connection. (for example when foreign lawyer is called upon in India to plead the case in Indian courts.
2. In the case of a business, where **all operations are not carried out in India**, only such part of the income as is reasonably attributed to the operations in India **shall be deemed to arise or accrue in India**.

Income through transfer of a capital asset situated in India

Capital gains arising **through the transfer of a capital asset** situated in India would be deemed to accrue or arise in India in all cases **irrespective of the fact whether**

- a. the capital asset is movable or immovable, tangible or intangible;
- b. the place of registration of the document of transfer etc., is in India or outside; and
- c. the place of payment of the consideration for the transfer is within India or outside.

Salaries Earned in India [Section 9(1)(ii)]

Any income under the head “Salaries”, **for services rendered in India**, whether such salary income payable for the rest period or leave period and forms part of the service contract of employment shall be deemed to accrue or arise in India. Salary includes pension.

Salaries Payable by Indian Govt. [Section 9(1)(iii)]

Any income chargeable under head “salaries” payable by the Indian Govt. to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India.

Foreign Allowances by the Govt. Employer - Section 10(7) –Exempted

Any allowance or perquisite paid or allowed outside India, by the Indian Govt. to a citizen of India, for rendering service outside India is fully exempt.

DIVIDEND PAID OUTSIDE INDIA BY AN INDIAN COMPANY [Section 9(1)(iv)]

Dividends paid by an Indian company outside India is deemed to be accrue or arise in India and would be taxable in the hands of shareholders.

INTEREST [Section 9(1)(v)]

Under section 9(1)(v), an interest is deemed to accrue or arise in India [Taxable in the hands of recipient] if it is payable by:

- 1) the Government; or
- 2) a person resident in India except where it is payable
 - a) in respect of any money borrowed and used for the purposes of a business or profession carried on by him outside India OR
 - b) for the purposes of making or earning any income from any source outside India) ; or
- 3) a **Non-Resident** when it is payable in respect of any debt incurred or moneys borrowed and used for the purpose of a business or profession carried on in India by him. (Only Business)

IMP: Interest on money borrowed by the non-resident for any purpose other than a business or profession, will not be deemed to accrue or arise in India.

Thus, if a non-resident 'A' borrows money from a non-resident 'B' and invests the same in shares of an Indian company, interest payable by 'A' to 'B' will not be deemed to accrue or arise in India.

ROYALTY [Section 9(1)(vi)]

Royalty will be deemed to accrue or arise in India when it is payable by –

- 1) the Government; or
- 2) a person who is a resident in India except in cases where it is payable
 - a) for the transfer of any right or the use of any property or information or for the utilization of services for the purposes of a business or profession carried on by such person outside India OR
 - b) for the purposes of making or earning any income from any source outside India; or
- 3) a non-resident only when the royalty is payable
 - a) in respect of any right, property or information used or services utilised for purposes of a business or profession carried on in India OR
 - b) for the purposes of making or earning any income from any source in India.

Notes:

1. **Lumpsum royalty not deemed to accrue arise in India:** Lumpsum royalty payments made by a resident for the transfer of all or any rights (including the granting of a licence) in respect of **computer software** supplied by a non-resident manufacturer along with computer hardware under any scheme approved by the Government under the Policy on Computer Software Export, Software Development and Training, 1986 **shall not be deemed to accrue or arise in India.**

2. **[Reading purpose] Meaning of Royalty:** The term 'royalty' means consideration (including any lumpsum consideration **but excluding** any consideration which would be the income of the recipient chargeable under the head 'Capital gains') for:

- i. the **transfer of all or any rights** (including the granting of licence) in respect of a patent, invention, model, design, secret formula or process or trade mark or similar property;
- ii. the imparting of any information concerning **the working of, or the use of**, a patent, invention, model, design, secret formula or process or trade mark or similar property;
- iii. the **use of** any patent, invention, model, design, secret formula or process or trade mark or similar property;
- iv. the imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;
- v. **the use or right to use any industrial, commercial or scientific equipment** but not including the amounts referred to in section 44BB containing presumptive tax provisions relating to non-resident engaged in the business of exploration, etc., of mineral oils;
- vi. the transfer of all or any rights (including the granting of licence) in respect of any copyright, literary, artistic or scientific work including films or video tapes **for use in connection with television or tapes for use in connection with radio broadcasting.**

Note: Consideration for sale, distribution or exhibition of cinematographic films is covered within the scope of royalty.

- vii. the rendering of any service in connection with the activities listed above.

The definition of 'royalty' for this purpose is wide enough to cover both industrial royalties as well as copyright royalties. The definition specially excludes income which should be chargeable to tax under the head 'capital gains'.

3. **Consideration for use or right to use of computer software is royalty**

The consideration for use or right to use of computer software is royalty by clarifying that, transfer of all or any rights in respect of any right, property or information includes and has always included **transfer of all or any right for use or right to use a computer software (including granting of a licence) irrespective of the medium through which such right is transferred.**

4. **Consideration in respect of any right, property or information – Is it royalty?**

Royalty includes and has always included **consideration in respect of any right, property or information, whether or not,**

- a. the possession or control of such right, property or information is with the payer;
- b. such right, property or information is used directly by the payer;
- c. the location of such right, property or information is in India.

5. **Meaning of Process:** The term "process" includes and shall be deemed to have always included **transmission by satellite (including up-linking, amplification, conversion for downlinking of any signal), cable, optic fibre or by any other similar technology, whether or not such process is secret.**

FEES FOR TECHNICAL SERVICES [Section 9(1)(vii)]

Any fees for technical services will be deemed to accrue or arise in India if they are payable by:

- 1) the Government; or
- 2) a person who is resident in India, except in cases where the fees are payable
 - a) in respect of technical services utilised in a **business or profession carried on** by such person outside India OR
 - b) for the purpose of making or earning any **income from any source** outside India; or
- 3) a person who is a non-resident, only where the fees are payable in respect of
 - a) services utilised in a business or profession carried on by the non-resident in India OR
 - b) where such services are utilised for the purpose of making or earning any income from any source in India.

Note: Fees for technical services means any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other personnel). **However, it does not include** consideration for any construction, assembly, mining or like project undertaken by the recipient **OR consideration which would be income of the recipient chargeable under the head 'Salaries'.**

GIFT [Section 9(1)(viii)]

Income arising outside India, being any sum of money under Section 56(2)(x), paid by a person resident in India

- a) to a non-resident, not being a company, or to a foreign company.
- b) on or after the 1st day of April, 2023 to a person not ordinarily resident in India [RNOR].

Explanation to Section 9

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services to be taxed irrespective of territorial nexus

Explanation to section 9 clarifies that income by way of **interest, royalty or fee 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:

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

Business Connection in India shall include**[Relevant for CMA-Intermediate Exam only]****Explanation 2 to Clause (i) of Sub-section (1) of Section 9**

Any business activity carried out **through a person acting on behalf of the non-resident** and such person

- a) has and habitually exercises in India, an **authority to conclude contracts** on behalf of the non-resident or habitually concludes contracts or habitually **plays the principal role** leading to conclusion of contracts by that non-resident and the contracts are-
 - (i) in the name of the non-resident; or
 - (ii) for the transfer of the ownership of, or for the granting of the right to use, property owned by that non-resident or that non-resident has the right to use; or
 - (iii) for the provision of services by the non-resident;
- b) has no such authority, but **habitually maintains in India a stock of goods or merchandise** from which he regularly delivers goods or merchandise on behalf of the non-resident; or
- c) **habitually secures orders in India**, mainly or wholly for the non-resident or for that non-resident and other non-residents controlling, controlled by, or subject to the same common control, as that non-resident:

However, business connection **shall not include** any business activity carried out through a broker, general commission agent or any other agent **having an independent status**, if such broker, general commission agent or any other agent **having an independent status is acting in the ordinary course of his business.**

Further, where such broker, general commission agent or any other agent works mainly or wholly on behalf of a non-resident (hereafter in this proviso referred to as the principal non-resident) or on behalf of such non-resident **and other non-residents**

- which are controlled by the principal non-resident or
- have a controlling interest in the principal non-resident or
- are subject to the same common control as the principal non-resident,

he shall not be deemed to be a broker, general commission agent or an agent of an independent status.

Independent status: Where a broker, general commission agent or any other agent not works mainly or wholly on behalf of a NR or other non-residents under the same common control & management.

Note: Where a business is carried on in India through a person referred to in clause (a) or clause (b) or clause (c) above, **only so much of income as is attributable to the operations carried out in India shall be deemed to accrue or arise in India.**

Following cases shall not be treated as Business connection in India: [4 Marks]

Explanation 1 to Clause (i) of Sub-section (1) of Section 9

- 1) No income shall be deemed to accrue or arise in India to NR, through or from operations, which are confined (limited) to the purchase of goods in India for the purpose of export.
- 2) No income shall be deemed to accrue or arise in India to NR, **engaged in the business of running a news agency** or publishing newspapers, magazines or journals, through or from activities which are confined to the collection of news and views in India for transmission out of India.
- 3) No income shall be deemed to accrue or arise in India to a non-resident if the operations is confined to shooting of cinematography films in India but if NR is
 - (i) **An Individual** - He should not be citizen of India.
 - (ii) **A Firm**- No partner should be citizen of India or Resident in India.
 - (iii) **A Company** - None of the shareholder should be citizen of India or Resident in India.
- 4) In the case of a foreign company **engaged in the business of mining of diamonds**, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to the display of uncut and unassorted diamond in any special zone notified by the Central Government in the Official Gazette in this behalf.

Significant Economic Presence (SEP) of a non-resident in India shall constitute "business connection" in India

[Explanation 2A to Section 9(1)(i)]

[Relevant for CMA-Intermediate Exam only]

Significant economic presence (SEP) of a Non-Resident in India shall constitute "business connection" in India and

"Significant Economic Presence" for this purpose, shall mean-

- a) transaction in respect of any goods, services or property *carried out by a non-resident in India including provision of download of data or software in India*, if the aggregate of payments arising from such transaction or transactions during the previous year exceeds ₹ 2 Crores; or**
- b) *systematic and continuous soliciting of business activities or engaging in interaction with users in India where number of users should be atleast 300,000.***

Further, the transactions or activities shall constitute significant economic presence in India, whether or not—

- i. the agreement for such transactions or activities is entered in India; or**
- ii. the non-resident has a residence or place of business in India; or**
- iii. the non-resident renders services in India:**

However, where a business connection is established by reason of significant economic presence in India, *only so much of income as is attributable to the transactions or activities referred to in (a) or (b) above shall be deemed to accrue or arise in India.*

Note: It shall include income from

- (i) advertisement targeting customers residing in India or accessing advt. thro IPA (Internet Protocol Address) located in India**
- (ii) sale of data collected from persons residing in India or using IPA located in India**
- (iii) sale of goods and services using data collected from persons residing in India or using IPA located in India**

PRACTICAL QUESTION - SET A

1. Brett Lee, an Australian cricket player (paying tax in Australia) 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 previous years (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 of **60 days or more** during previous year 2024-25 and for a period of **atleast 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 assessment year 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 assessment year 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: [LANGUAGE AS PER ICAI STUDY MATERIAL] An individual would be Resident & ordinarily resident person if he satisfies both the additional conditions specified under section 6(6), i.e.

- If such individual has been resident in India in any 2 out of the 10 previous years preceding the relevant previous year, **AND**
- If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 730 days or more.

In this case, since Mr. Brett Lee **does not satisfies the additional conditions**, 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.

2. 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 previous year 2024-25, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2024-25, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy section 6(1). Therefore, he is a non-resident for the previous year 2024-25.

3. 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.

4. From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the assessment year 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:

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

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

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

5. 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 previous year 2024-25. He has received the following income for the Financial Year 2024-25:

S. No.	Particulars	₹
(i)	Salary (Computed)	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 Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for Assessment Year 2025-26.

Solution:

As per section 6(1), Mr. David is **not a resident** for the A.Y. 2025-26, since he was not present in India at any time during the previous year 2024-25. He is also not a deemed resident as per Section 6(1A).

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

6. 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".

Further, Section 9 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.

7. 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 profits are received in India	40,000
Income earned from business in Germany which is controlled from 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 from 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 profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from 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 from 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

8. 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 (Liable to pay tax in Germany). Determine the residential status of Ram for the assessment year 2025-26.

Solution:

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

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

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 **not a resident as per Section 6(1)** for the A.Y. 2025-26. Further, he is also not a deemed resident as per Section 6(1A). He is **Non-Resident for AY 2025-26**.

9. Mr. Dey, a non-resident, residing in US since 1992, came back to India on 1.4.2023 for permanent settlement. What will be his residential status for assessment year 2025-26?

Solution:

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.

[LANGUAGE AS PER ICMAI STUDY MATERIAL] As per section 6(6), an Individual will be "Resident & ordinarily Resident" in India in any previous year, if he:

- has been a resident in India in atleast 2 PY out of 10 previous years preceding the relevant previous year; AND
- has during the 7 previous years immediately preceding the relevant previous year been in India for 730 days or more.

If he does not satisfy both of these conditions, he would be a resident but not 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 can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the P.Y. 2024-25.

10. Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2024-25. Mr. Ramesh settled in Canada (also paying tax in Canada) in the year 1997 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).

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

Solution:

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

S. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (ROR) (₹)
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:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1998. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
2. 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:
 - (i) Income received or deemed to be received in India; and
 - (ii) 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.

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

5. Income from house property-

	Mr. Ramesh	Mr. Suresh
	(₹)	(₹)
Rent received	1,00,000	60,000
Less: Deduction under section 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.

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

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

Solution:

This statement is correct.

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 -

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

12. Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients [Ignore Section 115BAC]:

- (i) Salary paid by Central Government to Mr. John, a citizen of India ₹ 7,00,000 for the services rendered outside India.
- (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.
- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- (v) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

Solution:

	Taxable / Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,50,000	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 ₹ 50,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v), 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), 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).
(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.

13. Discuss the provisions relating to determination of residential status of Hindu undivided family, partnership firm and company.

Answer:

Residential status of a HUF:

A HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India during the relevant previous year. If the control and management of its affairs is situated wholly outside India during the relevant previous year, it would be considered as a non-resident.

If the HUF is resident, then the status of its Karta determines whether it is resident and ordinarily resident or resident but not ordinarily resident.

Residential status of a firm:

A firm would be resident in India if the control and management of its affairs is situated wholly or partly in India during the relevant previous year. Where the control and management of the affairs is situated wholly outside India during the relevant previous year, the firm would be considered as a non-resident.

Residential status of a company:**A company is said to be resident in India in any previous year if:**

- (a) it is an Indian company as defined under section 2(26), or
- (b) its place of effective management, in that year, is in India.

Thus, every Indian company is resident in India. However, a company other than an Indian company, would become resident in India only in case its place of effective management is situated in India during the previous year.

14. State the activities and operations, income from which is not deemed to accrue or arise in India.**Answer:**

Explanation 1 to section 9(1)(i) lists out income which shall not be deemed to accrue or arise in India. They are given below:

a) In the case of a business, in respect of which all the operations are not carried out in India

In the case of a business of which all the operations are not carried out in India, the income of the business deemed to accrue or arise in India shall be only such part of income as is reasonably attributable to the operations carried out in India. Therefore, it follows that such part of income which cannot be reasonably attributed to the operations in India, is not deemed to accrue or arise in India.

b) Purchase of goods in India for export

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.

c) Collection of news and views in India for transmission out of India

In the case of a non-resident, being a person engaged in the business of running a news agency or of publishing newspapers, magazines or journals, no income shall be deemed to accrue or arise in India to him through or from activities which are confined to the collection of news and views in India for transmission out of India.

d) Shooting of cinematograph films in India

In the case of a non-resident, no income shall be deemed to accrue or arise in India through or from operations which are confined to the shooting of any cinematograph film in India, if such non-resident is :

- (i) an individual, who is not a citizen of India or
- (ii) a firm which does not have any partner who is a citizen of India or who is resident in India ; or
- (iii) a company which does not have any shareholder who is a citizen of India or who is resident in India.

e) Business of mining of diamonds

In the case of a foreign company engaged in the **business of mining of diamonds**, no income shall be deemed to accrue or arise in India to it through or from the activities **which are confined to the display of uncut and unassorted diamond in any special zone notified** by the Central Government in the Official Gazette in this behalf

15. State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (a) Only individuals and HUFs can be resident, but not ordinarily resident in India; firms can be either a resident or non-resident.
- (b) Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services is taxable in India irrespective of territorial nexus.
- (c) Mr. X, Karta of HUF, claims that the HUF is non-resident as the business of HUF is transacted from UK and all the policy decisions are taken there.

Answer:

- (a) **True:** A person is said to be “not-ordinarily resident” in India if he **does not satisfies** any of the additional conditions given in section 6(6). This provisions relates to only individuals and Hindu Undivided Families. Therefore, only individuals and Hindu Undivided Families can be resident, but not ordinarily resident in India. All other classes of assesseees can be either a resident or non-resident for the purpose of income-tax. Firms and companies can, therefore, either be a resident or non-resident.
- (b) **True:** Section 9 clarifies that income by way of interest, royalty or fee 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.
- (c) **True:** A HUF is considered to be a non-resident where the control and management of its affairs are situated wholly outside India. In the given case, since all the policy decisions of HUF are taken from UK, the HUF is a non-resident.

16. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2024 and came to India for the first time on 16.03.2024. She remained in India up till 19.9.2024 and 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 22.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2024 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 gifts from her relatives and friends during 1.4.2024 to 30.6.2024:

- 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 ₹ 38,000	₹ 1,89,000

Determine her residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Asst. Year 2025-26. [Ignore Sec 115BAC]

Answer:

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

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. 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 previous year relevant to A.Y. 2025-26 i.e. P.Y. 2024-25 and in the preceding four assessment years.

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

P.Y. 2024-25

01.04.2024 to 19.09.2024	172 days
27.03.2025 to 31.03.2025	<u>5 days</u>
Total	<u>177 days</u>

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] -	<u>Nil</u>
Total	<u>16 days</u>

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 Assessment Year 2025-26.

Computation of total income of Miss Charlie for the A.Y. 2025-26

Particulars	₹	₹
Income from house property [HP Chapter]		
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025 @ ₹ 25,000/- p.m.		
Gross Annual Value [25,000 x 11] (See Note 1 below)	2,75,000	
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	
	<u>1,80,000</u>	95,000
Income from other sources		
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 relatives and gifts from a relative are not chargeable to tax.	Nil	
➤ ₹ 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.	Nil	
➤ Gift received from two friends of husband ₹ 1,51,000 and ₹ 38,000 aggregating to ₹ 1,89,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,89,000 exceeds ₹ 50,000. (see Note 2 below)	1,89,000	<u>1,89,000</u>
Total income		2,84,000

Computation of tax payable by Miss Charlie for the A.Y. 2025-26

Particulars	₹
Tax on total income of ₹ 2,84,000	1,700
Add: Health & Education cess@4%	68
Total tax payable (rounded off)	1,770

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 exceeds ₹ 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 ₹ 1,89,000 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 exceeds ₹ 5 lacs.
- Miss Charlie is a foreign national, hence concept of deemed resident is not applicable here.

17. Determine the taxability of income of US based company Heli Ltd., in India on entering into the following transactions during the financial year 2024-25:

- ₹ 5 lacs received from an Indian domestic company for providing technical knowhow in India.
- ₹ 6 lacs from an Indian firm for conducting the feasibility study for the new project in Finland. The payment for the same was made in Finland.
- ₹ 4 lacs from a non-resident for use of patent for a business in India.
- ₹ 8 lacs from a non-resident Indian for use of know-how for a business in Singapore. Such amount was received in U.S.
- ₹ 10 lacs for supply of manuals and designs for the business to be established in Singapore. No payment for the same was made in India.

Answer:

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

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

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

Particulars	₹ (in lacs)
(i) Amount received from an Indian domestic company for providing technical knowhow in India is deemed to accrue or arise in India and is, therefore, taxable in India.	5
(ii) Conducting the feasibility study for the new project in Finland for the Indian firm is not taxable in India as the income accrues outside India since such study is done for a business outside India.	Nil
(iii) Income received from a non-resident for use of patent for a business in India is taxable in India as it is deemed to accrue or arise in India.	4
(iv) Income received from a non-resident Indian for use of knowhow for a business in Singapore. It is not taxable in India since it does not accrue or arise in India nor is it deemed to accrue or arise in India,	Nil
(v) Income received for supply of manuals and designs for the business to be established in Singapore is not taxable in India, since it does not accrue or arise in India nor is it deemed to accrue or arise in India.	Nil
Total Income	9

PRACTICAL QUESTION - SET B

- 1) Mr. X, an Indian citizen goes to Maldives for employment during the previous year 2024-25 on 1st September 2024. He was in India from his birth during the year 1978. **Identify his Residential Status for the PY 2024-25. [Note – He has no taxable income in India]**
- 2) Mr. Y was sponsored by his employer in India for training in USA. He left India on 03.06.2024. He came back to India on 05.04.2025. **Determine his residential status for the PY 2024-25 assuming that he did not go out of India previously.**
- 3) A, a British national, comes to India for first time during 2020-21. During financial years 2020-21, 2021-22, 2022-23, 2023-24 and 2024-25 he was in India for 65 days, 60 days, 80 days, 160 days & 70 days respectively. **Determine his residential status for the AY 2025-26.**
- 4) Mr. Devendra, an India citizen leaves India for the first time on September 20, 2022 for taking employment outside India. He comes to visit India for 152 days on April 10, 2023. He comes back on May 13, 2024 to India. **Determine his residential status for the PY 2024-25.**
- 5) Mr. Samuelson, foreign citizen, comes to India for the first time on May 10, 2024. On August 6, 2024, he leaves India for Burma on a business trip. He comes back on January 1, 2025. He maintains a dwelling place in India from the date of his arrival in India (i.e., May 10, 2024) till February 15, 2025 when he leaves for Pakistan. **Determine his residential status for the PY 2024-25.**
- 6) Mr. Samuel, a foreign citizen (not being a person of India origin) comes to India for first time in last 12 years on March 01, 2024. On 5th September 2024 he leaves India for Singapore on a business trip. He comes back on March 2, 2025. **Determine his residential status for the PY 2024-25.**
- 7) Mr. B, a Malaysian citizen leaves India, after a period of 10 years stay on 1.6.2022. During the financial year 2023-24, he comes to India for a period of 46 days. Later he returns to India on 10.10.2024. **Determine his residential status for the PY 2024-25. Will your answer be different if his date of departure was 15.5.2022?**
- 8) 'Mr. A', a citizen of India left India on 16-5-2013 for employment abroad. He did not come to India upto previous year 2021-22. During PY 2022-23 and 2023-24, he visited India for 140 days and 200 days respectively. In the previous year 2024-25 he came to India on 6-4-2024 and left on 30-12-2024. **Determine his residential status for the PY 2024-25. [Mr. A has no taxable income in India']**
- 9) **Ms Herley, a foreign national, comes India every year for 90 days since PY 2012-13.**
 - i) **Determine her residential status for the previous year 2024-25.**
 - ii) Will your answer differ, if she comes India for 100 days instead of 90 days every year.
- 10) **G an American citizen, is appointed by a Multi-national company to its branch in New Delhi in 2021. G has never been to India before this appointment. He arrives in Mumbai on 15th April, 2021 and joins the New Delhi office on 20th April, 2021. His wife and children join him in India on 20th October, 2021. The company allotted him a leased residence for the purposes of his stay. This residence is occupied by him from the beginning of October 2021. On 10th February, 2022, he is transferred by his employer, on deputation basis, to be the regional chief of his employer's operations in South East Asia having headquarters in Hong Kong. He leaves New Delhi, on 11th February 2022 and arrives in Hongkong on 12th February, 2022. G leaves behind his wife and children in India till 14th August, 2023, when they leave alongwith him for Hong Kong. G had come**

to India earlier on 15th June, 2023 on two months leave. The members of the family occupied the residence till date of departure to Hongkong. At the end of the period of deputation, G is reposted to India and joins the New Delhi office of his employer as chief of Indian operations on 31st Jan, 2025. **In what residential status G will be assessable, for the various years, to income tax in India?**

- 11) During the financial year, Mr. Kumar had the following income:
- | | ₹ |
|---|--------|
| a) Salary income (computed) received in India for services rendered in Nepal | 10,000 |
| b) Income from profession in India, but received in China | 3,000 |
| c) Property income in Uganda (out of which ₹ 3,000 was remitted to India). | 6,000 |
| d) Profits earned from business in Bangalore | 5,000 |
| e) Agricultural income in Canada | 10,000 |
| f) Profits from a business carried on at Nepal but controlled from India. | 20,000 |

Compute the income of Anil Kumar for the PY 2024-25 if he is (i) resident and ordinarily resident, (ii) Not ordinarily resident, and (iii) Non-resident in India.

- 12) 'X' earns the following income during the financial year:
- | | ₹ |
|---|---------------|
| a) Interest from an Indian company received in UK. | 1,000 |
| b) Pension from former employer in India received in USA | 54,000 |
| c) Profits earned from a business in Paris which is controlled in India, half of the profits being received in India. | 20,000 |
| d) Income from agriculture in Bhutan and remitted to India | 5,000 |
| e) Income from property in England received there. | 4,000 |
| f) Past foreign untaxed income brought to India. | 10,000 |

Compute his income [Ignore Section 115BAC] if he is:

- i) Resident and ordinarily resident in India.
- ii) Not ordinarily resident in India.
- iii) Non-resident in India.

- 13) X is resident and ordinarily resident in India for the PY 2024-25. He gives the following information in respect of his income for the previous year:

	₹
i) Capital gain on sale of a house situated in Pune (sale consideration is received in Nepal)	40,000
ii) Salary income received in Sri Lanka for rendering service in Tamilnadu (computed)	50,000
iii) Interest received from Government of India (it is paid to him in Sri Lanka, the money is utilized by the Government outside India)	60,000
iv) Royalty received from A Ltd. (a foreign company which is non-resident in India) outside India (royalty is paid for a manufacturing business situated outside India)	70,000

Find out the taxable income of X.

- 14) X furnished the following particulars of his income earned during the previous year:
- | | ₹ |
|--|---------------|
| i) Interest on German Development Bonds (two-fifths is received in India) | 60,000 |
| ii) Income from agriculture in Bangladesh, received there but later on ₹ 50,000 is remitted to India (agricultural activity is controlled from Bangladesh) | 1,81,000 |
| iii) Income from property in Canada received outside India (₹ 76,000 is used in Canada for meeting educational expenses of X's daughter in USA and ₹ 10,000 is later on remitted to India) | 86,000 |
| iv) Income earned from business in Kampala (Uganda) which is controlled from Delhi (₹ 15,000 is received in India) | 65,000 |
| v) Dividend paid by a foreign company but received in India on April 10, 2024 | 46,500 |
| vi) Past untaxed profit of 2020-21 brought to India in PY 2024-25 | 10,43,000 |
| vii) Profits from a business in Madras and managed from outside India | 27,000 |
| viii) Profit on sale of a building in India but received in Sri Lanka | 14,80,000 |
| ix) Pension (per annum) from a former employer in India, received in Rangoon | 86,000 |
| x) Gift in foreign currency from a friend received in India on January 21, 2025 | 80,000 |

Find out the gross total income [Ignore Section 115BAC] of X, if he is (i) ROR, (ii) RNOR, or (iii) NR in India.

- 15) Arun, a citizen of India residing in Germany for the past 10 years, came back to India for the first time during January 2025. During the financial year 2024-25, he received the following income-
- a) He works in a company in Germany and earns a salary of Euro 1,000 per month;
 - b) He owns agricultural land near Bangalore and a residential house in Delhi, which has been let-out.
 - c) While the agricultural income is being remitted to his account in Germany every year, the rental income of ₹ 84,000 (Computed) is being deposited in his bank account at Delhi; and
 - d) He also owns shares in various Indian companies and receives dividend every year, which has been regularly deposited in his bank account at Delhi.
- He seeks your advice as to taxability of the above income under the provisions of the Income-tax Act, 1961 as he is an Indian citizen and earning income in India.**
- 16) Adarsh had following income during the previous year ended 31st March, 2025: ₹
- | | |
|---|-------|
| a) Salary Income (computed) in India for 3 months | 9000 |
| b) Income from house property in India | 13470 |
| c) Interest on Fixed Deposit in SBI | 1000 |
| d) Amount brought into India out of the past untaxed profits earned in Germany | 20000 |
| e) Income from agriculture in Indonesia being invested there | 12350 |
| f) Income from business in Bangladesh, being controlled from India | 10150 |
| g) Dividends received in France from Belgium companies out of which ₹ 2,500 remitted to India | 23000 |
- You are required to compute his total income for the PY 2024-25, if he is a – (a) resident; (b) not ordinarily resident; and (c) non-resident.**
- 17) Mr. A. a citizen of India, left for UK for the purposes of employment on 1.5.2024. He has not visited India thereafter. Mr. A borrows money from his friend Mr. B who left India one week before Mr. A's departure, to extent of ₹ 20 Lakhs and buys shares in ABC Ltd, an Indian Company. **Discuss the taxability of the interest charged in B's hands where the same has been received in New York in respect of AY 2025-26.**
- 18) X, a Non-resident lent ₹ 6 lakhs to Y, resident in India. Y used the money borrowed by him for the purpose of business on India. Y paid an interest of ₹ 90,000 during the year ended 31st March, 2025 to X in the UK. **Discuss the tax liability of such interest in the hands of X in India.**
- 19) Motorola, a South Korean Company, a Non-resident under the Income-tax Act, 1961, had the following receipts of royalty in AY 2025-26. Indicate whether that will be taxable in India. **Give reasons for your answer:**
- a) ₹ 50,000 from Govt. of India under an agreement approved by the Govt. of South Korea and India.
 - b) ₹ 1,00,000 from Calcutta Co. Ltd., a Resident Indian Co., for import of technical know-how use in a business in India.
 - c) ₹ 75,000 from Bombay Co., a Indian Resident, for import of drawings for use in its business in Singapore & Malaysia.
 - d) ₹ 50,000 from Keshav, a non-resident under Indian tax law for use of a formula for a business in India.
 - e) ₹ 40,000 from X, an Indian NR, for use of drawings and technical know-how for a business in the UK.
- 20) A firm of solicitors in Delhi *generally* engages a barrister of London for arguing their case before the Supreme Court in India. A payment of \$ 50,000 was made to the barrister in London according to the term of the professional engagement. It is claimed that since the payment is made outside India, no tax is payable on the fee paid. **How should the Assessing Officer proceed in this matter?**

SOLUTIONs - SET B

1. NR

2. Since Mr. Y is in India for a period of 64 days (30 + 31 + 3) during the previous year and was in India for all the preceding 4 years (i.e. 365 days or more), therefore, he satisfies second basic condition and is, therefore, resident in India. Exception to basic condition will not be applicable here as he is going for training and not for the purpose of employment. **Further, he is Resident & ordinarily resident as additional conditions of Section 6(6) for being ordinarily resident are satisfied.**

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

Year	2020-21	2021-22	2022-23	2023-24	Total
No. of days stayed in India	65	60	80	160	365

Thus, he satisfies the second basic condition and is, therefore, resident in India for the previous year 2024-25. Further, **he does not satisfies additional conditions to become ROR** as follows -

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

Accordingly, he is 'Not Ordinarily Resident in India' for the previous year 2024-25.

4. Since Mr. Devendra is in India for a **period of 323 days (365 - 30 - 12)** during the previous year-ending 31st March 2025 hence he is a resident. He is also a ROR **as he is satisfying both the additional conditions of Section 6(6) to become ROR.**

5. Since Mr. Samuelson is in India for a period of 135 days (22 + 30 + 31 + 6 + 31 + 15) during the previous year ending 31st March 2025 and has come for the first time in India, hence, he is a non resident.

6. Since Mr. Samuel is in India for a period of 188 days (30 + 31 + 30 + 31 + 31 + 5 + 30) during the previous year ending 31st March 2025, he is a resident as per Section 6(1). Further, he, does not satisfies additional conditions of Section 6(6) as follows -

- 1) He was non resident in India in all of the last 10 preceding years;
- 2) He resided in India only for 31 days (March 2024) during the 7 preceding previous years.

Hence, he is a not ordinarily Resident in India.

7. During the financial year 2024-25, Mr. B stays in India from 10.10.2024 onwards **amounting to 173 days**. Therefore, he does not fulfill the first basic condition, but he fulfills the second basic condition as he has stayed for 60 days or more during FY 2024-25 and he has stayed for 365 days or more during the preceding four financial years. Hence he is a resident. He was resident in 9 out of 10 preceding previous years and was staying for 730 days or more during the 7 preceding previous years. **Therefore, he satisfies both the additional conditions. By fulfilling the second basic condition and fulfilling both the additional conditions, Mr. B is a resident and ordinarily resident for the assessment year 2025-26.**

If the date of departure during PY 2022-23 happens to be 15.05.2022, Mr. B fails to fulfill either of the basic conditions (since he had stayed only for 45 days in the previous year 2022-23) making him a non-resident, Besides he does not fulfill any of the basic conditions for the previous year 2023-24 (he has stayed for 46 days in that year). Therefore, Mr. B was a non-resident in only 2 out of the 10 preceding previous years. He was resident in 8 out of 10 preceding previous years and he stayed for a period of 730 days or more in seven preceding previous years. **Being a resident and by fulfilling both the additional conditions, he becomes resident and ordinarily resident for the assessment year 2025-26.** Hence answer remains the same even if he departs from India on 15.05.2022 instead of 01.06.2022.

8.

Conditions u/s. 6(1)

PY 2024-25: Stay in India is for 269 days (25 + 31 + 30 + 31 + 31 + 30 + 31 + 30 + 30). He is, therefore, Resident in India.

Previous year	Conditions u/s. 6(6)	Resident/Non-resident
	No. of days' stay	
2023-24	200	Resident
2022-23	140	Non-resident

As he is a citizen of India and visits India during the previous years 2023-24 and 2022-23, the period of stay in India shall be substituted by 182 days instead of 60 days.

As he is resident only for one previous year, out of 10 preceding previous years, he does satisfy the condition u/s. 6(6) i.e., being non resident in at least 9 out of 10 previous years immediately preceding the relevant previous year. He is, therefore, "not ordinarily resident in India".

9.

- 1) Since Miss Herley stayed for 90 days during the previous year 2024-25 and for 360 days (90 days x 4 years) during the 4 years immediately proceeding the previous year, hence, she is not satisfying any of the conditions of sec. 6(1). Thus, she is a non-resident for the previous year 2024-25.
- 2) Since Miss Herley stayed for 100 days during the previous year 2024-25 and for 400 days (100 days x 4 years) during the 4 years immediately proceeding the previous year, hence, she is satisfying sec. 6(1). Thus, she is resident for the previous year 2024-25. Further, she resides for only 700 days (100 days x 7 years) during the 7 years immediately preceding the previous year. **Hence, she does not satisfy the additional conditions of sec. 6(6). Thus, she is resident but not ordinarily resident for the previous year 2024-25.**

10.

G's presence in India is given below

Previous Years	Presence in India
2021-22	303 days
2022-23	NIL
2023-24	61 days
2024-25	60 days

During P.Y. 2021-22, G was in India for 303 days. He is resident in India. As he comes to India for the first time on April 15, 2021, **he has not satisfied the additional conditions laid down by Section 6(6).** He is therefore, resident but not ordinary resident in India.

PY 2022-23 to 2024-25: As G satisfied none of the basic conditions, he is non-resident for the previous year 2022-23 to 2024-25.

11. Computation of Taxable Income of Mr. Kumar for the PY

Particulars	R&OR	R but NOR	Non-Resident
(1) <u>Income received in India wherever accrues</u>			
Salary income received in India for services rendered in Nepal.			
Income accrued in India wherever received	10,000	10,000	10,000
(2) <u>Income accrued in India wherever received</u>			
(i) Profit earned from business in Bangalore.	5,000	5,000	5,000
(ii) Income from profession in India but received in Germany.	3,000	3,000	3,000
(3) <u>Income accrued and received outside India</u>			
(i) Property income in Uganda.	6,000	—	—
(ii) Agricultural income in Canada.	10,000	—	—
(iii) Profits of a business carried on in Nepal but controlled from India.	20,000	20,000	—
Total Income	54,000	38,000	18,000

12. Particulars

	R&OR	RNOR	NR
(1) <u>Income deemed to accrue / arise in India</u>			
Interest from Indian Company.	1,000	1,000	1,000
Pension from employer in India (54,000 – 50,000)	4,000	4,000	4,000
(2) <u>Income received in India</u>			
50% of profits of business in Paris.	10,000	10,000	10,000
(3) <u>Income earned and received outside India, from a business controlled from India</u>			
50% of profits of business in Paris.	10,000	10,000	—
(4) <u>Income earned and received outside India other than (3) above</u>			
Income from Agriculture in Bhutan.	5,000	—	—
Income from Property in England.	4,000	—	—
	34,000	25,000	15,000

Note: Past foreign untaxed or taxed income is not to be included because it is not the income of the PY

13. 1. As the house is situated in India, capital gain on its transfer is deemed to accrue or arise in India. It is Indian income. It is taxable in all cases	40,000
2. As service is rendered in India, income is deemed to be accrued in India. It is Indian income. It is taxable in all cases	50,000
3. As interest is received from the Government of India, it is deemed to be accrued in India. It is Indian income. It is taxable in all cases	60,000
4. It is received outside India. It is accrued outside India. It is foreign income. It is taxable in the case of resident and ordinarily resident	70,000
Total	2,20,000

14.

	ROR	RNOR	NR	Reasons
Interest on German Development Bonds :				
• Two-fifths is taxable on receipt basis	24,000	24,000	24,000	See Note 1
• Three-fifths is taxable in the case of resident and ordinarily resident on accrual basis	36,000	—	—	See Note 2
Income from agriculture in Bangladesh :				
• Income accrued and received outside India	1,81,000	—	—	See Note 3
Income from property in Canada received outside India :				
• Income accruing and arising outside India	86,000	—	—	See Note 2
Income earned from a business in Kampala, controlled from Delhi :				
• ₹ 15,000 is taxable on receipt basis	15,000	15,000	15,000	See Note 1
• Balance is not taxable in the case of non resident	50,000	50,000	—	See Note 4
• Dividend paid by a foreign company :				
• Income received in India	46,500	46,500	46,500	See Note 1
Past untaxed profit brought to India :				
• Not an income of the previous year 2024-25 relevant for the assessment year 2025-26, hence not taxable	—	—	—	See Note 5
Profits from a business in Madras and managed from outside India:				
Income accrued in India	27,000	27,000	27,000	See Note 6
Profit on sale of a building in India but received in Sri Lanka:				
• Income deemed to accrue or arise in India	14,80,000	14,80,000	14,80,000	See Note 7
Pension from an Indian former employer received in Rangoon:				
• Income deemed to accrue or arise in India	36,000	36,000	36,000	See Note 8
Gift from a friend				
• It is taken as an income	80,000	80,000	80,000	See Note 9
Total	20,61,500	17,58,500	17,08,500	

Notes —

- 1) It is Indian income. It is always taxable.
- 2) It is received as well as accrued outside India, It is foreign income. It is not business income or income from profession. It is taxable only in the case of resident and ordinarily resident taxpayer.
- 3) It is received outside India (remittance of ₹ 50,000 to India is not "receipt" of income in India). It is accrued outside India. It is foreign income from a business, which is controlled from outside India. It is, therefore, taxable in India only in the case of resident and ordinarily resident taxpayer.
- 4) It is accrued outside India. It is received outside India. It is foreign income. It is taxable in the case of resident and ordinarily resident taxpayer. It is not taxable in the case of non-resident. Since it is business income and business is controlled from India, it is taxable in the hands of resident but not ordinarily resident taxpayer.
- 5) It is income of the previous year 2020-21. It cannot be taxed at the time of remittance in 2024-25.
- 6) As the income is accrued in India, it is Indian income. It is, therefore, taxable in all cases.
- 7) As the building is situated in India, income is deemed to be accrued in India. Consequently, it is Indian income and is chargeable to tax in all cases.
- 8) Service was rendered in India. Pension income is deemed to accrue in India. It is Indian income and is chargeable to tax in all cases. **Deduction u/s 16(ia) is claimed to the extent of ₹ 50,000.**
- 9) If the aggregate amount of gift(s) received by an Individual from all persons (not being relatives) during a financial year exceeds ₹ 50,000, it is taxable as income.

15. Mr. Arun is Non Resident in India. Hence, his following Income shall be taxable -

(₹)

Income from residential House property (Computed) (property situated in India)	84000
Income from Agriculture in India [(Exempt u/s 10(1))]	—
Dividend from shares of Indian Company	Taxable
Salary from Company in Germany (Not taxable in India as neither earned nor received in India)	—
Total Income	84000

16. Computation of Total income of Mr. Adarsh (Amount in ₹)

	Resident	Not-ordinarily resident	Non resident
Salary Income in India for three months	9000	9000	9000
Income from house property in India	13470	13470	13470
Interest on Fixed Deposit in SBI	1000	1000	1000
Amount brought into India out of the past untaxed profits earned in Germany (Not taxable as income not of current year)	—	—	—
Income from agriculture in Indonesia being invested there	12350	—	—
Income from business in Bangladesh, being controlled from India	10150	10150	—
Dividends received in France from Belgium companies	23000	—	—
Total Income	68970	33620	23470

17. U/s. 9(1)(v), Interest paid by Non-resident (Mr. A) to any person (Mr. B) (other than for carrying on business or profession in India) is not taxable. Hence, interest received by Mr. B from Mr. A is not taxable in India, as the income is not deemed to accrue or arise in India.**18.**

- U/s 9(1)(v), interest paid by a Resident is deemed to accrue or arise in India in the hands of the Nonresident if the money borrowed outside India is used to carry on business in India.
- In the given case, Y is a resident paying interest to X, a Non-resident.
- Interest received by X from the Resident is deemed to accrue or arise in India & so the sum or ₹ 90,000 is chargeable to tax in India.

19.

<u>Nature of Income</u>	<u>Amount taxable</u>	<u>Reasons</u>
Royalty from Government	₹ 50,000	Royalty paid by Govt. is deemed to accrue or arise in India.
Technical know-how fees received from resident	₹ 1,00,000	Technical know-how fees paid resident is deemed to accrue or arise in India.
Fees paid by Bombay Co. for us in its business in Singapore and Malaysia	Not taxable	Technical know-how fees paid for usage of drawings outside India is not deemed to accrue or arise in India.
Technical know-how fees from Mr. Keshav	₹ 50,000	Know how fees paid by a NR for using the same in business in India is deemed to accrue or arise in India.
Amount paid by Mr. X, Non-resident, for use of drawings	Not taxable	Amount paid by a Non-resident for use of drawings outside India is not deemed to accrue or arise in India.

20.

- Income from business connection in India shall be deemed to accrue or arise in India & chargeable to tax.
- Business connection includes professional connection also.
- In the given case, the London Barrister has earned \$ 50,000 through a Firm of solicitors based at Delhi and the income has been earned only through the professional connection in India & the same is deemed to accrue or arise in India & chargeable to tax in India.
- Hence, the A.O. shall charge the same to tax in the hands of the London Barrister.

INCOME FROM HOUSE PROPERTY

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

[Page 5.2 is amended]



PARTICULARS

SECTION

BASIS OF CHARGES	22
ANNUAL VALUE	23
DEDUCTION	24
INTEREST ON BORROWED CAPITAL (PAYABLE OUTSIDE INDIA)	25
RECOVERY OF UNREALIZED RENT & ARREAR RENT	25A
CO-OWNERSHIP	26
DEEMED OWNER	27

HOW TO COMPUTE INCOME FROM HOUSE PROPERTY

Gross Annual Value [GAV]	XXX
Less: Municipal Taxes <u>PAID</u> by owner during the P.Y.	<u>XXX</u>
Net Annual Value (Sec 23) [NAV]	XXX
Less: <u>Deductions u/s 24</u>	
(a) Statutory deduction @ 30% of NAV	XXX
(b) Interest on Loan	XXX
Income from House Property (Computed)	XXX

NOTE: Deduction under Section 24(b) {in respect of one or two self-occupied properties only} would NOT be available in case of an Individual/HUF, being an assessee, who doesn't opt out from Section 115BAC.

CHARGEABILITY [SECTION 22]

The **annual value of property** consisting of **any buildings or lands appurtenant** thereto of which the assessee is the **owner** shall be subject to Income-tax under the head 'Income from house property' provided such **property, or any portion** of such property is **not used by the assessee for the purposes of any business or profession**, carried on by him, the profits of which are chargeable to Income-tax.

[The Basis of calculating income from House property is the Annual Value. This is the inherent capacity of the property to earn income. Income from the head House Property is the only head that is charged on a notional basis]

CONDITIONS FOR CHARGEABILITY

- 1) **Property should consist of any building or land appurtenant thereto:**
 - (a) Buildings include not only residential buildings, but also factory buildings, offices, shops, godowns and other commercial premises.
 - (b) Land appurtenant means land connected with the building like garden, garage etc.
 - (c) Temporary structures shall not be considered as buildings for the purpose of Income from House property. Eg. Circus tents, exhibition structures, etc.
 - (d) Buildings do not include **incomplete units or which are in not in a condition to use.**
 - (e) ***Income from letting out of vacant land is, however, taxable under the head "Income from other sources".***
- 2) **Assessee must be the owner of the property**
 - a) Owner is the person who is entitled to receive income from the property in his own right.
 - b) The requirement of registration of the sale deed in the name of owner is not necessary.
 - c) Ownership includes deemed ownership
 - d) The person who owns the building need not also be the owner of the land upon which it stands.
 - e) **Income from subletting** is not taxable as income from house property [It will be taxable in IOS]
- 3) **Property must not be used by the assessee for his own business/profession.**

Exceptions:

Annual value of the following properties are chargeable under the head "Profits and gains of business or profession" –

- (i) Portions of property occupied by the assessee for the purpose of any business or profession carried on by him

- (ii) **Commercial Properties** of an assessee **engaged in the business of letting out** of properties.

Amendment by Finance (No. 2) Act, 2024 [Effective from AY 2025-26]: If an assessee is engaged in the business of letting out of **residential houses**, the income generated from letting out of a residential house or a part of the house by the owner **shall NOT be** chargeable under the head "Profits and gains of business or profession" and would be chargeable under the head "Income from house property" **[Section 28]**



No Notional Income for House Property Held as Stock in Trade - Sec 23(5):

Annual value of house property will be charged under the head “Income from house property”, where it is held by the assessee as stock-in-trade of a business.

*However, where the property consisting of any building or land appurtenant thereto is **held as stock-in-trade** and the property or any part of the property is **not let** during the whole or any part of the previous year, the annual value of such property or part of the property, **for the period up to TWO year** from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, **shall be taken to be NIL***

Letting out is supplementary to the main business:

Where the property is let out with the object of carrying on the business of the assessee in an efficient manner, then the rental income is taxable as business income. Related expenses are also deductible in computing such business Income.

CBDT Circular: Lease Rent from letting out buildings/developed space along with other amenities in Industrial Park/SEZ

In case of an undertaking which develops, develops and operates or maintains and operates a notified Industrial Park/SEZ, the income from letting out of premises/developed space along with other amenities/facilities in such park/SEZ **is to be charged to tax under the head ‘PGBP’**.

COMPOSITE RENT

The owner of a property may sometimes receive rent in respect of building as well as –

- 1) other assets like say, furniture, plant and machinery.
- 2) for different services provided in the building, for eg. –
 - (a) Lifts;
 - (b) Security;
 - (c) Power backup;

The amount so received is known as “COMPOSITE RENT”.

TAX TREATMENT OF COMPOSITE RENT

Where composite rent includes rent of building and charges for different services (lifts, security etc.) / Charges for other assets (furniture) & both are separable, the composite rent is has to be split up in the following manner:

- (a) the sum attributable to use of property is to be assessed under section 22 as “Income from House Property”;
- (b) the sum attributable to use of services/assets is to be charged to tax under the head “PGBP” or under the head “IOS”

If the same is not separable, then whole such sum is taxable either as business income or income from other sources;

INCOME FROM HOUSE PROPERTY SITUATED OUTSIDE INDIA

1. Taxability of Income from HP will depend upon the Residential Status of the Assessee.
2. In case of a **Resident in India (Resident and Ordinarily Resident in case of Individuals and HUF)**, Income from property situated outside India is always taxable in India, whether such income is brought into India or not.
3. In case of a NR or RNOR (in case of Individual/HUF), Income from a property situated outside India is taxable in India only if Rent is received in India.
4. Any tax or expenditure (prescribed one) incurred towards earning such income shall be allowed as a deduction.
5. Income accruing or received in Foreign Currency should be converted into Indian Rupees in **TT Buying Rate on the last day of the previous year**. [Rule 115]

Question: X, an American national, is a ROR in India during the previous year ending on 31.3.2025. He was owner of a building located in New York. The same was let out on rent at US \$12,500 per month. The Municipal Corporation of New York was paid taxes on such building of US \$ 10,000 on 12.2.2025. Besides the above property, he purchased a piece of land at Delhi for construction of a house. The said land was given on rent for running a dairy @ ₹ 3,000 per month with effect from 1.10.2024. The value of one US \$ in Indian rupee throughout the year remained at ₹ 78. X wants to know his taxable income.

Answer: HP Income – ₹ 76,44,000;

Income from other Source: ₹ 18,000

DETERMINATION OF ANNUAL VALUE [SECTION 23]

This involves 3 steps:

Step 1: Determination of **Gross Annual Value (GAV)**.

[Tax under the head “Income from House Property” is not a tax upon rent of a property. It is a tax on inherent capacity of a building to yield income. {Section 23(1)}]

Step 2: From the **GAV** computed in step 1, we **deduct municipal tax paid** by the owner during the previous year.

Step 3: The balance will be the **Net Annual Value (NAV)**, which as per the Income-tax Act is the annual value.

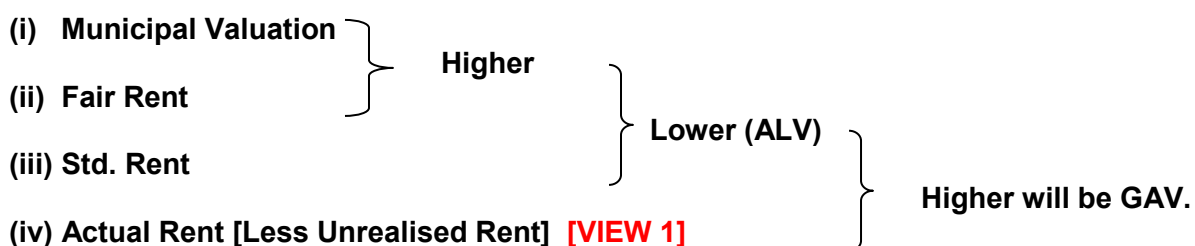
DETERMINATION OF ANNUAL VALUE IN DIFFERENT SITUATION**(1) Where the property is let out throughout the previous year
[Section 23(1)(a)/(b)]**

Where the property is let out for the whole year, then the Gross Annual Value (GAV) would be the higher of –

(a) Annual Letting Value (ALV) OR EXPECTED RENT and

(b) Actual rent received or receivable during the year as reduced by Unrealised Rent.

ALV (or Expected Rent) means Municipal Valuation or Fair Rent (Market Rent), whichever is more, subject to maximum of Standard Rent. In brief,



Note: There is an alternate view as per Income tax Return for treatment of Unrealised Rent. Refer Class Discussion for VIEW 2. For Exam – View 1 is relevant.

NOTE:

- 1) **As per section 23(1)(a)**, the annual value of any property shall be the sum for which the property might reasonably be expected to be let from year to year.
- 2) **Municipal value** is the value determined by the municipal authorities for levying municipal taxes on house property.
- 3) **Fair Rent** means rent which similar property in the same locality would fetch.
- 4) The **Standard Rent** is fixed by the Rent Control Act.
- 5) **Municipal Tax paid by Tenant** is neither to be added to the Actual Rent, nor to be allowed as deduction.
- 6) As per section 23(1)(a), ALV cannot exceed standard rent (SR)
- 7) **Repair Expenses** met by the Tenant shall not be added to Actual Rent.
- 8) **Advance rent** cannot be rent received / receivable of the year of receipt.
- 9) **Commission** paid by owner of a property to a broker for rental income is **not deductible**.
- 10) A **Non-Refundable Deposit** will be included in rent received or receivable on pro-rata basis.

Example 1: Find out the ALV

Municipal Value	50	60	70
Fair Rent	55	58	80
Standard Rent	54	75	50
ALV/Expected Rent			

Example 2: Compute the GAV of each house:

Particulars	House I	House II	House III	House IV	House V
Municipal Value	80,000	55,000	65,000	24,000	75,000
Fair Rent	90,000	60,000	65,000	25,000	80,000
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

(2) Where Let Out Property is vacant for part of the year [Section 23(1)(c)]

Where let out property is vacant for part of the year **and owing to vacancy**, the actual rent is lower than the ALV, then the **actual rent received or receivable will be the GAV** of the property.

NOTE:

1. If **Actual Rent received or receivable (after Vacancy or Unrealised Rent) is higher than ALV**, then Section 23(1)(c) will not apply and Actual rent received/receivable will be GAV.
2. If **Actual Rent received or receivable for the year (After Unrealised Rent) is lower than the ALV**, then Section 23(1)(c) will not apply even if there is Vacancy as lower rent **is not due to Vacancy**.

Example 3: Compute the Gross Annual Value (Loss Due to Vacancy):

	I	II	III	IV
Municipal Value	60	68	70	75
Fair Rent	65	60	64	70
Standard Rent	63	70	45	72
Actual Rent (12 Months)	72	48	60	66
Vacancy 2 Months				
GAV				

Example 4: Compute the Gross Annual Value:

	I	II	III	IV
Municipal Value	60	68	70	75
Fair Rent	65	60	64	70
Standard Rent	63	70	45	72
Actual Rent (12 Months)	72	84	60	66
Unrealised Rent	10	12	14	16
Vacancy 2 Months				

(3) In case of Self-Occupied Property or Unoccupied Property [Sec 23(2)]

- Where the property is self-occupied for own residence or unoccupied throughout the previous year, **its ANNUAL VALUE WILL BE NIL**, provided no other benefit is derived by the owner from such property.
- The benefit of "Nil" Annual Value is available only for upto 2 self-occupied or unoccupied house properties i.e. for either 1 house property or 2 house properties.*
- The benefit of exemption is available only to an individual/HUF.
- The expression "**Unoccupied property**" refers to a property which cannot be occupied by the owner by **reason of his employment, business or profession** at a different place.
- No deduction for municipal taxes is allowed in respect of such property.**

(4) Where a house property is Let-out for Part of the year and Self-occupied for part of the year

- If a single unit of a property is self-occupied for part of the year and let-out for the remaining part of the year, then the **ALV for the whole year shall be taken** into account for determining the GAV.
- The **ALV for the whole year** shall be **compared with the actual rent for the let out period** and whichever is higher shall be adopted as the GAV.
- Further, **Property taxes for the whole year** is allowed as deduction provided it is paid by the owner during the previous year.

(5) In case of Deemed to be Let Out Property [Section 23(4)]

- Where the assessee owns more than **TWO** properties for self-occupation, then the income from any **TWO** such property, **at the option of the assessee**, shall be computed under the self occupied property category and its annual value will be NIL. **The other self occupied/unoccupied properties shall be treated as "deemed let out properties".**
- This option **can be changed year after year** in a manner beneficial to the assessee.
- In case of deemed let-out property, the **ALV shall be taken as the GAV.**
- The question of considering actual rent received/receivable does not arise. Consequently, no adjustment is necessary on account of property remaining vacant or unrealized rent.
- Municipal taxes actually paid by the owner during the previous year can be claimed as deduction.

EXAMPLE:

Mr. Ayush Pandey, owner of three houses in Chennai, furnished the following information. Compute his income from house property for the assessment year 2025-26:

Particulars	House No.	House No.	House No.
	1	2	3
	Self-occupied	Self-occupied	Self-occupied
Standard rent under Rent Control Act	1,50,000	15,00,000	18,00,000
Municipal value	2,00,000	13,00,000	13,50,000
Fair rent	2,50,000	16,00,000	19,00,000
Municipal tax (10% of municipal value) paid			
Interest on loan taken for purchases of houses (Loan taken in P.Y. 2019-20)	90,000	1,70,000	1,65,000

Solution:

Computation of Income from House property of Mr. Ayush Pandey for the A.Y. 2025-26

Particulars	Details	Details	Amount
<u>House 1: Deemed to be Let out</u>			
Gross Annual Value (Working)		1,50,000	
Less: Municipal Tax (10% of ₹ 2,00,000)		20,000	
Net Annual Value (NAV)		1,30,000	
Less: <u>Deduction u/s</u>			
24(a) Standard Deduction (30% of NAV)	39,000		
24(b) Interest on loan	90,000	1,29,000	1,000
<u>House 2 & 3: Self-occupied (as ALV is too High)</u>			
Net Annual Value		Nil	
Less: <u>Deduction u/s</u>			
24(b) Interest on loan [(₹ 1,70,000 + ₹ 1,65,000), subject to max. of ₹ 2,00,000]		2,00,000	(2,00,000)
Income from House Property			(1,99,000)

Working:

Computation of Gross Annual Value of House 1:

Particulars	House 1
Municipal Value (A)	2,00,000
Fair Rent (B)	2,50,000
(C) = Higher of (A) and (B)	2,50,000
Standard Rent (D)	1,50,000
Gross Annual Value [Lower of (C) and (D)]	1,50,000

EXAMPLE:

Compute income under the head 'Income from house property' of Sri from the following information:

Particulars	H1	H2	H3	H4
Used for	Self-occupied	Self-occupied	Self-occupied	Own Business
Situated at	Mumbai	Abu	Kolkata	Hyderabad
Gross Municipal Value	3,00,000	2,00,000	7,00,000	3,00,000
Fair Rent	2,00,000	2,00,000	6,00,000	1,20,000
Standard Rent	3,00,000	2,40,000	7,00,000	2,00,000
Municipal Tax	15%	15%	15%	15%
Repairs	13,000	4,000	8,000	8,000
Ground Rent	20,000	Nil	Nil	6,000
Land Revenue	Nil	10,000	Nil	Nil
Interest on Loan	40,000	1,00,000	2,10,000	20,000
Loan taken on	1998-99	1998-99	2017-18	2000-01

Solution:

In the given case, there are three options:

Option 1: Take H1 & H3 as Self-Occupied (S/O) and H2 as Deemed to be Let-Out (DLO)

Option 2: Take H1 as Deemed to be Let-Out (DLO) and H2 & H3 as Self-Occupied (S/O)

Option 3: Take H3 as Deemed to be Let-Out (DLO) and H1 & H2 as Self-Occupied (S/O)

Total income under the head house property shall be computed applying each option separately and then the option, which yields least income under this head, shall be opted.

Particulars	Option 1		Option 2		Option 3	
	H1 & H3 S/O	H2 DLO	H1 DLO	H2 & H3 S/O	H3 DLO	H1 & H2 S/O
Gross Annual Value	Nil	2,00,000	3,00,000	Nil	7,00,000	Nil
Less: Municipal Tax (15% of Municipal value)	Nil	30,000	45,000	Nil	1,05,000	Nil
Net Annual Value (A)	Nil	1,70,000	2,55,000	Nil	5,95,000	Nil
Less: Deduction u/s						
24(a) Standard deduction (30% of NAV)	Nil	51,000	76,500	Nil	1,78,500	Nil
24(b) Interest on loan	2,00,000 ²	1,00,000	40,000	2,00,000 ²	2,10,000	30,000 ¹
Total deduction (B)	2,00,000	1,51,000	1,16,500	2,00,000	3,88,500	30,000
Income from house property [(A) – (B)]	(-) 2,00,000	19,000	1,38,500	(-) 2,00,000	2,06,500	(-) 30,000
Income from house property	(-) 1,81,000		(-) 61,500		1,76,500	

Notes:

1. In case of H1 & H2 loan was taken prior to 1/4/1999.
2. Since loan was taken for construction on or after 1/4/1999.
3. Since H4 is used for own business purpose so it is not taxable under this head.

Total income under the head Income from house property as per option 1 is (-) ₹ 1,81,000

Computation of Income from house property of Sri for the A.Y. 2025-26

Particulars	Details	Details	Amount
<u>H1 & H3: Self-occupied u/s 23(2)(a)</u>			
Net Annual Value		Nil	
Less: <u>Deduction u/s</u>			
24(b) Interest on loan			
- For H1 (Max Limit)	30,000		
- For H2 (Max Limit)	2,00,000		
Subject to maximum of ₹ 2,00,000	2,30,000	2,00,000	(2,00,000)
<u>H2: Deemed to be let out u/s 23(4)</u>			
Gross Annual Value		2,00,000	
Less: Municipal Tax		30,000	
Net Annual Value		1,70,000	
Less: <u>Deduction u/s</u>			
24(a) Standard Deduction (30% of NAV)	51,000		
24(b) Interest on loan	1,00,000	1,51,000	19,000
Income from house property			(-)1,81,000

(6) In case of a house property, a portion let out and a portion self-occupied

- (a) Income from any portion or part of a property which is let out shall be computed separately under the “let out property” category **AND** the other portion or part which is self occupied shall be computed under the “self-occupied property” category.
- (b) **There is no need to treat the whole property as a single unit for computation of income from house property.**
- (c) Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.
- (d) Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor on a reasonable basis.

PROPERTY TAXES [MUNICIPAL TAXES]

1. **Property taxes levied** are allowable as deduction from the GAV subject to the following two conditions:
 - a) It should be borne **by the assessee (owner)**; and
 - b) It should be **actually paid** during the previous year.
2. **Deduction if Paid:** If property taxes levied by a local authority for a particular previous year is not paid during that year, no deduction shall be allowed in the computation of income from house property for that year.
3. **However, if in any subsequent year the arrears are paid, then the amount so paid is allowed as deduction in computation of income from house property for that year.**

Thus, we find that irrespective of the previous year in which the liability to pay such taxes arise according to the method of accounting regularly employed by the owner, the deduction in respect of such taxes **will be allowed only in the year of actual payment.**
4. In case of **property situated outside India**, taxes levied by local authority of the country in which the property is situated is deductible.
5. Municipal Tax includes services related tax like **Water Tax and Sewerage Tax** levied by any Local Authority.
6. Municipal Tax can be claimed as a deduction **only in respect of let-out or deemed to be let-out** properties (i.e. more than **TWO** property self-occupied).

NOTIONAL INCOME Vs REAL INCOME

Under this head of income, there are circumstances where notional income is charged to tax instead of real income. They are:

- 1. Where the assessee owns more than TWO house property for the purpose of self occupation, the annual value of any TWO of those properties, at the option of the assessee, will be nil and the other properties are deemed to be let-out and income has to be computed on a notional basis by taking the ALV as the GAV.*
- 2. In the case of let-out property throughout the previous year, if the Expected Rent (ER) exceeds the actual rent received or receivable, then ER is taken as the GAV.*
- 3. In the case of let-out property which is vacant for part of the year, if the actual rent received or receivable for let out period is less than the Expected Rent (ER) for whole year not owing to vacancy, then ER for whole year is taken as the GAV.*
- 4. In case of a house property held as stock-in-trade by assessee (which is not let out), income has to be computed on a notional basis by taking the Expected Rent (ER) as the GAV after 2 years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority.*

TREATMENT OF UNREALISED RENT [Explanation to Section 23(1)]

- 1) The Actual rent received/receivable used in calculating GAV should not include any amount of rent **which is not capable of being realised.**
- 2) **RULE – 4:** **However the conditions prescribed in Rule 4 should be satisfied.** They are
 - (a) the tenancy is *bona fide*;
 - (b) the defaulting tenant has vacated, or steps have been taken to compel him to vacate the property;
 - (c) the defaulting tenant is not in occupation of any other property of the assessee;
 - (d) 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.

DEDUCTIONS FROM ANNUAL VALUE [SECTION 24]

There are Two Deductions from Annual Value. They are:

- (1) **30% of NAV; and**
- (2) **interest on borrowed capital**

(1) 30% of NAV is allowed as deduction under section 24(a)

- ✓ This is a flat deduction and is allowed **irrespective of the actual expenditure** incurred.
- ✓ In case of **self-occupied property** where the annual value is nil, the assessee will not be entitled to deduction of 30%, as the annual value itself is nil.
- ✓ No Deduction will be given in respect of Repairs, Land Revenue, Brokerage, Recovery agent charges etc.

(2) Interest on borrowed capital is allowed as deduction under section 24(b)

- (a) Interest payable on loans borrowed **for the purpose of Acquisition, Construction, Repairs, Renewal or Reconstruction** can be claimed as deduction.
- (b) Interest payable on a fresh loan taken to repay the original loan raised earlier for the aforesaid purposes is also admissible as a deduction.
- (c) **ACCRUAL BASIS:** Deduction under section 24(b) for interest is **available on accrual basis**. Therefore interest accrued but not paid during the year **can also be claimed** as deduction.
- (d) Where a buyer enters into an arrangement with a seller to pay **the sale price in installments along with interest due thereon**, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, **unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.**
- (e) Interest on unpaid interest is not deductible.
- (f) No deduction is allowed for any brokerage or commission for arranging loan.
- (g) The Assessee should furnish a certificate from the person from whom the amount is borrowed, specifying the amount of Interest.

- (h) **Date of completion not relevant:** Interest relating to the year of completion of construction can be fully claimed in that year irrespective of the date of completion.
- (i) **Interest may include Interest for the year (Current Year Interest) & $1/5^{\text{th}}$ of the interest, if any, pertaining to the pre-acquisition or pre-construction period.**

Pre-acquisition/pre-construction period = Period Starting from the date of borrowing and ending on the,

- (i) 31st March immediately prior to the date of completion of construction or acquisition of property, or,
 (ii) Date of repayment of loan, whichever is earlier.

Period of Deduction: $1/5^{\text{th}}$ of the interest of pre-acquisition or pre-construction period, for 5 consecutive years starting from the previous year in which the property is acquired or constructed.

Deduction of 5 installment will be available even if the loan outstanding is repaid before 5 year period

Maximum Limit of deduction in respect of interest on capital borrowed in case of one/two self-occupied property

A. Under default tax regime under section 115BAC

There would be no deduction on account of interest on loan under section 24(b) **under default tax regime under section 115BAC** in respect of the property referred to in section 23(2) i.e., self-occupied or unoccupied property.

B. Under optional tax regime (normal provisions of the Act)

In case assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), the assessee will be allowed a deduction (or, as the case may be, the aggregate of the amount of deduction) on account of Interest (including $1/5^{\text{th}}$ of the Accumulated Interest of Pre-Construction Period) as under –

A	Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital <u>before 1.4.1999.</u>	Actual interest payable in aggregate for one or two self-occupied properties, subject to maximum of ₹ 30,000.
B	Where the property is acquired or constructed with capital borrowed <u>on or after 1.4.1999</u> and such acquisition or construction is completed within 5 years from the end of the financial year in which the capital was borrowed.	Actual interest payable in aggregate for one or two self-occupied properties , subject to maximum of ₹ 2,00,000
C	Where the property is <u>repaired, renewed or reconstructed</u> with capital borrowed <u>on or after 1.4.1999.</u>	Actual interest payable in aggregate for one or two self-occupied properties, subject to maximum of ₹ 30,000.

Note: Total deduction for all loans cannot exceeds ₹ 200,000 in case of TWO Self-occupied Property.

INADMISSIBLE DEDUCTIONS [SECTION 25]

Interest chargeable under this Act which is **payable outside India** shall not be deducted if tax has not been paid or deducted from such interest **or** there is no person in India who may be treated as an agent under section 163.

TAXABILITY OF RECOVERY OF UNREALISED RENT & ARREARS OF RENT RECEIVED [SECTION 25A]

- (i) Unrealised rent is deducted from actual rent in determination of annual value under section 23, subject to **fulfillment of conditions under Rule 4. Subsequently, when the amount is realised it gets taxed under Section 25A in the year of receipt.**
- (ii) If the assessee has increased the rent payable by the tenant and the same has been in dispute and later on the assessee receives the increase in rent as arrears, **such arrears is also assessable under section 25A.**

S. No.	Unrealised rent [Section 25A]	Arrears of rent [Section 25A]
1	Taxable in the hands of the assessee whether he is the owner of that property or not.	Taxable in the hands of the assessee whether he is the owner of that property or not.
2	Taxable as income of the previous year in which he recovers the unrealised rent.	Taxable as income of the year in which he receives the arrears of rent.
3	<u>30% of the amount</u> of recovery shall be allowed as deduction.	<u>30% of the amount</u> of arrears shall be allowed as deduction.

Example

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 2017 to March 2019. 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. 2019-20.

Further, he had let out his property from April, 2019 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		
S. No.	Particulars	₹
i.	Unrealised rent recovered	10,000
ii.	Arrears of rent received	69,000
iii.	Total	79,000
iv.	Less: Deduction@30%	23,700
v.	Income from house property	55,300

TREATMENT OF INCOME FROM PROPERTY OWNED BY A PARTNERSHIP FIRM

1. Where an immovable property or properties is included *in the assets of a firm, the income from such property should be assessed in the hands of the firm only.*
2. Hence, the property income **cannot be assessed as income of the individual partner** in respect of his share in the firm.

TREATMENT OF INCOME FROM CO-OWNED PROPERTY [SECTION 26]

1. Where property **is owned** by two or more persons, whose shares are definite and ascertainable, then the income from such property cannot be taxed as income of an AOP.
2. Where the **house property owned by co-owners is self occupied** by each of the co-owners, the annual value of the property of each co-owner will be NIL and **each co-owner shall be** entitled to a deduction of ₹ 30,000 or ₹ 2,00,000, as the case may be.
3. Where the **house property owned by co-owners is let out**, the income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.

DEEMED OWNERSHIP [SECTION 27]

The following persons, though not legal owners of a property, **are deemed to be the owners for the purposes of section 22 to 26:**

(i) **TRANSFER TO A SPOUSE [Section 27(i)]**

In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration [Except in connection with an agreement to live apart], the transferor is deemed to be the owner of the transferred property.

(ii) **TRANSFER TO A MINOR CHILD**

*In case of transfer of house property by an Individual to his or her **MINOR CHILD** [Except a transfer to Minor Married Daughter] otherwise than for adequate consideration, the transferor would be deemed to be owner of the house property transferred.*

(iii) **HOLDER OF AN IMPARTIBLE ESTATE**

The impartible estate is a property which is not legally divisible.

(iv) **Member of a co-operative society etc.**

***A member** of a co-operative society, company or other association of persons **to whom a building or part thereof is allotted** shall be deemed to be owner of that building allotted to him although the co-operative society/company/ association is the legal owner of that building.*

(v) **Person in possession of a property**

*A person who is allowed to take or retain the possession of any building or part thereof in **part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act** shall be the deemed owner of that house property.*

(vi) **Person having right in a property for a period not less than 12 years:**

*A person [Lessee] who acquires any rights in any building or part thereof, by virtue of any transfer by way of lease **for not less than 12 years**, shall be deemed to be the owner of that building or part thereof.*

***Exception** – In case of any rights by way of lease from month to month or for a period not exceeding one year, Lessee shall not be treated as deemed owner.*

(vii) **DISPUTED OWNERSHIP:**

If the title of ownership is disputed in a court of law, the income shall be taxable in the hands of recipient.

CASES WHERE INCOME FROM HOUSE PROPERTY IS EXEMPT FROM TAX

S. No.	Section	Particulars
1	10(1)	Income from any Farm House forming part of agricultural income.
2	10(19A)	Any one palace of an ex-ruler.
3	10(20)	Income from house property of a local authority.
4	10(21)	Income from house property of an approved scientific research association.
5	10(23C)	Property income of universities, educational institutions, etc.
6	10(24)	Property income of any registered trade union.
7	11	Property held for charitable or religious purpose.
8	13A	Property income of any political party.
9	22	Property used for own business or profession
10	23(2)	TWO Self-occupied property of an individual/HUF

PRACTICAL QUESTION - SET A

1. 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 ₹ 92.50. 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	₹
Gross Annual Value ($£10,000 \times 12 \times 92.50$)	1,11,00,000
Less: Municipal taxes paid ($£8,000 \times 92.50$)	7,40,000
Net Annual Value (NAV)	1,03,60,000

2. 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 has exercised 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.**

Computation of deduction u/s 24(b) for A.Y. 2025-26

Particulars	₹
(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	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

3. Anirudh has a property (Agra) 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 the income from house property of Anirudh 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.

4. Ganesh has a property (Shimla) 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 ER = Higher of MV of ₹ 2,50,000 p.a. and FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.	2,10,000	
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 and Actual rent received/ receivable		
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 2024). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000

Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property		47,000

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.

5. 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 ₹ 23,000 p.m. Municipal taxes paid is ₹ 8,000. The house construction began in April 2017 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2017. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 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
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 1/5 th of ₹ 3,60,000) = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000.	2,00,000
Loss from house property	(2,00,000)

6. Smt. Rajalakshmi owns a house property in Jaipur. 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 the 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 x 9) - (₹ 50,000 x 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.

7. 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.

Solution:

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y. 2025-26

Particulars	₹
(I) Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 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 ₹ 3,00,000 x 12% = ₹ 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. 2025-26

Particulars	₹
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	
Deduction under section 24(b)	2,00,000
	2,00,000

- 8. Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.**

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

The municipal taxes of ₹ 5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman 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 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:**1. 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	₹	₹	₹	₹
(a) Municipal value of property	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 x 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

2. 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.
3. 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.

9. Mr. X owns one residential house in Surat. 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	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	15% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X 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 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 receivable for the whole year (₹ 8,000 x 12)	96,000	
Step III – Computation of Gross Annual Value		
Actual rent received owing to vacancy (₹ 96,000 – ₹ 16,000) Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (15% of ₹ 95,000)		14,250
Net Annual value		65,750

Less : Deductions under section 24 -		
(i) 30% of net annual value	19,725	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	28,725
Taxable income from let out portion		37,025
(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		28,025

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

- 10. 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 Financial Year 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 Assessment Year 2025-26 if he 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 Mr. Vikas for the A.Y. 2025-26

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		Nil
Net Annual value		
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (₹ 18,600 x 2/3)		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 (1.4.2024 to 31.3.2025) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2017 to 31.3.2020) = ₹ 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 F.Y. 2020-21 till F.Y. 2024-25.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

- 11. 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 ₹ 65.**

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 ₹ 32,000 p.m. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	₹ 16,200
Sewerage Tax	₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2022 for purchasing this flat. Interest on loan was as under:

	₹
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?

Solution:

A. If she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

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 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		Nil
2. Self-occupied house property at Chennai		
Annual value		Nil
Less: Deduction under section 24		1,91,940
Interest on borrowed capital (See Note below)		(1,91,940)
3. Arrears in respect of Bangalore property (Section 25A)	60,000	
Arrears of rent received	18,000	42,000
Less: Deduction @ 30% u/s 25A		
Loss under the head "Income from house property"		(1,49,940)

Note: Interest on borrowed capital

Particulars	₹
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).

B. 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.

12. Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2024-25 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.1999	31.3.2002	01.4.2015
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	
Interest for current year on money borrowed in April, 2017 for purchase of property			1,75,000

Compute Ganesh's income from house property for AY 2025-26 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum [Ganesh has shifted out from Section 115BAC].

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 .

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 ₹
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 ₹
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)	(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, 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. 2025-26.

13. Prem owns a house in Surat. During the previous year 2024-25, $\frac{2}{3}$ rd portion of the house was self-occupied and $\frac{1}{3}$ rd 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 2019 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 $\frac{2}{3}$ rd 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 $\frac{1}{3}$ rd 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 ($\frac{2}{3}$rd area – self-occupied)	
Annual Value	Nil
Less: Deduction under section 24(b)- $\frac{2}{3}$ rd of ₹ 1,20,000	
	80,000
Income from Unit I (self-occupied)	(80,000)

Unit II ($\frac{1}{3}$rd 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 ($\frac{1}{3}$ rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 ($\frac{1}{3}$ rd of ₹ 3,00,000) and FR of ₹ 90,000 ($\frac{1}{3}$ rd 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 x 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	
Gross Annual Value(GAV)			1,00,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion $\frac{1}{3}$ rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000			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) $\frac{1}{3}$ rd 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.

PRACTICAL QUESTION - SET "A"

In all questions, assume 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 under the normal provisions of the Act.

- 1) In the following cases State the head of income under which the receipt is to be assessed and comment:
 - (i) X Ltd. lets out its property Y. Y sublets it. How is subletting receipt to be assessed in the hand of Y.
 - (ii) X has built a house on a leasehold land. He has let-out the property and claims income from House property under "Other Sources" and deducted expenses on repair, security charges, insurance and collection charges in all amounting to 40% of receipts.
- 2) Ramesh, a foreign national, is a resident and ordinarily resident in India during the PY 2024-25. He owns a house in USA, which he has let out at \$ 6,000 p.m. The municipal taxes paid to the Municipal Corporation of USA is \$ 4,000 during the PY 2024-25. The value of one \$ in Indian rupee to be taken at ₹ 80. **Compute Ramesh's taxable income.**
- 3) **Mr. Ajay furnishes the following particulars in respect of a house property:**

Municipal Valuation	:	₹ 2,00,000
Fair Rent	:	₹ 2,40,000
Actual Rent	:	₹ 20,000 PM
Municipal Taxes paid	:	₹ 10,000

The property was vacated on 1.11.2024 and thereafter the property was let out for ₹ 25,000 PM. The assessee could not realize rent for the month of September and October 2024 due to death of the earlier tenant. **Compute the income for HP.**
- 4) Mr. X took a loan of ₹ 6,00,000 @ 10% on 1/07/2021. The construction is actually completed on 31/05/2023. The assessee repaid loan of ₹ 2,00,000 on 30/06/2022 & ₹ 3,00,000 on 31/12/2024. **Compute deduction of Interest.**
- 5) X takes a loan of ₹ 40,000 @ 15% per annum for construction a house on June 1, 2019. Construction of the house is completed on January 20, 2025. Date of repayment of loan is
 - a. January 16, 2028, or
 - b. June 30, 2026, or
 - c. October 31, 2022.**Compute the interest allowable as deduction under section 24.**
- 6) 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 under section 24 for the PY 2024-25.**
- 7) Arvind commenced construction of a residential house intended exclusively for his residence, on 1.11.2023. He raised a loan of ₹ 5,00,000 at 16% interest for the purpose of construction on 1.11.2023. Finding that there was an over-run in the cost of construction he raised further loan of ₹ 8,00,000 at the same rate of interest on 1.10.2024. **What is the interest allowable under section 24, assuming that the construction was completed on 31.3.2025?**
- 8) **Compute Income from house property of Mr. X, having house property in Delhi, for PY 2024-25:**

Municipal Valuation	:	₹ 1,75,000 PA
Fair Rent	:	₹ 2,50,000 PA
Std. Rent	:	₹ 2,10,000 PA
Actual Rent	:	₹ 22,500 Per Month

Municipal taxes are ₹ 40,000 PA and Repairs towards the house are ₹ 23,000. Also X has taken a loan of ₹ 8,00,000 @ 10% on 1.7.2021 for construction of house which is completed on 20.2.2024. The loan is still not paid.
- 9) Mr Anil borrowed a loan of ₹ 8,00,000 on 1.7.2019 @ 12%. The construction is completed on 30.11.2021. Compute Income if house is self occupied for PY 2024-25. Other details are as under:

Municipal Valuation ₹ 3,50,000. Fair Rent ₹ 250,000. Standard Rent ₹ 4,20,000. Municipal Taxes Paid ₹ 20,000.

- 10) Ms. Ramya owns a house property the construction of which was completed in November 2021. The house is let-out for a rent of ₹ 9,000 per month. On 1 April 2019 she borrowed a loan of ₹ 3 lakhs for the purpose of construction @ 18% interest. On 30th November, 2021, she borrowed a loan of ₹ 2 lakhs @ 15% interest and utilized this amount along with interest free rental advance of ₹ 1 lakh obtained from the tenant and repaid the original loan of ₹ 3,00,000/-. The house is insured and the premium of ₹ 2,000 is regularly paid each year. Property taxes paid is ₹ 15,000/-. **Compute the income from house property.**
- 11) **[Vacancy]** Lakdawala completed construction of a residential house on 1.4.2020. Interest paid on loans borrowed for purpose of construction during the 2 years prior to completion was ₹ 20,000. The house was let-out on a monthly rent of ₹ 4,000. Annual Corporation Tax paid is ₹ 6,000. Interest paid during the year is ₹ 15,000. Amount spent on repairs is ₹ 2,000. Fire Insurance Premium paid is ₹ 1,500 p.a. Property was vacant for 3 months. Annual letting value is ₹ 30,000. **Compute the income chargeable under the head "Income from House Property".**
- 12) **Compute Income from house property of Mr Yatin, having house property in Agra, for P.Y. 2024-25 (Let out for 10 Months and Self occupied for 2 month):**
- | | | |
|------------------------------------|---|-----------------|
| Municipal Valuation | : | ₹ 3,15,000 P.A. |
| Fair Rent | : | ₹ 3,50,000 P.A. |
| Std. Rent | : | ₹ 3,20,000 P.A. |
| Actual Rent (Let out for 10 Month) | : | ₹ 25,000 P.M. |
- Municipal taxes are 20% of MV and half of the amount is paid. Yatin also has taken a loan of ₹ 10,00,000 @ 10% on 1.7.2019 which is fully repaid on 31.12.2022 and construction of house is completed on 20.4.2023.
- 13) **X owns a property at Delhi (municipal value ₹ 1,64,000 p.a., fair rent: ₹ 2,16,000 p.a., standard rent: ₹ 1,80,000 p.a.).** The house is let out up to January 31, 2025 (monthly rent being ₹ 14,000). From February 1, 2025, the property is self-occupied for own residential purposes. Expenses incurred by X are: municipal tax: ₹ 6,000 (actually paid), repairs: ₹ 2,100, insurance : ₹ 1,100, interest on capital borrowed (dated of borrowing being June 10, 1997) for acquiring the property: ₹ 1,23,000. Assuming that the income of x from other sources is ₹ 1,86,000, **find out the net income of X. Does it make any difference if property is let out up to January 31, 2025 @ ₹ 19,000 per month?** There is no unrealized rent.
- 14) **X owns a residential house property in Jaipur. It has two equal residential units- Unit 1 and Unit 2. While Unit 1 is self – occupied by X for his residential purpose, Unit 2 is let out on rent being ₹ 6,000 per month, rent of 2 months could not be recovered).** Municipal value of the property is ₹ 1,30,000 p.a., standard rent is ₹ 1,25,000 p.a. and fair rent is ₹ 1,40,000 p.a.. Municipal tax is imposed @ 12% which is paid by X. Other expenses for the previous year being repairs: ₹ 250, insurance: ₹ 600, interest on capital (borrowed during 1998) for constructing the property: ₹ 63,000. **Find the income of X on the assumption that income of X from other sources is ₹ 1,80,000.**
- 15) **Mrs. Indu, a resident individual, own a house in USA. She receives rent @ \$ 1,000 per month. She paid municipal taxes of \$750 during the financial year 2024-25.** She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of ₹ 10,000. Standard rent for each floor is ₹ 11,000 per month. Fair rent for each floor is ₹ 140,000. Municipal taxes paid for the house amounts to ₹ 7,500. Mrs. Indu had constructed the house by taking a loan from a nationalized bank on 20.6.2016. She repaid the loan of ₹ 54,000 including interest of ₹ 24,000. The value of one dollar is to be taken as ₹ 90. **Compute total income from house property of Mrs. Indu.**
- 16) **[Vacancy] - Y owns a big house (erection completed on 31.03.2015). The house has three independent units.** Unit – I (50% of the floor area) is let out for residential purpose on monthly rent of ₹ 8,200. Unit – I remains vacant for 1 month when it is not put to any use. A sum of ₹ 700 could not be collected from the tenant. Unit –II (25% of the floor area) is used by Y for the purpose of his profession, while Unit – III (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:
- Municipal valuation: ₹ 60,000, fair rent: ₹ 70,000, standard rent under the Rent control Act: ₹ 90,000, municipal taxes: ₹ 15,000, repairs: ₹ 4,000, interest on capital borrowed for renewal of the property: ₹ 36,000, ground rent: ₹ 6,400, annual charge created under the will by father in favour Mrs. Y: ₹ 9,000 and fire insurance premium paid: ₹ 15,000. Income of Y from profession is ₹ 7,95,000 (without debiting house rent and other incidental expenditure including admissible depreciation on the portion of house used for profession: ₹ 8,000). **Determine the taxable income of Y.**

17) Deemed Ownership: Answer the following:

- a) Mr. Ram transfers a property of market value ₹ 10,00,000 to his wife only for ₹ 4,00,000. The income from such property is ₹ 1,50,000. How will the property income be taxed?
- b) Mr. Rohan gifts a property valuing ₹ 5,00,000 to his minor child being a married daughter. The annual income from such property is ₹ 25,000. How will the property income be taxed?
- c) Mr. Sohan gifts ₹ 20,00,000 to his wife and the wife purchases a house property of ₹ 20,00,000 out of such money. Will Mr. Sohan be the deemed owner of the house property?
- d) Mr. A gives his house property on lease to Mr. B for a total period of 13 years, but the lease is to be renewed by Mr. B annually during this period. In whose hands will the property income be assessed?
- e) Mr. X gives his house property on lease to Mr. Y for a period of two year. Mr. Y can get the lease renewed for another two years on payment of a specified sum and so on for indefinite period. In whose hands will the property income be assessed?
- f) Mr. P leases his house property to Mr. Q for 8 months, which can be renewed every six months for indefinite period. In whose hands will the property income be assessed?

SOLUTION – SET B

1.
 - (a) Income from sub-letting is taxable under the head "Income from other sources". However, if the subletting constitutes a business activity, the same shall be taxable under the head 'Profit and gains of business and profession'.
 - (b) A person who owns the building need not necessarily be the owner of the land on which the building is constructed. The rent is derived from the building. In the present case the rent is derived from the house on a leasehold land. Therefore the income so received is taxable under the head 'Income from house property' and Mr. X is entitled to statutory deduction of 30% of such rent so received under/ section 24(a).
2. For the P.Y. 2024-25, Mr. Ramesh, a foreign national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in USA is to be included in the total income in India. Municipal taxes paid in USA is to be allowed as deduction from the gross annual value.

Computation of Income from house property of Mr. Ramesh

Particulars	₹
Gross Annual Value (\$ 6,000 × 12 × 80)	57,60,000
Less: Municipal taxes paid (\$ 4,000 × 80)	3,20,000
Net Annual Value (NAV)	54,40,000
Less: Deduction u/s 24	
(a) 30% of NAV = 30% of ₹ 60,80,000	16,32,000
Income from house property	38,08,000

3. Income from House Property – ₹ 161000.

- 4.
5. If date of repayment of loan is January 16, 2028 or June 30, 2026, then pre-construction period ends on March 31, 2024 (being March 31 immediately prior to the date of completion of construction/ acquisition). Interest on ₹ 40,000 @ 15 per cent per annum from June 1, 2019 to March 31, 2024 is ₹ 29,000. Amount of installment deductible in first 5 years is ₹ 5,800 (i.e., ₹ 29000/5).

If date of repayment is 31st October 2022, than pre-construction period ends on same date only as no loan is outstanding thereafter. Month – 41 month. Total Int. - 20500

	Year Ending on March 31, 2025
	₹
If date of repayment of loan is January 16, 2028:	
Current year's interest	6,000
Pre-construction period's interest	5,800
Total deduction	11,800
If date of repayment of loan is June 30, 2026	
Current year's interest	6,000*
Pre-construction period's interest	5,800
Total deduction	11,800
If date of repayment of loan is October 31, 2022:	
Current year's interest	Nil
Pre-construction period's interest [1/5 of 20500]	4,100
Total	4,100

6. 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 installments of ₹ 5,000 from the year of completion of construction i.e. in this case, PY 2024-25.
 Therefore, total interest deduction under section 24 = 50,000 + 5,000 = ₹ 55,000.

7. Computation of Interest allowable under section 24 in the hands of Mr. Arvind.**Assumption :** Construction completed on 31.3.2024

In the present case,

Pre construction period starts from

1.11.2023 (date of commencement of construction & borrowing) and ending on

31.3.2024 (being 31st March immediately prior to year of completion which is 31.3.2025)

Loan Amount ₹ 5,00,000.

Computation of Interest for pre construction period.

$$₹ 5,00,000 \times 16\% \times 5/12 = ₹ 33,333$$

This interest is to be allowed in five equal installments commencing from the year in which the construction is completed i.e. interest on account of pre-construction period for assessment year 2025-26 is ₹ 33,333 * 1/5 = ₹ 6,667.

Computation of total interest for the period 1.4.2024 to 31.3.2025

₹

Current year interest On loan of ₹ 5,00,000

$$₹ 5,00,000 \times 16\%$$

80,000

On further loan of ₹ 8,00,000 (for the period 1.10.2024 to 31.3.2025)

$$₹ 8,00,000 \times 16 / 100 \times 6 / 12$$

64,000

1,44,000

Interest for pre construction period

6,667

Total interest

1,50,667

8. GAV – 270,000; NAV – 230,000; Deduction u/s 24(a) - 69,000 + u/s 24(b) Interest – 28,000 (1/5 of 140,000) + 80,000
Income from House property – ₹ 53,000

9. NIL (Self Occupied) Less Interest – 96000 + 33600 [1/5 for 21 months]

10. GAV – 108000; Pre Construction – 108000/5. Income from House Property: ₹ 13,500.

11. **GAV – 36,000; M. Tax – 6,000; NAV -30,000; Std Ded - @ 30% - ₹ 9,000; Interest – 15000 + 1/5 of 20000**
Income from House Property – ₹ 2,000

12. GAV – 3,20,000. Mun tax – 31,500 (Half Paid), Pre Construction Interest – 3,50,000 [42 month]
Income from House Property – ₹ 1,31,950.

13.

	If rent is ₹ 14,000 per month ₹	If rent is ₹ 19,000 per month ₹
Municipal valuation (MV)	1,64,000	1,64,000
Fair rent (FR)	2,16,000	2,16,000
Standard rent (SR)	1,80,000	1,80,000
Annual rent	1,40,000	1,90,000
Gross annual value		
Step I - Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR]	1,80,000	1,80,000
Step II - Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy	1,40,000'	1,90,000
Step III - Amount computed in Step 1 or Step II, whichever is higher	1,80,000	1,90,000
Step IV - Loss due to vacancy	Nil	Nil
Step V - Gross annual value is Step III minus Step IV	1,80,000	1,90,000
Less: Municipal tax	6,000	6,000
Net annual value	1,74,000	1,84,000
Less: Deduction under section 24		
Standard deduction (30%)	52,200	55,200
Interest on borrowed capital	1,23,000	1,23,000
Income from property	(-) 1,200	5,800
Other income	1,86,000	1,86,000
Net income	1,84,800	1,91,800

14. Unit 1 - Self-occupied

Gross annual value	₹ Nil
Less: Municipal tax	Nil
Net annual value	Nil
Less: Interest on borrowed capital [1 / 2 of ₹ 63,000 or ₹ 30,000 whichever is lower]	30,000
Income of Unit 1	(-) 30,000

Unit 2- Let out

Municipal value (50% of ₹ 1,30,000) (MV)	65,000
Fair rent (50% of ₹ 1,40,000) (FR)	70,000
Standard rent (50% of ₹ 1,25,000) (SR)	62,500
Annual rent (₹ 6,000 X 12)	72,000
Unrealised rent	12,000

Gross Annual Value

Step I - Reasonable expected rent of the property [MV or FR, whichever is higher, but subject to maximum of SR] 62,500

Step II - Rent received/receivable after deducting unrealized rent but before adjusting loss due to vacancy 60,000

Step III - Amount computed in Step I or Step II, whichever is higher 62,500

Step IV - Loss due to vacancy NIL

Step V - Gross annual value is Step III minus Step IV 62,500

Less: Municipal tax (50% of 12% of ₹ 1,30,000) (7,800)

Net annual value 54,700

Less: Deduction under section 24

Standard deduction (30% of ₹ 54,700) (16,410)

Interest on borrowed capital (50% of ₹ 63,000) (31,500)

Income of Unit 2 6,790

Computation of income of X

₹

Income from house property

Unit 1: ₹ (-) 30,000

Unit 2: ₹ 6,790 (-) 23,210

Other income 1,80,000

Net income 1,56,790

15. Computation of taxable Income from House Property

	House No. 1 at USA	House No. 2 at Mumbai (First Floor)
	(Let out)	(Let out)
	₹	₹
Gross annual value [1000 x 12 x 90]	10,80,000	1,32,000
Less : Municipal tax paid by the owner [750 x 90]	67,500	3,750
	10,12,500	1,28,250
Less: Deductions under section 24		
(a) Statutory deduction @30%	3,03,750	38,475
(b) Interest on borrowed capital	Nil	12,000
	3,03,750	50,475
Income from house property	7,08,750	77,775

House No. 2 – Ground Floor (Self occupied)

Annual value	Nil
Less : Interest on loan for current year	12,000
	(-)12,000

In Nutshell**Incomes taxable under the head Income from House Property**

House No. 1 (USA)	7,08,750
House No. 2 (First Floor)	77,775
	7,86,525
House No. 2 (Ground Floor)	(-) 12,000
	7,74,525

Working Note:

Annual value of property at Mumbai

1. Annual value of the property

Notional rent or expected rent - it is the higher of MV or FR but it cannot exceed SR

Municipal Value: Not given

Fair Rental Value: 140,000

Standard Rent: ₹ 11,000 × 12 = ₹ 1,32,000

Notional rent or expected rent

₹ 1,32,000

Actual rent received:

₹ 10,000 × 12 = ₹ 1,20,000

₹ 1,20,000

Annual value is the higher of notional rent or actual rent

16. Unit 1 (let out)

Municipal valuation (50% of ₹ 60,000) (MV)

30,000

Fair rent (50% of ₹ 70,000) (FR)

35,000

Standard rent (50% of ₹ 90,000) (SR)

45,000

Annual rent (₹ 8,200 × 12)

98,400

Unrealized rent

700

Loss of rent because of vacancy

8,200

Gross Annual Value**Step I** - ALV of the property [MV or FR, whichever is higher, but subject to maximum of SR]

35,000

Step II - Rent received / receivable after deducting unrealized rent and loss due to vacancy

89,500

Step III - Gross annual value = Amount computed in Step I or Step II, whichever is higher

89,500

Less: Municipal tax (50% of ₹ 15,000)

7,500

Net annual value

82,000

Less: Deductions under section 24

Standard deduction (30% of ₹ 82,000)

24,600

Interest (50% of ₹ 36,000)

18,000

House Property Income of Unit 1**39,400****Unit 3 (self-occupied)**

Net annual value

Nil

Less: Interest (25% of ₹ 36,000)

9,000

House Property Income of Unit 3**(-) 9,000****COMPUTATION OF PROFESSIONAL INCOME**

₹

₹

[Unit II – Used for Profession]

Income**7,95,000**

Less: Municipal taxes (1/4 of ₹ 15,000)

3,750

Repairs (1/4 of ₹ 4,000)

1,000

Interest (1/4 of ₹ 36,000)

9,000

Ground rent (1/4 of ₹ 6,400)

1,600

Annual charge (*personal expenditure not deductible)

*Nil

Insurance premium (1/4 of ₹ 15,000)

3,750

Depreciation

8,000

27,100

7, 67,900**COMPUTATION OF TOTAL INCOME****Income from house property:**

Unit 1

39,400

Unit 3

(–) 9,000

30,400

Income from profession

7,67,900

Gross total income

7,98,300

Less: Deduction under section 80C

Nil

Net income**7,98,300****Note - Ground rent, annual charge and fire insurance premium are not deductible while calculating property income.**

17. The above issues can be answered as follows -

- (a) Here Mr. Ram has transferred his house property to his spouse otherwise than for adequate consideration. Therefore, he will be deemed to be owner of the property to the extent of such inadequacy of consideration i.e. 60% of the house and the part of house representing the consideration i.e. 40% of the house shall be assessed in the hands of the spouse.
In other words, the property income shall be assessed as follows -
In the hands of Mr. Ram: ₹ 1,50,000 × 6,00,000 ÷ 10,00,000 = ₹ 90,000
In the hands of Mrs. Ram: ₹ 1,50,000 × 4,00,000 ÷ 10,00,000 = ₹ 60,000
- (b) In case of property transferred by way of gift to minor child being a married daughter, the transferor shall not be deemed to the owner of the property because section 27 specifically excludes married daughter from this purview.
- (c) Section 27(i) speaks of transfer of house property and not the transfer of any other asset. In this case, Mr. Sohan doesn't transfer house property but what is transferred is money. It is immaterial that out of such money the Mrs. Sohan purchases a house property. The owner of the house property will be Mrs. Sohan. Mr. Sohan cannot be deemed to be the owner of such house property.
- (d) In this case the lease is for a period exceeding 12 years, but the same is to be renewed annually i.e. for a period not exceeding one year. Hence, the same doesn't fall u/s 27 and therefore, Mr. B is not the deemed owner of the property u/s 27. The property income will be assessed in the hands of Mr. A.
- (e) The lease is to be renewed after every two years but the lessee i.e. Mr. Y has a right to get it renewed after every two years for indefinite period. Hence, the total period of lease can be more than 12 years and therefore, Mr. Y will be deemed to be the owner of the house property and property income will be assessed in his hands.
- (f) Since the lease is to be renewed every six months i.e. for a period not exceeding one year, therefore, lease doesn't fall under section 27 and Mr. Q cannot be deemed to be the owner of the house property. Thus, the property income will be assessed in the hands of Mr. P.

INCOME UNDER THE HEAD OF SALARIES

[Chapter IV-A & Section 15 to Section 17]

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

[Only Page 6.1 is amended]

Income from Salary		XXX
Add: Income by way of Allowances		XXX
Add: Taxable Value of Perquisites		<u>XXX</u>
Gross Salary		XXX
Less: <u>Deduction under section 16</u>		
(i) Statutory Deduction	50,000	
(ii) Entertainment Allowances	XXX	
(iii) Professional Tax	<u>XXX</u>	<u>XXX</u>
INCOME UNDER THE HEAD "SALARIES"		<u>XXX</u>

NOTE:

1. Deduction under Section 16(ii) & 16(iii) would NOT be available in case of an employee, being an assessee, who is paying tax under the default regime i.e. under section 115BAC.
2. *Standard deduction u/s 16(ia) is increased to ₹ 75,000 if the assessee pays tax as per default tax regime i.e. Section 115BAC [Amended by the Finance (No. 2) Act, 2024]*

CONDITION FOR CHARGING INCOME UNDER THE HEAD OF "SALARIES"

Income is taxable under the head 'salaries' only if there exists employer-employee relationship between the payer and the payee.

IMPORTANT FEATURES OF EMPLOYER-EMPLOYEE RELATIONSHIP:

1. Contract of Services (Salary) Vs Contract for services (PGBP)
2. Master-Servant Relationship.
3. Direct supervision and control of the employer.
4. It is distinct from principle-agent relationship.

INSTANCES WHERE EMPLOYER-EMPLOYEE RELATIONSHIP EXISTS/DOES NOT EXIST

- 1) **Director of a company:** In the case of a Director of a company, employer – employee relationship cannot be presumed but should be ascertained based on the service agreement, if any, executed or the Articles of Association of the company.
- 2) **MPs/MLAs:** The CBDT has issued instructions that salaries of MPs and MLAs [Member of legislative assemblies] is not chargeable under the head 'salaries' but it is chargeable under the head 'income from other sources' since there is no employer – employee relationship between them and the Government.
- 3) **Paper-setters/Examiners:** Where a teacher of college receives remuneration for setting question paper for examination or works as an invigilator in University then the remuneration received by him will be taxable under the head 'income from other sources'.
- 4) **Judges:** It was held that what the Judges receive is salary since there is employment as created by the constitution of India.

SECTION 17(1) [Clause (1) of Section 17] - 'SALARY' includes:

- a) Wages,
- b) any Annuity or **Pension**,
- c) any **Gratuity**,
- d) any Fees, Commission, **Perquisite** or **Profits in lieu of or in addition to any Salary** or Wages,
- e) any Advance of salary,
- f) any payment received in respect of any period of leave not availed by him i.e. **Leave Salary** or leave encashment,
- g) the portion of the annual accretion in any previous year to the balance at the credit of an employee participating in a **recognised provident fund to the extent it is taxable**,
- h) the aggregate of all sums that are **comprised in the transferred balance** of an employee participating in a recognized provident fund to the extent it is taxable,
- i) the **contribution made by the Central Government or any other employer** in the previous year to the account of an employee **under a pension scheme referred to in section 80CCD**.
- j) the **contribution made by the Central Government** in the previous year, to the **Agniveer Corpus Fund** account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH

SECTION 15 - BASIS OF CHARGE

The following Income shall be chargeable to income tax under the head "Salaries"

- **Salary Due:** Any Salary due from an employer or a former employer to an assessee in the previous year, whether paid or not.
- **Advance Salary:** Any salary paid or allowed to the assessee in the previous year by or on behalf of an employer or a former employer though not due or before it became due to him
- **Arrears of Salary:** Any arrears of salary paid or allowed to assessee in the previous year by or on behalf of an employer or a former employer, if not charged to income-tax for any earlier previous year.

Note:

1. Salary chargeable to tax either on '**due**' basis or on '**receipt**' basis **whichever is earlier**.
2. **Accounting method** of the employee is not relevant

SALARY IN THE GRADE SYSTEM:

Refer Class Notes

TAX TREATMENT OF DIFFERENT FORM OF 'SALARY'**Advance Salary:**

Salary *can't be taxed twice i.e.* where any salary paid in advance is taxed on receipt basis (in the yr. of receipt) it can't be taxed again on the due basis (in the yr. in which it becomes due).

Arrear of Salary:

Arrear of Salary received by an assessee is charged to tax on receipt basis (if it was not taxed earlier on due basis).

Salary to Partners:

Any salary, bonus, commission or remuneration received by a partner from his firm is taxed as **business income** and not as salary income.

Fees & Commission:

Fees & Commission paid to an employee are taxed as salary income.

Overtime Payment:

Overtime payment is a taxable salary income.

Annuity:

As per the definition, 'annuity' is treated as salary. Annuity is a sum payable in respect of a particular year. It is a yearly grant. If a person invests some money entitling him to series of equal annual sums, such annual sums are annuities in the hands of the investor.

Annuity received by a present employer is to be taxed as salary. It does not matter whether it is paid in pursuance of a contractual obligation or voluntarily.

Annuity received from a past employer is taxable as profit in lieu of salary. **Annuity received from person other than an employer is taxable as "income from other sources".**

Bonus:

Bonus is taxed in the year of receipt, ***it is not taxed on due basis.***

Salary from UNO {Sec. 2 of UN (Privileges & Immunities Act, 1947)}:

Salaries, emoluments & pension paid by UNO to its officials are exempt from tax.

Full-time or part-time employment:

It does not matter whether the employee is a fulltime employee or a part-time one. Once the relationship of employer and employee exists, the income is to be charged under the head "salaries".

Foregoing of Salary:

Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable to tax.

Surrender of Salary:

If an employee [Govt/PSU/Pvt] surrenders his salary to the Central Government ***under Section 2 of the Voluntary Surrender of Salaries (Exemption from Taxation) Act, 1961***, the salary so surrendered would be exempt while computing his taxable income.

TDS on Salary:

As Per Section 192, every employer has to deduct Tax on the Taxable salary of his employee if such salary is more than the basic exemption limit and handover the net salary which is after TDS, to the employee. While calculating taxable Income of employee 'Salary before TDS' has to be taken and not the net salary after TDS.

Salary Paid Tax-Free:

In this arrangement, the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid and bears by the employer.

However, as per section 10(10CC), the income-tax paid by the employer on non-monetary perquisites on behalf of the employee would be exempt in the hands of the employee.

Loan or Advance against Salary:

Loan is different from salary. When an employee takes a loan from his employer, which is repayable in certain specified installments, the loan amount cannot be brought to tax as salary of the employee.

Similarly, advance against salary is different from advance salary. It is an advance taken by the employee from his employer. This advance is generally adjusted with his salary over a specified time period. It cannot be taxed as salary.

PLACE OF ACCRUAL OF SALARY (ALSO REFER RESIDENTIAL STATUS CHAPTER)

- **Section 9(1)(ii)** provides that **salary earned in India** is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

[Pension paid abroad] in respect of services rendered in India & **leave salary paid abroad** in respect of leave earned in India is deemed to accrue or arise in India]

- **Section 9(1)(iii)** provides that salaries payable **by the Government to a citizen of India for services outside India** shall be deemed to accrue or arise in India.

Foreign Allowances by the Govt. Employer - Section 10(7) –Exempted

Any allowance or perquisite **paid or allowed outside India**, by the Indian Govt. to a citizen of India, for rendering service outside India is fully exempt.

Example: If an employee gets **pension paid abroad** in respect of services rendered in India, the same will be deemed to accrue in India. Similarly, **leave salary paid abroad** in respect of leave earned in India is deemed to accrue or arise in India.

Example: A, a citizen of India is posted in the United States as our Ambassador. Obviously, he renders his services outside India. He also receives his salary outside India. He is also a non-resident. The same will be deemed to accrue or arise in India.

SECTION 17(3) – “PROFITS IN LIEU OF SALARY” INCLUDES**(a) TERMINAL COMPENSATION:**

The amount of any compensation due to or received by employee from his employer or former employer in connection with the termination of his employment or the modification of the terms and conditions relating thereto.

[Usually, such compensation is treated as a capital receipt. However, by virtue of this provision, the same is treated as a revenue receipt and is chargeable as salary.]

(b) PAYMENT FROM AN UNRECOGNIZED PROVIDENT FUND:

Any payment due / received by an assessee **from unrecognized Provident Fund or other Fund to the extent to which it does not consist of employee's contributions or interest on such contributions.**

(c) PAYMENT UNDER KEYMAN INSURANCE POLICY:

Any payment due to or received by an assessee **under a Keyman Insurance policy** including the sum allocated by way of bonus on such policy.

(d) ANY AMOUNT, WHETHER IN LUMP SUM OR OTHERWISE, DUE TO THE ASSESSEE OR RECEIVED BY HIM, FROM ANY PERSON

- i. before joining employment with that person, or
- ii. after cessation of his employment with that person.

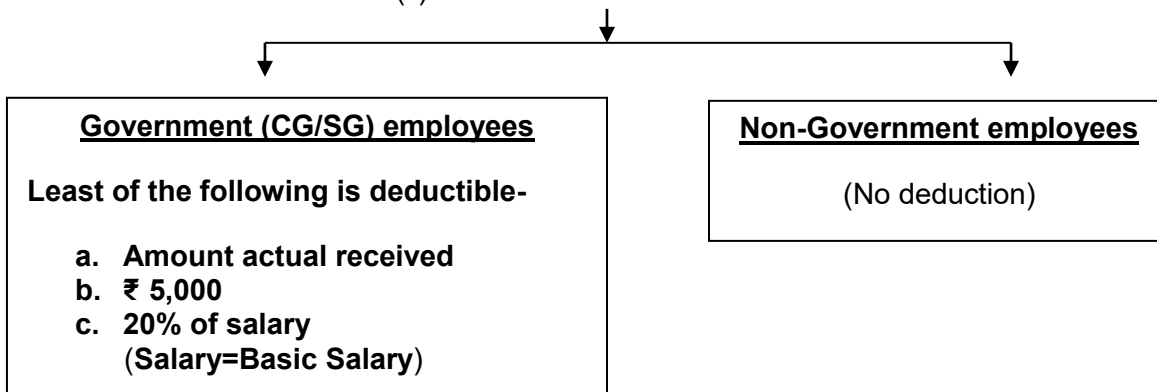
(e) ANY OTHER PAYMENT due to or received by an assessee from an employer or a former employer or any fund [Other than the payments exempt under section 10]

DEDUCTIONS FROM SALARY

The income chargeable under the head 'salaries' is computed after making the following deductions:

ENTERTAINMENT ALLOWANCE [SEC. 16(ii)]

- First the entire entertainment allowance received by an employee is **added to the gross salary**.
- Then deduction u/s 16(ii) shall be allowed as under.



Note – Actual expenditure towards entertainment is not deductible. It is irrelevant.

Important: Deduction in respect of entertainment allowance would be available to an assessee **only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).**

The deduction would not be available under the default tax regime i.e., under section 115BAC.

PROFESSIONAL TAX [SECTION 16(iii)]

Professional tax or taxes on employment levied by a State is allowed as deduction only **when it is actually paid** by the employee **during the previous year (deduction on paid basis)**.

The total amount by way of professional tax payable in respect of any one person shall not exceed ₹ 2,500 per annum. However, the amount paid during the previous year can be more than ₹ 2,500 as the employee may have paid the professional tax of an earlier year during the previous year.

If professional tax is reimbursed or directly paid by the employer on behalf of the employee, the amount so paid is **first included as salary income and then allowed as a deduction under section 16.**

Important: Deduction in respect of professional tax would be available to an assessee **only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).**

The deduction would not be available under the default tax regime i.e., under section 115BAC.

Question 1:

X is employed by A Ltd. (basic salary being ₹ 38,750 per month). Besides, he gets ₹ 3,000 per month as entertainment allowance. He pays professional tax of ₹ 1,000. Find out the salary chargeable to tax. Does it make any difference if the professional tax is paid by A Ltd.

Assume that Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer:

	If professional tax is paid by X ₹	If professional tax is paid by the employer A Ltd. ₹
Basic Salary (₹ 38,750 x 12)	4,65,000	4,65,000
Entertainment allowance	36,000	36,000
Professional tax paid by the employer	—	1,000
Gross Salary	5,01,000	5,02,000
Less : Deduction under section 16 Standard deduction	75,000	75,000
Entertainment allowance [not allowed]	—	—
Professional tax	1,000	1,000
Income under the head "Salaries"	4,25,000	4,26,000

Question 2

A furnishes the following particular for his remuneration from Delta Pvt. Ltd.

Basic salary	₹ 9,300 p.m.
Dearness Allowance (forming part of salary for retirement benefits)	₹ 4,500 p.m.
Entertainment Allowance	₹ 2,250 p.m.

He had paid ₹ 3,500 towards professional tax to State Government. **Compute his income from salary.**

Assume that Mr. A exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 3:

Mr. Goyal receives the following emoluments (Gross) during the previous year ending 31.03.

Basic pay	₹ 40,000
Dearness Allowance	₹ 15,000
Commission	₹ 10,000
Entertainment allowance	₹ 4,000
Professional tax paid	₹ 3,000 (₹ 2,000 was paid by his employer)

He has no other income. **Determine the income from salary, if Mr. Goyal is a State Government employee.**

Assume that Mr. Goyal exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

GRATUITY

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee. Now-a-days gratuity has become a normal payment applicable to all employees. **In fact, Payment of Gratuity Act, 1972 is a statutory recognition of the concept of gratuity. Almost all employers enter into an agreement with employees to pay gratuity.**

Exemption in respect of Gratuity [Section 10(10)]

Any gratuity received by an Individual **on retirement** is eligible for exemption u/s 10(10) as under –

- ✓ **IN CASE OF GOVT. EMPLOYEES (CG/SG), EMPLOYEE OF LOCAL AUTHORITY (BUT NOT STATUTORY CORPORATION), MEMBERS OF CIVIL OR DEFENCE SERVICES**

Gratuity received is **FULLY EXEMPT**

- ✓ **IN CASE OF OTHER EMPLOYEES**

(a) **If covered under Payment of Gratuity Act, 1972**, then **least of the following** is exempt:-

- (i) Actual Amount received
- (ii) ₹ 20,00,000
- (iii) $\frac{15}{26}$ days * **last drawn salary** for each completed year of service **or part thereof** in excess of 6 months

Note:

- 1. Salary means Basic Salary and Dearness Allowance (**Whether or not** forming part of retirement benefit) on **DUE BASIS**
- 2. In case of **SEASONAL ESTABLISHMENT** – “15 days” will be replaced with “7 days”.

(b) **If not covered under Payment of Gratuity Act, 1972**, then **least of the following** is exempt:-

- (i) Actual amount received
- (ii) ₹ 20,00,000
- (iii) Half month's salary (based on **last 10 months' average salary immediately preceding the month** of retirement or death) for each completed year of service (fraction to be ignored)

Note:

- 1. Salary means Basic Salary and Dearness Allowance, if provided in the terms of employment for retirement benefits, forming part of salary and commission which is expressed as a fixed percentage of turnover achieved by the employee. [Basic Salary + DA (R) + Commission (Sales)] - [Gestetner Duplicators Pvt. Ltd (SC)]
- 2. It should be on DUE BASIS.
- 3. Half Month Salary should be read as 15/30.

Notes:

1. Gratuity received **during the period of service is always taxable** for all employees.
2. If Employee receives gratuity from two or more employers, then aggregate amount of gratuity exempt from tax cannot exceed ₹ 20,00,000.
3. Where the employee has received gratuity in any earlier year & also receives gratuity from another employer in a later year, the limit of ₹ 20,00,000 will be reduced by the amount of gratuity exempt from tax in any earlier year.
4. Exemption under this provision will be available only in case where employer employee relationship exists.
5. **Exemption under section 10(10) would be available to an assessee irrespective of the regime under which he pays tax.**

Question 4:

Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of ₹ 12,00,000. At the time of retirement his salary was:

Basic Salary :	₹ 6,000 p.m.
Dearness Allowance :	₹ 4,000 p.m. (60% of which is for retirement benefits)
Commission :	1% of turnover (turnover in the last 12 months was ₹12,00,000)
Bonus :	₹ 20,000 p.a.

Compute his taxable gratuity assuming:

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

Question 5:

Mr. Hari retires on 15th October 2024, after serving 30 years and 7 months. He gets ₹ 3,80,000 as gratuity. His salary details are given below:

FY 2024-25	Salary ₹ 16,000 pm	D.A. 50% of salary. 40% forms part of retirement benefits.
FY 2023-24	Salary ₹ 15,000 pm	D.A. 50% of salary. 40% forms part of retirement benefits

Determine his taxable gratuity in the following cases:

- (i) He retires from government service
- (ii) He retires from seasonal factory in a private sector, covered under Payment of Gratuity Act, 1972.
- (iii) He retires from non-seasonal factory, covered by Payment of Gratuity Act, 1972
- (iv) He retires from private sector, not covered by payment of Gratuity Act

PENSION

“Pension” may be defined as a periodic payment made especially by Government or a company or other employers to the employee in consideration of past service payable after his retirement.

Pension is of two types: Commuted and Uncommuted

Uncommuted Pension:

Uncommuted pension refers to pension received periodically. **It is fully taxable in the hands of both government and non-government employees.**

Commuted Pension:

Commuted pension means lump sum amount taken by commuting the whole or part of the pension. Many persons convert their future right to receive pension into a lumpsum amount receivable immediately.

Exemption in respect of Commuted Pension [Section 10(10A)]

EMPLOYEES OF THE CENTRAL / STATE GOVERNMENT / LOCAL AUTHORITIES / STATUTORY CORPORATION / MEMBERS OF CIVIL OR DEFENCE SERVICES

Any commuted pension received is **fully exempt from tax.**

IN CASE OF OTHER EMPLOYEES:

Case I: If the Employee receives the Gratuity also:

Then Exemption = $1/3 * \text{Full Commutable value of Pension.}$

Case II: If the Employee DOES NOT receive any Gratuity:

Then Exemption = $1/2 * \text{Full Commutable value of Pension.}$

Here, Full Commutable value of Pension = $\frac{\text{Commuted Amount}}{\% \text{ of Commutation}}$

Notes:

1. Exemption u/s 10(10A) in respect of commuted pension is available to an assessee **irrespective of the regime (Section 115BAC) under which he pays tax.**
2. Judges of the Supreme Court and High Court **will be entitled to the exemption** of the commuted portion u/s 10(10A).

Question 6:

Mr. Sagar retired on 1.10.2024 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:

- a) He is a government employee.
- b) He is a non-government employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.
- c) He is a non-government employee and is in receipt of no gratuity at the time of retirement.

Exemption in respect of pension received by recipient of gallantry awards [Section 10(18)]

Any income by way of pension received by an individual is exempt from income tax if –

- a. such individual was an employee of Central or State Government **and**
- b. has been awarded “Param Vir Chakra” or “Maha Vir Chakra” or “Vir Chakra” or such other gallantry award notified by the Central Government in this behalf.

In case of the death of such individual, any income by way of family pension received by any member of the family of such individual **shall also be exempt** under this clause.

“Family”, in relation to an individual, means –

- The spouse and children of the individual; and
- The parents, brothers and sisters of the individuals or any of them, wholly or mainly dependent on the individual.

Exemption under section 10(18) would be available to an assessee irrespective of the regime under which he pays tax.

Exemption of disability pension granted to disabled personnel of armed forces who have been invalided on account of disability attributable to or aggravated by such service [CBDT Circular]

The entire disability pension, i.e., “disability element” and “service element” of pension granted to members of naval, military or air forces **who have been invalided out of naval, military or air force service on account of bodily disability attributable to or aggravated by such service** would be exempt from tax.

The CBDT has, vide this circular, clarified that exemption in respect of disability pension would be available to all armed forces personnel (irrespective of rank) who have been invalided out of such service on account of bodily disability attributable to or aggravated by such service.

However, such tax exemption will be available only to armed forces personnel who have been invalided out of service on account of bodily disability attributable to or aggravated by such service and **not** to personnel who have been retired on superannuation or otherwise.

LEAVE SALARY

Generally, employees are allowed to take leave during the period of service. Employee may avail such leave or in case the leave is not availed, then the leave may either lapse or be accumulated for future or allowed to be encashed every year or at the time termination/ retirement.

The payment received on account of encashment of unavailed leave would form part of salary. However, section 10(10AA) provides exemption in respect of amount received by way of encashment of unutilised earned leave by an employee **at the time of his retirement, whether on superannuation or otherwise.**

Exemption of amount received by way of encashment of unutilised earned leave on retirement [Section 10(10AA)]

In case of Central or State Government Employees [Employee of Local Authority/Statutory Corporation excluded]:

- Fully Exempt

In case of other Employees:

- Leave salary received at the time of retirement is exempt from tax to the extent of least of the following:
 - i) ₹ 25,00,000
 - ii) Leave salary actually received
 - iii) 10 months X Average Salary
 - iv) Earned leave to the credit of employee x Average Salary

Where:

(1) 'Average salary' will be determined on the basis of the salary drawn during the period of ten months immediately preceding the date of his retirement whether on superannuation or otherwise.

(2) Salary means Basis Salary + DA (R) + Commission (Sales).

(3) **Earned leave to the credit of the employee =**

{Annual Leave Entitlement (Not exceeding 30 days) X Completed years of actual service rendered (Fractions will be ignored)} – Leave availed during the service

Note:

- (1) **Leave salary received during the period of service (i.e. during continuity of employment) is fully taxable.**
- (2) Leave encashment on retirement by way of resignation will also be eligible for exemption.
- (3) Where leave salary is received from two or more employers in the same year, then the aggregate amount of leave salary exempt from tax cannot exceed ₹ 25,00,000.
- (4) Where leave salary is received in any earlier year from a former employer and again received from another employer in a later year, the limit of ₹ 25,00,000 will be reduced by the amount of leave salary exempt earlier.
- (5) *Exemption under section 10(10AA) would be available to an assessee irrespective of the regime under which he pays tax.*

Question 7

Mr. G retired on 1.12.2024 after 20 years 10 months of service, receiving 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.

RETRENCHMENT COMPENSATION [SECTION 10(10B)]

Any compensation received by a workman at the time of his retrenchment, under the Industrial Disputes Act, 1947, shall be exempt to the extent of **least of the following**:

- (i) Actual amount received;
- (ii) An amount calculated in accordance with Section 25F(b) of the Industrial Disputes Act, 1947 i.e. **15 / 26 day's average pay [3 months basis] for every completed year of service or part thereof in excess of 6 months;**
- (iii) ₹ 5,00,000.

[In case where the retrenchment scheme is approved by the Central government, the entire amount is exempt.]

Note: Pay will include Basic Salary + D.A (Whether or not forming part of retirement benefit) + any commission.....etc.

Exemption under section 10(10B) would be available to an assessee irrespective of the regime under which he pays tax.

Question 8:

Mr. Agrawal received retrenchment compensation of ₹ 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance ₹ 5,000 p.m. Compute his taxable retrenchment compensation.

COMPENSATION RECEIVED at the time VRS / VSS under Golden Handshake Scheme – [SECTION 10(10C)]**(A) Compensation received is exempt from tax if the following conditions are satisfied:**

- 1) Compensation is received at the time of Voluntarily Retirement Scheme or Voluntarily Separation Scheme.
- 2) **Compensation is received by the employees of -**
 - a. Central & State Govt.
 - b. Local Authority
 - c. Statutory Corporation
 - d. Co – Operative Society
 - e. Public Sector Company; or any other Company
 - f. Approved University
 - g. I.I.T.
 - h. Notified Institution
 - i. Some Notified institute of management (i.e. IIM and IIFT)
- 3) Compensation is received in accordance with VRS / VSS framed in accordance with guidelines.
- 4) Exemption u/s. 10(10C) **shall be once for any assessment year [Means “in life”]**.
- 5) **No Exemption if relief availed u/s 89:**

Where any relief has been allowed to an assessee under section 89 for any AY in respect of any amount received or receivable on his voluntary retirement or termination of service or voluntary separation, ***no exemption under this section shall be allowed to him in relation to such, or any other, AY.***

Further, once relief is claimed u/s 89, the right to claim exemption in respect of VRS compensation is lost forever.

(B) Quantum of Exemption: *Least of the following is exempt:*

- 1) Actual Compensation Received
- 2) **Statutory Limit: ₹ 5,00,000**
- 3) 3 months' salary for each completed year of service
- 4) Salary at the time of retirement x balance months of service left
[Salary = Last drawn Basic Pay + DA (R) + Comm. (Sales)]

Exemption under section 10(10C) would be available to an assessee irrespective of the regime under which he pays tax.

(C) Following guidelines should be noted for the purpose of claiming exemption [Rule 2BA]:

- a) The employee must have **completed 10 year of service or attained 40 years of age** except in the case of an employee of a PSU;
- b) The employee **must not be a director** in a company or co-operative society;
- c) The scheme results in **overall reduction in the existing strength** of the employees;
- d) The vacancy caused on such VRS / VSS **shall not be filled up**.
- e) The retiring employee **shall not be employed in another company** or concern belonging to the same management group; and

Question 9:

Mr. A received voluntary retirement compensation of ₹ 8,00,000 after 30 years 4 months of service. He still has 6 year of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; DA (which forms part of pay) ₹ 5,000 p.m.; **compute his taxable VRS.**

VALUATION OF LEAVE TRAVEL CONCESSION**[Section 10(5) read with Rule 2B]**

Exemption under this section would be available only to employees exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). It is not available under the default tax regime under section 115BAC.

1. An employee is entitled to exemption under section 10(5) in respect of value of travel concession or assistance due to or received by him from his employer or former employer for himself and his family, in connection with his proceedings-
 - a. on leave to **any place IN INDIA**, or
 - b. to any place in India after retirement from service or after the termination of his service.

FAMILY MEANS: (Spouse + Children) & (**Dependent Parents / Brothers / Sisters** of the individual)

2. Availability of Exemptions:

- a. Exemption is available in respect of **2 journeys performed in a block of 4 calendar years. The current block is 2022-2025 (10th).**
- b. However, if individual does not avail such LTC during any such block then he can claim the exemption of one journey in the calendar year immediately succeeding the end of the said block.

Example:

An employee does not avail any LTC for the block 2018-2021. He is allowed to carry forward maximum one unavailed LTC to be used in the succeeding block of 2022-2025. Accordingly, if he avails LTC in April, 2022, the same will be treated as having availed in respect of the block 2018-2021. Therefore, he will be eligible for exemption in respect of that journey and two more journeys can be further availed in respect of the block of 2022-2025.

- c. Exemption **shall not be available to more than 2 surviving children** of an individual after 1.10.1998. However, this restriction does not apply in respect of **children born before 1.10.1998** & also in respect of **multiple births after one child**.

3. **Amount of exemption CANNOT EXCEED** the amount of expenditure actually incurred for the purposes of such travel. **It is allowable only in respect of FARE.**

*Value of Leave travel concession provided to the High Court judge or the Supreme Court Judge and members of his family **are completely exempt without any conditions** if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).*

4. VALUE OF TRAVEL CONCESSION: Exemption u/s. 10(5) is subject to the following conditions:

<u>Different situations</u>	<u>Amount of Exemption</u>
Where journey is performed by AIR	➤ Amount of <u>ECONOMY CLASS AIRFARE OF NATIONAL CARRIER by the shortest route</u> OR the amount spent, whichever is less
Where journey is performed by RAIL	➤ Amount of <u>AC FIRST CLASS RAIL FARE</u> by the shortest route OR amount spent, whichever is less.
Where the places of origin of journey & destination are connected by Rail and journey is performed by any other Mode of Transport	➤ Amount of <u>AC FIRST CLASS RAIL FARE</u> by the shortest route OR amount spent, whichever is less.
Where the places of origin of journey and destination or part thereof are not connected by RAIL:	
➤ Where a Recognised Public Transport System exists	➤ <u>FIRST CLASS OR DELUXE CLASS FARE</u> by the shortest route OR the amount spent, whichever is less.
➤ Where a Recognised Public Transport System does not exist	➤ <u>AC FIRST CLASS RAIL FARE</u> by the shortest route (as if the journey had been performed by rail) OR the amount actually spent, whichever is less.

Question 10:

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).

Answer:

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).**

Question 11:

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

Answer:

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 LTC = $15,000 \times 1 / 3 = ₹ 5,000$.

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

Question 12:

Mr. J is working with ABC Ltd. getting the basic salary of ₹ 20,000 pm and DA of ₹ 5,000 pm. He is given bonus of ₹ 5000 in the August 2025 which was due in March 2025. He has availed the benefit of LTC during the current year and goes to Goa with his family. He takes along **with him his wife, one financially independent son, one married daughter, his dependent mother, his financially independent father, his financially independent sister and dependent father in law.** The employer has spent ₹ 15,000 per head on tickets in Jet Airways' Airlines where as the fare of Indian Airlines is ₹ 11,000 per head. Calculate his taxable Salary.

HOUSE RENT ALLOWANCE [Section 10(13A) read with Rule 2A]

HRA is a special allowance specifically granted to an employee by his employer towards payment of rent for residence of the employee. HRA granted to an employee is exempt to the extent of least of the following, **in case such assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A):**

- (1) Actual Amount received [HRA]
- (2) Rent Paid Less 10% of **Salary**
- (3) 50% of Salary (in Metro cities) **OR** 40% of Salary (in other cities)

Here, **Salary = Basic Pay + DA (forming part) + Commission (based on % of Sales Turnover)**

Notes:

- (a) If the employee receives HRA but does not incur any expenditure of Rent on residential accommodation, then HRA received is fully taxable.
- (b) Exemption is not available to an assessee who lives in his own house.
- (c) The exemption shall be calculated on the basis of where the accommodation is situated.
- (d) If Place of employment, Rent, HRA, Salary etc is the same for the whole year, then exemption shall be calculated for the whole year.
- (e) **If there is a change in place, change in rent paid, Change in HRA or change in Basic Salary structure during the previous year, then it shall be calculated on monthly/periodic basis.**
- (f) Exemption should be calculated in respect of the period during which rental accommodation is occupied by the Employee during the previous year.
- (g) Salary means Salary on Due Basis.
- (h) Exemption u/s 10(13A) would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). It is not available under the default tax regime u/s 115BAC.

Question 13:

Mr. A working in Delhi, receives the following amounts:

- (a) Basic salary ₹ 6,000 PM
- (b) DA ₹ 2,000 pm (50% is forming part of salary)
- (c) Commission based on production ₹ 30,000 annually
- (d) Commission based on Sales @ 2% on sales of ₹ 6,00,000 achieved by A
- (e) HRA ₹ 5,000 pm (Rent of ₹ 4,500 p.m. paid in Delhi).

Compute Total Income assuming Mr. A exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 14:

Mr. Agrawal has the following receipts from his employer:

- (1) Basic pay ₹ 3,000 p.m.
- (2) Dearness allowance (D.A.) ₹ 600 p.m.
- (3) Commission ₹ 6,000 p.a.
- (4) Motor car for personal use (expenditure met by the employer) ₹ 500 p.m
- (5) House rent allowance ₹ 900 p.m.

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

ALLOWANCES U/S 10(14)

Different types of allowances are given to employees by their employers. Generally allowances are given to employees to meet some particular requirements like house rent, expenses on uniform, conveyance etc. ***Under the Income-tax Act, allowance is taxable on due or receipt basis, whichever is earlier.***

ALLOWANCES EXEMPT TO THE EXTENT ACTUALLY EXPENDED FOR THE OFFICIAL PURPOSES [SECTION 10(14)(i)]

These allowances are given for official purposes and lower of the below two is the Exempted amount:

- I. **Amount of Allowance Actually Received from the Employer;** OR
- II. **Amount Spent for official purpose.**

S.No.	Nature	Particulars
(a)	Traveling Allowance	To meet the cost of travel on tour or on transfers (including any sum paid in connection with transfer, packing and transportation of personal effects on such transfer.
(b)	Daily Allowance	For ordinary daily charges on account of absence from his normal place of duty on tour or journey in connection with transfer
(c)	Conveyance Allowance	To meet the expenditure on local conveyance in performance of official duties if free conveyance is not provided by the employer
(d)	Helper Allowance (Servant Allowance is different)	Granted to meet the expenditure incurred on a helper engaged for the duties.
(e)	Academic / Research allowance	Granted for encouraging academic research & other professional pursuits.
(f)	Uniform Allowance	Granted to meet the expenditure incurred on the purchase or maintenance of uniform for wears during the performance of the duties.

Note:

An employee, being an assessee, who pays taxes under default scheme (i.e. under Section 115BAC) is entitled for exemption only in respect of

- ***Travelling allowance,***
- ***Daily allowance and***
- ***Conveyance allowance.***

ALLOWANCES MEANT FOR PERSONAL EXPENSES EXEMPT TO THE EXTENT NOTIFIED BY RULES [SECTION 10(14)(ii)]

In these allowances, the actual amount spend by the assessee is not relevant. **Lower of the below two amount is Exempted amount:**

I. Amount of Allowance Actually Received from the Employer OR

II. Limit specified in the Act

S.No.	Allowances	Extent of Exemption
1	Children Education Allowance	₹ 100 p.m. per child upto a max. of 2 children
2	Hostel Expenditure Allowance:	₹ 300 p.m. per child upto a max. of 2 children.
3	Tribal or Scheduled Area Allowance	₹ 200 P.M.
4	Transport Allowance	₹ 3,200 PM in case of Blind/Handicapped Employee
5	Underground Mines Allowance [Ex: Coal Mines]	₹ 800 P.M.
6	Allowances granted to employees of transport system to meet personal expenditure during his duty, provided he is not in receipt of daily allowances	Lower of below two is exempt: - 70% of allowance received from the Employer; OR - ₹ 10,000 P.M.
7	Any special allowance in the nature of counter insurgency allowance granted to the members of the armed forces operating in areas away from their permanent locations.	₹ 3,900 per month
8	Any special allowance in the nature of high Altitude allowance granted to the member of the armed forces operating in high altitude areas For altitude of 9,000 to 15,000 feet For above 15,000 feet	₹ 1,060 per month ₹ 1,600 per month
9	Any special allowance in the nature of special compensatory highly active field area allowance granted to the member of the armed forces	₹ 4,200 per month
10	Any special allowance in the nature of Island (duty) allowance granted to the member of the armed forces in Andaman & Nicobar and Lakshadweep Group of Islands	₹ 3,250 per month

Note:

An employee, being an assessee, who pays taxes under default scheme (i.e. under Section 115BAC) is entitled for exemption only in respect of transport allowance granted to an employee who is blind or deaf and dumb or orthopedically handicapped with disability of the lower extremities of the body to the extent of ₹ 3,200 p.m.

ALLOWANCES WHICH ARE FULLY TAXABLE

1) City Compensatory Allowance:

City Compensatory Allowance is normally intended to compensate the employees for the higher cost of living in cities. It is taxable irrespective of the fact whether it is given as compensation for performing his duties in a particular place or under special circumstances.

2) Entertainment Allowance:

This allowance is given to employees to meet the expenses towards hospitality in receiving customers etc. The Act gives a deduction towards entertainment allowance only to a Government employee.

3) Dearness Allowance:

It is fully taxable allowance. It is of following 2 types:

- ✓ DA which is forming part of salary for computation of retirement benefits as per the terms of employment.
- ✓ DA which is NOT forming part of salary for computation of retirement benefits as per the terms of employment.

Note: If the Question is silent, it is to be assumed that DA is not forming part of salary.

4) Medical Allowance: It is a fully taxable allowance.**5) Lunch Allowances / Tiffin Allowances / Cash Allowance / Deputation Allowance****6) Overtime Allowances / Servant Allowances / Warden Allowance / Family Allowance etc.****7) Project Allowances, Electricity Allowances etc.****ALLOWANCES WHICH ARE EXEMPT IN CASE OF CERTAIN PERSONS**

A. Fully Exempt under both tax regimes

Allowances to a citizen of India, who is a Government employee, rendering services outside India.
[Section 10(7)]

B. Fully Exempt only under the optional tax regime [i.e. Normal provisions of the Act]

- 1) Sumptuary allowance to HC/SC judges.
- 2) Allowance received by an employee of UNO from his employer.

Question 15:

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: ₹ 1,000 p.m. (amount spent ₹ 600 p.m.)

Tribal area allowance: ₹ 500 p.m. **Compute his taxable allowances [Ignore Section 115BAC].**

Question 16:

Mr. X receives Basic salary of ₹ 10,000 PM and DA of ₹ 4,000 PM. He retires on Oct 31st of the PY and pension is fixed at ₹ 3,000 PM. He receives the following amounts as well:

- (a) HRA ₹ 4,000 PM (he lives in his own house)
- (b) Medical allowance ₹ 600 PM (Actual expenditure on medical treatment is more than ₹ 600 PM)
- (c) Children Education allowance ₹ 250 PM per child for 3 children.
- (d) Children hostel allowance ₹ 250 PM for 1 child.
- (e) Travelling allowance ₹ 1,000 PM (60% spent on official duties)
- (f) Transport allowance ₹ 900 PM (Actual expenditure ₹ 850 PM)
- (g) Uniform allowance ₹ 1,000 PM

Compute Total Income [Ignore Section 115BAC].

SECTION 7 - INCOME DEEMED TO BE RECEIVED IN INDIA

The following incomes shall be deemed to be received in India in the previous year:

- A. Contribution in excess of 12% of salary to Recognised provident fund or interest credited in excess of 9.5% p.a. (Annual accretion to the credit of RPF)*
- B. Contribution by the Central Government or any other employer in the P.Y. under a pension scheme referred u/s 80CCD*
- C. Amount transferred from unrecognised provident fund to recognized provident fund (being the employer's contribution and interest thereon)*

PAYMENT FROM PROVIDENT FUNDS

Provident fund scheme is a scheme intended to give substantial benefits to an employee at the time of his retirement. Under this scheme, a specified sum is deducted from the salary of the employee as his contribution towards the fund. The employer also generally contributes the same amount out of his pocket, to the fund. The contribution of the employer and the employee are invested in approved securities. Interest earned thereon is also credited to the account of the employee. Thus, the credit balance in a provident fund account of an employee consists of the following:

- a) Employee's Contribution
- b) Interest on Employee's Contribution
- c) Employer's Contribution
- d) Interest on Employer's Contribution.

The accumulated balance is paid to the employee at the time of his retirement or resignation. In the case of death of the employee, the same is paid to his legal heirs. The provident fund represents an important source of small savings available to the Government. Hence, the Income-tax Act gives certain *deductions* on savings in a provident fund account.

THERE ARE FOUR TYPES OF PROVIDENT FUNDS:**(i) STATUTORY PROVIDENT FUND [SPF]**

The SPF is governed by **Provident Funds Act, 1925**. It applies to employees of government, railways, semi-government institutions, local bodies, universities and all recognised educational institutions.

(ii) PUBLIC PROVIDENT FUND [PPF]

Public provident fund is operated under the **Public Provident Fund Act, 1968**. A membership of the fund is open to every individual though it is ideally suited to self-employed people. A salaried employee may also contribute to PPF in addition to the fund operated by his employer. An individual may contribute to the fund on his own behalf as also on behalf of a minor of whom he is the guardian.

(iii) RECOGNISED PROVIDENT FUND [RPF]

Recognised provident fund means a provident fund recognised by the Commissioner of Income-tax for the purposes of income-tax. **It is governed by Part A of Schedule IV to the Income-tax Act, 1961.** This schedule contains various rules regarding the following:

- a. Recognition of the fund
- b. Employee's and employer's contribution to the fund
- c. Treatment of accumulated balance etc.

A fund constituted under the Employees's Provident Fund and Miscellaneous Provisions Act, 1952 will also be a Recognised Provident Fund.

(iv) UNRECOGNISED PROVIDENT FUND [UPF]

A fund not recognised by the Commissioner of Income-tax is Unrecognised Provident Fund.

TAX TREATMENT

<u>Particulars</u>	<u>SPF</u>	<u>PPF</u>	<u>RPF</u>	<u>URPF</u>
Employer's Contribution	Fully Exempt	Not Applicable	in excess of 12% of salary* is taxable	Not taxable at the time of contribution
Employee's Contribution (Deduction under section 80C)	Available	Available [500 – 150,000]	Available	Not eligible for deduction
	If an employee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)			
Interest Credited on Employer's Contribution	Fully exempt	Not Applicable	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1)	Not taxable at the time of credit of interest
Interest Credited on Employee's Contribution	Exempt upto certain limit of contribution [See Note below]	Fully Exempt (IFOS Head)	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1) [See Note below]	Not taxable at the time of credit of interest
Amount received on retirement, death etc.	Fully Exempt u/s. 10(11)	Fully Exempt u/s. 10(11)	Exempt subject to the conditions specified under section 10(12)	➤ Interest on Employee's Contribution is taxable u/h. "IFOS" ➤ Employer's Contribution and interest on such Contribution is fully taxable as salary u/s. 17(3)

* Salary = Basic Pay + DA (if forming part of Ret. Benefits) + Comm. (if based on % of Sales T/O)

NOTE:

As per section 10(11), any payment from a Provident Fund (PF) to which Provident Fund Act, 1925 (i.e. SPF), applies or from Public Provident Fund **would be exempt**.

Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) **would be exempt under section 10(12)**.

However, **the exemption under section 10(11) or 10(12) would not be available in respect of income by way of interest accrued during the previous year to the extent it relates to the amount or the aggregate of amounts of contribution made by that person/employee exceeding ₹ 2,50,000 in any previous year in that fund, on or after 1st April, 2021.**

If the contribution by such person/employee is in a fund in which there is no employer's contribution, then, a higher limit of ₹ 5,00,000 would be applicable for such contribution, **and interest accrued in any previous year in that fund, on or after 1st April, 2021 would be exempt upto that limit.**

It may be noted that interest accrued on contribution to such funds upto 31st March, 2021 would be exempt without any limit, even if the accrual of income is after that date. Also, above Monetary Limit is not applicable on interest accrued on Employer's contribution.

Exemption under section 10(11) and 10(12) would be available to an assessee irrespective of the regime under which he pays tax.

The CBDT has, vide Rule 9D, notified the manner to calculate taxable interest relating to contribution in a provident fund or recognized provident fund, exceeding threshold limit.

Interest income accrued during the previous year which is not exempt from inclusion in the total income of a person (taxable interest) shall be computed as the interest accrued during the previous year in the taxable contribution account.

*For this purpose, separate accounts within the provident fund account shall be maintained during the previous year 2021-22 and all subsequent previous years **for taxable contribution and non-taxable contribution made by a person.***

(a)	Non-taxable contribution account – Aggregate of i) closing balance in the account as on 31.03.2021; ii) any contribution made by the person in the account during the previous year 2021-22 and subsequent previous years, which is not included in the taxable contribution account; and iii) interest accrued on (i) and (ii), as reduced by the withdrawal, if any, from such account.
(b)	Taxable contribution account – Aggregate of i) contribution made by the person in the account during the previous year 2021-22 and subsequent previous years, which is in excess of the yearly threshold limit; and ii) interest accrued on (i) as reduced by the withdrawal, if any, from such account.

Yearly threshold limit is ₹ 5,00,000, if the contribution by such person/employee is in a fund in which there is no employer's contribution and ₹ 2,50,000 in other cases.

The payment from R.P.F. balance is fully exempt from tax in following cases

Condition 1– Employee has rendered continuous service for a period of atleast 5 years; or

Condition 2– Where employee could not complete 5 years of service by reason of

- ill-health; or
- discontinuance of the employer's business or
- other cause beyond the control of the employee.

In any other case, the payment from RPF is fully taxable in the manner given below:

- (i) Interest on Employee's contribution is fully taxable u/h Other Sources.
- (ii) Employer's contribution and Interest thereon is taxable as salary u/s 17(3).

Note:

1. If employee gets transfer of balance of RPF with another employer who also maintains RPF, then, the period of service under former employer shall also be included in calculating the period of continuous service.
2. Any payment from fund by way of transfer to the account of the employee under a pension scheme (New Pension Scheme u/s 80CCD) shall be EXEMPT.

CONVERSION OF URPF INTO RPF

When a URPF gets converted into RPF, then, the income that would have been taxed had the fund been recognised from the date of its institution would be taxed as the income of the employee during the P.Y. in which the funds gets such recognition. The amount not transferred to RPF & paid out of URPF will be taxable in the same manner as the lumpsum payment from URPF is taxed.

[REFER CLASS EXAMPLE]

Question 17 - Related to URPF Account

Mr. A, working in ABC Pvt. Ltd., receiving Basic Salary of ₹ 9,000 P.M. retires from service on 31st dec of the P.Y. He contributes 15% of salary to his URPF balance to which an equal amount is contributed by the employer. On retirement he receives ₹ 1,00,000 from his URPF which consists of ₹ 60,000 as total of Employee and Employer's contribution and ₹ 40,000 as total interest. Compute TI if monthly pension is fixed at ₹ 4,000 P.M.

APPROVED SUPERANNUATION FUND

1. It means a superannuation fund which has been and continues to be approved by the Commissioner in accordance with the rules framed in this regard.
2. **The tax treatment of contribution and exemption of payment from tax are as follows:**
 - a) **Employer's contribution – Refer Section 17(2)(vii)**
 - b) Employee's contribution qualifies for deduction under section 80C;
 - c) **Interest on accumulated balance – Refer Section 17(2)(viia)**
3. **Section 10(13) grants exemption in respect of payment from the fund—**
 - a) Paid to legal heirs on death of the employee, or
 - b) Paid to employee on his retirement or
 - c) Paid to employee on his becoming incapacitated prior to such retirement.
4. Any payment from fund by way of transfer to the account of the employee under a pension scheme (New Pension Scheme u/s 80CCD) shall be EXEMPT.

National Pension Scheme [NPS] as referred in Section 80CCD

The contribution made by the Central Government or any other employer in the previous year to the account of an employee under a pension scheme referred to in section 80CCD

National Pension scheme is a scheme approved by the Government for Indian citizen aged between 18-70 years. Subscriber of the NPS account contributes some amount in their account. **In case of any employee, being a subscriber of the NPS account, employer may also contribute into the employee's account.**

Employer's contribution to NPS account would form part of salary of employees under section 17(1).

However, while computing total income of the employee-assessee, a deduction under section 80CCD is allowed to the assessee in respect of the employer's as well as employee's contribution under a pension scheme referred therein. (*Refer Deduction Chapter - Section 80CCD*).

Deduction under section 80CCD(2) in respect of employer's contribution would be available to an assessee irrespective of the regime under which he pays tax. However, deduction under section 80CCD(1)/(1B) in respect of employee's contribution would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

The contribution made by the Central Government in the previous year, to the Agniveer Corpus Fund account of an individual enrolled in the Agnipath Scheme referred to in section 80CCH

Agnipath Scheme is a Central Government Scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces as Agniveers for four years to serve the country.

In pursuance of the Government's decision to implement the Agnipath Scheme, 2022, the Competent Authority has decided to create a non-lapsable dedicated Agniveer Corpus Fund in the interest-bearing section of the Public Account head.

In this account, fixed percentage of monthly emoluments would be contributed by the Agniveer and matching amount would be contributed by the Central Government.

The Agniveer Corpus Fund is defined as a Fund in which consolidated contributions of all the Agniveers and matching contributions of the Government along with interest on these contributions would be held in their respective accounts.

Central Government's contribution to Agniveer Corpus Fund account would form part of salary of employees under section 17(1).

However, while computing total income of an individual enrolled in the Agnipath Scheme, being the assessee, a deduction under section 80CCH is allowed to the assessee in respect of his contribution as well as Central Government's contribution under Agniveer Corpus Fund referred therein. (Deduction under section 80CCH will be discussed in detail in Chapter "Deductions from Gross Total Income")

Deduction under section 80CCH(2) in respect of Central Government's contribution would be available to an assessee irrespective of the regime under which he pays tax. However, deduction under section 80CCH(1) in respect of employee's contribution would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

PERQUISITES

- 1) The term 'perquisite' indicates some extra benefit in addition to the amount that may be legally due by way of contract for services rendered.
- 2) Perquisite may be provided in cash or in kind.
- 3) Perquisite may arise in the course of employment or in the course of profession. If it arises from a relationship of employer-employee, then the value of the perquisite is taxable as salary. However, if it arises during the course of profession, the value of such perquisite is chargeable as profits and gains of business or profession.
- 4) Reimbursement of expenses incurred in the official discharge of duties is not a perquisite.
- 5) **Perquisite will become taxable only if it has a legal origin**

Example: Mr. A, an employee, is given a house by his employer. On 31.3.2025, he is terminated from service, but he continues to occupy the house without the permission of the employer for six more months after which he is evicted by the employer. **The question arises whether the value of the benefit enjoyed by him during the six months period can be considered as a perquisite and be charged to salary.**

It cannot be done since the relationship of employer-employee ceased to exist after 31.3.2025. **However, the definition of income is wide enough to bring the value of the benefit enjoyed by Mr. A to tax as "Income from other sources".**

Types of perquisites: Perquisites may be divided into three broad categories:

- ✓ Perquisites taxable in the case of all employees
- ✓ Perquisites exempt from tax in the case of all employees
- ✓ **Perquisites taxable only in the hands of specified employees.**

TAXABILITY OF PERQUISITE

Section 17(2) of the Income Tax Act gives an inclusive definition of perquisite. **Perquisite includes:**

i) **VALUE OF RENT-FREE ACCOMMODATION [RFA] PROVIDED** to the assessee by his employer computed in such manner as may be prescribed [Section 17(2)(i)].

ii) **Value of any accommodation provided to the assessee by his employer at a concessional rate.**

Explanation: Accommodation would be deemed to have been provided at a concessional rate, if the value of accommodation computed in the prescribed manner exceeds the rent recoverable from, or payable by, the assessee [Section 17(2)(ii)].

iii) The value of any benefit or amenity **GRANTED OR PROVIDED** free of cost or at concessional rate to **SPECIFIED EMPLOYEES** i.e.

- a. by a company to an employee in which he is a director;
- b. by a company to an employee being a person who has substantial interest in the company (i.e. 20% or more of the voting rights of the company);
- c. by any employer (including a company) to an employee to whom the provisions of (a) & (b) do not apply and whose income under the head 'salaries' (whether due from, or paid or allowed by, one or more employers) exclusive of the value of all benefits or amenities not provided for by way of monetary benefits exceeds ₹ 50,000 - Section 17(2)(iii);

[i.e. Salary for this purpose = Basic Salary + D.A. + Commission, whether payable monthly or turnover based + Bonus + Fees + Advance Salary + Arrear Salary + Any other taxable payment + Any taxable allowances + Any other monetary benefits – Deductions under section 16, as applicable]

Such benefits are:

1. Motor Car
2. Sweeper, Gardener, Watchman or Personal attendant
3. Gas, Electricity & Water
4. Education Facility
5. Free / Concessional Fare

iv) **AMOUNT PAID** by an employer in respect of any obligation which otherwise would have been payable by the employee [Section 17(2)(iv)].

v) **AMOUNT PAYABLE** by an employer directly or indirectly to effect an assurance on the life of the assessee or to effect a contract for an annuity, other than payment made to RPF, Approved Superannuation Fund - Section 17(2)(v).

- a. However, there are schemes like group annuity scheme, employees state insurance scheme and fidelity insurance scheme, under which insurance premium is paid by employer on behalf of the employees. Such payments are not regarded as perquisite in view of the fact that the employees have only an expectancy of the benefit in such schemes.
- b. In Case employer has paid life insurance premium on behalf of the employee then it will be taxable for the employee and further employee can claim deduction under section 80C from GTI

vi) **The Value Of Any Specified Security Or Sweat Equity Shares ALLOTTED OR TRANSFERRED**, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee – **Section 17(2)(vi)**.

vii) **The amount or aggregate of amounts of any contribution made**

- *in a recognised provident fund*
- *in NPS referred to in section 80CCD(1)*
- *in an approved superannuation fund*

by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000.

[Section 17(2)(vii)]

(viiia) ***Any annual accretion by way of interest, dividend or any other amount of similar nature during the previous year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund to the extent it relates to the employer's contribution which is included in total income in any previous year under section 17(2)(vii) computed in prescribed manner [Section 17(2)(viiia)].***

Note: Section 17(2)(vii) & Section 17(2)(viiia) are not applicable in case of a Statutory Provident Fund.

viii) **The value of any other fringe benefit or amenity as may be prescribed by the CBDT – Section 17(2)(viii)**. They are

- a) **Concessional or Interest Free Loan**
- b) **Travelling, touring & accommodation other than LTC**
- c) **Free Food & Beverage to employees during office hours**
- d) **Gift to the employees**
- e) **Credit Card expenses**
- f) **Club Expenses**
- g) **Use of Movable assets by the employees**
- h) **Transfer of any Movable Assets to the employees**
- i) **Value of any other benefit or amenity, service, right / privilege**

Annual accretion to the balance at the credit of the recognised provident fund/NPS/approved superannuation fund which relates to the employer's contribution and included in total income (on account of the same having exceeded ₹ 7,50,000)

EFFECTIVE FROM AY 2021-22

Any **annual accretion by way of interest, dividend or any other amount of similar nature** during the previous year to the balance at the credit of the recognized provident fund or NPS or approved superannuation fund **to the extent it relates to the employer's contribution** which is included in total income in any previous year under section 17(2)(vii) computed in prescribed manner.

[Section 17(2)(viia)]

In other words, **interest, dividend or any other amount of similar nature on the amount which is included in total income under section 17(2)(vii) would also be treated as a perquisite.**

The CBDT has, vide Rule 3B, notified the following manner to compute the annual accretion by way of interest, dividend or any other amount of similar nature during the previous year-

$$TP = (PC/2)*R + (PC1 + TP1)*R$$

Where,

TP	Taxable perquisite under section 17(2)(viia) for the current previous year
PC	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund during the previous year
PC1	Amount or aggregate of amounts of employer's contribution in excess of ₹ 7.5 lakh to recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund for the previous year or years commencing on or after 1st April, 2020 other than the current previous year
TP1	Aggregate of taxable perquisite under section 17(2)(viia) for the previous year or years commencing on or after 1st April, 2020 other than the current previous year
R	I/ Favg
I	Amount or aggregate of amounts of income accrued during the current previous year in recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund
Favg	(Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 1st April, 2024 + Amount or aggregate of amounts of balance to the credit of recognized provident fund, national pension scheme u/s 80CCD and approved superannuation fund on 31st March, 2025) / 2

Note: Where the amount or aggregate of amounts of TP1 and PC1 exceeds the amount or aggregate of amounts of balance to the credit of the specified fund or scheme **on 1st April, 2024 (for PY 2024-25)**, then, the amount in excess of the amount or aggregate of amounts of the said balance **shall be ignored** for the purpose of computing the amount or aggregate of amounts of TP1 and PC1.

Example:

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.5.2023. His basic salary is ₹ 5,50,000 p.m. He is paid 10% as D.A. He contributes 11% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount.

The accumulated balance in recognized provident fund as on 1.4.2024 and 31.3.2025 is ₹ 15,35,000 and ₹ 33,55,000.

Compute the perquisite value chargeable in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the P.Y. 2024-25.

Solution:

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,98,600, being employer's contribution to recognized provident fund **during the P.Y. 2024-25** - ₹ 7,50,000 = ₹ 48,600

2. Annual accretion on perquisite taxable u/s 17(2)(vii)

$$= (PC/2) * R + (PC1 + TP1) * R$$

$$= (48,600/2) * 0.091 + 0$$

$$= ₹ 2,211$$

Working Note:

PC	ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 48,600
PC1	Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2023-24.
TP1	Nil
R	$I / F_{avg} = 2,22,800 / 24,45,000 = 0.091$
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 2,22,800 (₹ 33,55,000 – ₹ 7,98,600 – ₹ 7,98,600 – ₹ 15,35,000)
Favg	(Balance to the credit of recognized provident fund as on 1 st April, 2024 + Balance to the credit of recognized provident fund as on 31 st March, 2025)/2 = (₹ 15,35,000 + ₹ 33,55,000)/2 = ₹ 24,45,000

Note: Interest on the aggregate of following will also be chargeable to tax during A.Y. 2025-26 –

- ₹ 4,82,050 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- ₹ 5,48,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]
- Interest accrued on ₹ 4,82,050 being excess employee's contribution of P.Y. 2023-24.

Example:

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)(viii) 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)(viii) 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)(viii)
 - = Annual accretion on perquisite taxable u/s 17(2)(vii)
 - = $(PC/2) * R + (PC1 + TP1) * R$
 - = $(27,600/2) \times 0.111 + 0$
 - = ₹ 1,532

Working Note:

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 (₹ 4,53,600) & there is no employer's contribution in PY 2020-21 & PY 2021-22.
TP1	Nil
R	$I/Favg = 2,06,711/18,62,093 = 0.111$
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 1 st April, 2023 + Balance to the credit of recognized provident fund as on 31 st 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 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iii) 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)(viii) for A.Y. 2025-26

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 – ₹ 7,50,000 = ₹ 27,600

2. **Perquisite value taxable u/s 17(2)(viii)**

= Annual accretion on perquisite taxable u/s 17(2)(vii)

= $(PC/2) \times R + (PC1 + TP1) \times R$

= $(27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$

= ₹ 1,308 + ₹ 2,761

= ₹ 4,069

Working Note:

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 to P.Y. 2023-24 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viii) from P.Y. 2020-21 to P.Y. 2023-24 = ₹ 1,532
R	$I/Favg = 3,50,307/36,95,802 = 0.09479$
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 1 st April, 2024 + Balance to the credit of recognized provident fund as on 31 st March, 2025)/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:

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]
- (iv) Interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23
- (v) Interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2023-24

Exempted Perquisites

Following perquisites are exempted in hands of employee **[Not a complete list]**:

1. **Tea or snacks:** Tea, similar non-alcoholic beverages and snacks provided during working hours.
2. **Recreational facilities:** Recreational facilities extended to a group of employees.
3. **Goods sold to employee at concessional rate:** Goods manufactured by employer and sold by him to his employees at concessional (not free) rates.
4. **Conveyance facility:** Conveyance facility provided -
 - to employees for journey between office and residence and vice versa.
 - to the judges of High Court and Supreme Court
6. **Training:** Amount spent on training of employees including boarding and lodging expenses of the employees on such training.
7. **Services rendered outside India:** Any perquisite/allowances allowed outside India by the Government to a citizen of India for rendering services outside India.
8. **Contribution in some specified schemes**
 - Employer's contribution to staff group insurance scheme.
 - Payment of annual premium by employer on personal accident policy affected by him in respect of his employee.
9. **Medical facility**

A provision of medical facility at office is exempt.
10. **Periodicals and journals:** Periodicals and journals required for discharge of work.
11. **Telephone, mobile phones:** Expenses for telephone, mobile phones actually incurred on behalf of employee by the employer whether by way of direct payment or reimbursement.
12. **Rent-free accommodation**
 - Rent-free official residence provided to a Judge of a High Court or the Supreme Court.
 - Rent-free furnished residence (including maintenance thereof) to Official of Parliament, a Union Minister or a Leader of opposition in Parliament.
13. **Accommodation:** Accommodation provided -
 - on transfer of an employee in a hotel for a period not exceeding 15 days in aggregate.
 - in a remote area to an employee working at a mining site or an onshore exploration site or a project execution site or a dam site or a power generation site or an offshore site.

VALUATION OF PERQUISITES

Rule 3 of the Income-tax Rules, 1962 contains the guidelines for the purpose of valuation of perquisites:

VALUATION OF RENT FREE UNFURNISHED ACCOMMODATION

(a) **IN CASE OF GOVT. EMPLOYEES [CG/SG]** : As per **License Fee** determined by Govt.

Where the accommodation is provided by the Central Government or any State Government to an employee who is serving on deputation with any body or undertaking under the control of such Government,-

- (i) the employer of such an employee shall be deemed to be that body or undertaking where the employee is serving on deputation; and
- (ii) the value of perquisite of such an accommodation shall be the value as if the accommodation is owned by the employer.

(b) **IN CASE OF NON – GOVT. EMPLOYEES:**

(i) **If Accommodation is not owned by Employer:** Value shall be the **lower of**

- (i) Rent paid by the Employer **OR**
- (ii) 10% of salary

(ii) **If Accommodation is owned by Employer:** Value shall be



Population [as per 2011 census]	Value
Upto 15 lakhs	5% of Salary
Exceeds 15 Lakhs but doesn't exceeds 40 Lakhs	7.5% of Salary
Exceeds 40 Lakhs	10% of Salary

*Where the accommodation is owned or taken on lease on rent by the employer and the same accommodation is continued to be provided to the same employee for more than one previous year, the amount calculated shall not exceed the amount so calculated for the first previous year, as multiplied by the amount which is a ratio of the **Cost Inflation Index** for the previous year for which the amount is calculated and the Cost Inflation Index for the previous year in which the accommodation was initially provided to the employee.*

If ACCOMODATION IS PROVIDED AT CONCESSIONAL RATE then value = Value determine as above **Less** Rent actually paid by employee.

RENT FREE FURNISHED ACCOMMODATION

Value of unfurnished accommodation shall be calculated as above and shall be increased by value of furnished accommodation, which is:

10% p.a. of the original COST OF FURNITURE if owned by employer

and/or

The actual hire charges paid/payable, if hired from a third party

Note: The valuation shall be reduced by any amount recovered from the employee.

SALARY FOR THE PURPOSE OF VALUATION OF ACCOMMODATION

Basic Salary + **DA (Forming Part of Salary)** + Bonus + Fees + Commission + All other **Taxable Allowance** + Any monetary payment by employer to employee, by whatever name called

[Above does not include Perquisites (Monetary or Non-Monetary) and Employer's contribution to PF + Arrear Salary + Advance Salary]

Note:

1. Salary are to be considered on due basis for the relevant period for which accommodation is provided.
2. **If the employee receives salary from more than one employer, the aggregate of the salary received from both the employers** has to be taken into account for valuation of rent free accommodation.

VALUATION OF ACCOMMODATION PROVIDED IN A HOTEL

Where the accommodation is provided by the employer (Government or other employer) in a hotel, the value of the perquisite will be lower of:

- a. 24% OF SALARY paid or payable for the previous year **OR**
- b. the actual charges paid or payable to such hotel for the period during which such accommodation is provided.

The above value is reduced by the rent, if any, actually paid or payable by the employee.

Note:

The value of this perquisite will not be calculated if the employee is provided such accommodation for a period not exceeding in aggregate 15 days on the transfer from one place to another.

ACCOMMODATION PROVIDED AT THE TIME OF TRANSFER:**FOR FIRST 90 DAYS - ANY ONE**

Where on account of his transfer from one place to another, the employee is provided with accommodation at the new place of posting while retaining the accommodation at the other place, the value of perquisite shall be determined with reference to **ONLY ONE SUCH ACCOMMODATION** which has the lower value (as determined according to the above provisions) **for a period not exceeding 90 days** and thereafter the value of perquisite shall be charged for **both such accommodations** in accordance with the valuation rules.

EXCEPTIONS:

Nothing contained in this valuation rules shall apply to any accommodation temporarily provided to an employee working at a mining site or an on-shore oil exploration site or a project execution site, or a dam site or a power generation site or an off-shore site-

- (i) which, having plinth area not exceeding 1000 square feet, is located not less than 8 kilometres away from the local limits of any municipality or a cantonment board; or*
- (ii) which is located in a remote area*

“Remote area” means any area other than an area which is located-

- a) within the local limits of ; or*
- b) within a distance, measured aerially, of 30 kilometers from the local limits of, any municipality or a cantonment board having a population of 1,00,000 or more based on the 2011 census’;*

Question 18:

Ramnath is employed with Mega Limited and is paid Basic Salary ₹ 15,000/ – p.m.; – ₹ 2,000/ – p.m. as Commission; D.A not forming part of retirement benefits ₹ 1,250/ – p.m. and travel allowances of ₹ 1,000/ – p.m. Bonus paid during the year is ₹ 12,000/ – 60% of the travel allowance is not spent and the balance is spent for office purpose.

Compute the taxable salary by also taking into account the fact that he is provided rent free furnished accommodation where population is 15 lakhs. Original cost of furniture provided in the house ₹ 30,000/ – (W.D.V. ₹ 6,000). Hire charges ₹ 450 pm for hired furniture provided. Ignore Section 115BAC.

[Answer: Taxable Salary - ₹ 2,12,410]

MOTOR CAR – SPECIFIED EMPLOYEE

Perquisite value of motor car is taxable only in case of specified employees if motor car is provided by the employer to the employee.

However, where the motor car is owned by the employee and used by him or members of his family wholly for personal purpose and for which employer reimburses the running and maintenance expenses of the car, the perquisite value of motor car is taxable in case of all employees.

Owner of Car	Expenses met by	Purpose	Taxable Value of Perquisite
1(a) Employer	Employer	Fully Official use	Not a Perquisite, provided the documents specified in Rule 3(2)(B) are maintained. [See Note 2 below]
1(b) Employer [Sec. 17(2)(iii)]	Employer	Fully Personal use	Aggregate of (a) Actual expenditure on Car (b) Remuneration to Chauffeur (c) 10% p.a. of the Cost of Car (normal wear & tear) Less: Amount charged from Employee
1(c)(i) Employer [Sec. 17(2)(iii)]	Employer	Partly for Official <u>and</u> partly for Personal use	<u>Cubic Capacity of Car Engine</u> upto 1.6 Litres: ₹ 1,800 p.m. + ₹ 900 p.m. for Chauffeur above 1.6 Litres: ₹ 2,400 p.m. + ₹ 900 p.m. for Chauffeur
1(c)(ii) Employer [Sec. 17(2)(iii)]	Employee	Partly for Official <u>and</u> partly for Personal use	<u>Cubic Capacity of Car Engine</u> upto 1.6 Litres ₹ 600 p.m. + ₹ 900 p.m. for Chauffeur above 1.6 Litres ₹ 900 p.m. + ₹ 900 p.m. for Chauffeur

2(i) Employee	Employer	Fully Official use	Not a Perquisite, provided the documents specified in Rule 3(2)(B) are maintained. [See Note 2 below]
2(ii) Employee [Sec. 17(2)(iv)]	Employer	Partly for Official <u>and</u> partly for Personal use	Subject to Rule 3(2)(B) <u>Actual Expenditure incurred Less</u> upto 1.6 Litres: ₹ 1,800 p.m. + ₹ 900 p.m. for Chauffeur above 1.6 Litres: ₹ 2,400 p.m. + ₹ 900 p.m. for Chauffeur

3(i) Employee owns other automotive but not Car	Employer	Fully Official use	Not a Perquisite, provided the documents specified in Rule 3(2)(B) are maintained. [See Note 2 below]
3(ii) Employee owns other automotive but not Car	Employer	Partly for Official <u>and</u> partly for Personal use	[Sec. 17(2)(iv)] Subject to Rule 3(2)(B) Actual expenditure incurred by Employer Less: ₹ 900 p.m.

Notes:

1. **Pool of Cars owned or hired by Employer:** If the Employee is permitted to use any or all Cars for both official and personal use, the treatment will be as under

For one Car	Valued as per 1(c)(i)
For more than one Car	Valued as per 1(b), as if fully used for personal purpose

2. **Documents required for claiming 'Not Taxable Perquisite' or higher deduction wherever applicable [Rule 3(2)(B)]:**

- (a) Employee should maintain complete details of journey undertaken for official purpose, which includes date of journey, destination, mileage and amount of expenditure incurred thereon.
- (b) Certificate of supervising authority of the Employee, wherever applicable, to the effect that the exp. was incurred for wholly and exclusively for performance of official duties, should be provided.

PROVISION OF DOMESTIC SERVANTS**(Sweeper, Gardener, watchman or a personal attendant)**

Servant appointed by	Servant's salary paid by	Value of perquisite	Taxable in the hands of
Employee	Employee	Nil	Not applicable
Employee	Employer	Actual cost incurred by the Employer on the servant	All employees
Employer	Employer	Actual cost incurred by the Employer on the servant	Specified employee
Employer	Employee	Nil	Not applicable

Note:

- Where the employee is paying any amount in respect of such servant facility, the amount so paid shall be deducted from the value of perquisite determined above.
- Domestic Servant Allowance** given to an employee is always chargeable to tax.

QUESTION 20:

Mr. E is employed with N Ltd. he also gets the services of sweeper and watchman. E has paid employment tax of ₹ 800. Determine his gross salary in the following cases:

- His salary is ₹ 8,400 pm. Employer provides the services of sweeper and watchman. N Ltd. pays them ₹ 600 pm and ₹ 500 pm;
- His salary is ₹ 8,400 pm. Sweeper and watchman are engaged by Mr. E at the rates given in clause(1) above but their wages are reimbursed by the employer;
- His salary is ₹ 9,000 pm. Employer provides the services of sweeper and watchman at the above rates but he recovers from Mr. E ₹ 200 pm and ₹ 300 pm respectively.

SUPPLY OF GAS, ELECTRICITY OR WATER FACILITY

Facility in the name of	VALUE OF PERQUISITE		Taxable in the hands of
	Provided from own source	Provided from outside	
Employer	Mfg. cost to the employer	Amount paid to the supplier	Specified employees
Employee	Mfg. cost to the employer	Amount paid to the supplier	All employees

Note:

- Where the employee is paying any amount in respect of such above facility, the amount so paid shall be deducted from the value of perquisite determined above.
- Gas/Electricity/Water Allowance** given to an employee is always fully chargeable to tax.

QUESTION 21:

G Ltd. provides electricity to its employee, P. Annual consumption as per meter reading comes to 2,250 units. Determine the value of the perquisite in the following cases:

- 1) Electricity meter is in the name of P and the rate of electricity is ₹ 3 per unit
- 2) Electricity meter is in the name of G Ltd. the rate of electricity is ₹ 3 per unit.
- 3) G Ltd. is a power-generating company. Manufacturing cost is 90 paise per unit but supplied to public @ ₹ 2 per unit. However, it charges 30 paise per unit from employees.

FREE OR CONCESSIONAL EDUCATION FACILITY

The value of perquisite is determined as under:

Facility provided to	Value of perquisite		Taxable in the hands of
	Provided in a school owned by the employer [Case 1]	Provided in any other school [Case 2]	
Children [Any No.]	Cost of such education in similar school* (There would be no perquisite if the cost of education does not exceed ₹ 1,000 p.m. per child)	Cost of such education	<u>Specified employee</u>
OTHER HOUSEHOLD MEMBER	Cost of such education in similar school	Cost of such education incurred	<u>Specified employee</u>

Note:

- 1) If the employee incurs the expenditure of school fees and the same is reimbursed by the employer, then the entire amount of reimbursement so made, shall be fully taxable in the hands of all employees.

- 2) Child includes step child as well as the adopted child of the employee.

*** If cost of education exceeds ₹ 1,000 p.m. then full amount is taxable. An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable.**

VALUATION IN RESPECT OF FREE TRANSPORT

In case of employees of	Taxable value	
Railways / Airlines	Nil	
Any other transport undertaking	Value at which such benefit is offered by the employer to the public	xxx
	Less: Recovery from the employee	xxx



END OF SECTION 17(2)(iii) – Perquisites for Specified Employee only

VALUATION IN RESPECT OF SHARES & SECURITIES ISSUED UNDER ESOP [SECTION 17(2)(vi)]

- The value of any specified security or sweat equity shares **allotted or transferred**, directly or indirectly, by the employer or former employer, free of cost or at concessional rate to the assessee shall be taxable as perquisite.
- **The value shall** be the FMV of such security or shares on the date on which the option is exercised by the assessee, **as reduced by any amount actually paid by, or recovered from, the assessee.**
- **FMV FOR LISTED SHARES:**
Perquisite Value of listed sweat equity shares allotted or transferred free of cost or at concessional rate shall be **average of opening and closing price of shares listed on stock exchange on date of exercise of option** less any amount recovered from the employee

If shares are listed on more than one recognized stock exchange - However, where, on the date of exercising of the option, the share is listed on more than one recognized stock exchanges, the fair market value shall be the average of opening price and closing price of the share on the recognised stock exchange which records the highest volume of trading in the share.

Deferment of perquisite tax on ESOPs

Section 156 provides for deferment of perquisite tax liability

Where the income of the assessee of any assessment year,

- ✓ includes income of the nature specified in Section 17(2)(vi) and
- ✓ such specified security or sweat equity shares referred to in the said clause are allotted or transferred directly or indirectly by the current employer, being an eligible start-up referred to in section 80-IAC,

the tax or interest on such income included in the notice of demand shall be payable by the assessee within 14 days-

- after the expiry of 48 months** from the end of the relevant assessment year; or
- from the date of the sale of such specified security or sweat equity share by the assessee; or**
- from the date of the assessee ceasing to be the employee of the employer who allotted or transferred him such specified security or sweat equity share,**

whichever is the earliest.

Question 22:

IT Limited, under its Employment Stock Option Plan, allotted 500 equity shares to its finance manager, Pooja on 15th May, 2024, when she exercised her option. The option was granted on 15th January, 2023 and the shares vested with her on 15th January, 2024. The company's shares are quoted in Bombay Stock Exchange, where the opening price and closing price on the date of exercise of option were ₹ 250 and ₹ 256, respectively. The company recovered ₹ 50 per share from Pooja. Compute the value of perquisite for the previous year 2024-25.

SECTION 17(2)(viii) - VALUATION OF OTHER FRINGE BENEFITS AND AMENITIES**INTEREST FREE OR CONCESSIONAL LOAN****1. Value of perquisite =**

Interest computed as per SBI rates [as on 01.04.2024] on Maximum Outstanding Monthly Balance **xxx**

Less: Interest recovered by the employer from the employee **xxx**

2. "Maximum outstanding monthly balance" means the aggregate outstanding balance for each loan as on the last day of each month.**3. Nothing is taxable if-**

- **Amount of Such Loans are not exceeding in the aggregate ₹ 20,000**
- **Such loans are given for medical treatment in respect of diseases specified in rule 3A.**
 - Where loans are made available for medical treatment, referred to above, the exemption shall not apply to **so much of the loan as has been reimbursed to the employee** under any medical insurance scheme.

Question 23:

Determine the taxable value of the perquisite in the following cases:

1. Z Ltd. gives an interest-free housing loan ₹ 10,00,000 to its employee on 1 October 2024. Loan is repayable within 5 years. SBI lending rate, as on 1.4.2024 is 10% p.a.
2. A, an employee, takes a personal loan of ₹ 1,25,000 from Alfa Ltd. @ 6% p.a. on April 1, 2024, [SBI lending rate may be assumed, as on 1.4.2024 is 14% p.a.]
3. A purchased a Car on March 1, 2024 from a loan of ₹ 9,00,000 taken at concessional rate of 7% p.a. from his employer. It is repayable in monthly installments of ₹ 25,000 starting from January 1, 2025. Compute the taxable value of perquisite in respect of concessional loan for the previous year 2024-25. SBI lending rate may be assumed, as on 1.4.2024 is 12.25% p.a.

Travelling, Touring & Accommodation

Valuation of perquisite in respect of traveling, touring, accommodation and any other expenses paid / reimbursed by employer for any holiday availed by **EMPLOYEE (OR ANY MEMBER OF HOUSEHOLD)** other than LTC:

(a) Where such facility is maintained by the employer and available uniformly to all employees, then value shall be:-

Expenditure incurred by the employer **LESS** Amount recovered from the employee.

(b) Where such facility is maintained by employer and not available uniformly to all employees, then value shall be:-

Value at which such facilities are **offered by other agencies to the public** **LESS** Amount recovered from the employee.

Notes:

- (1) Where the employee is on official tour & the expenses are incurred in respect of any member of his household accompanying him, the amount of expenditure so incurred in respect of such member only shall be liable to be tax as perquisite.
- (2) Where any official tour is extended as vacation, then expenses incurred in relation to such extended period of stay or vacation, shall be treated as perquisite.

Free LUNCH/refreshment/ Beverages etc**THE TAXABLE VALUE OF THIS PERQUISITE SHALL BE:**

Cost incurred by the employer LESS Amount recovered from the employee

However, facility in the following cases is exempt from Tax:

- ✓ **FREE FOOD AND NON-ALCOHOLIC BEVERAGES UPTO ₹ 50 PER MEAL** provided by employer,
 - during working hours at office or business premises; or
 - **through paid voucher** which are not transferable and usable only at eating joints;
[Exemption in respect of free food and non-alcoholic beverage provided by such employer through paid voucher would not be available in case an employee pays tax under the default tax regime under section 115BAC.]
- ✓ Tea or snacks provided during working hours; or
- ✓ Free food and non-alcoholic beverages during working hours provided in a remote area or an off-shore installation.

Note:- Working hours includes extended office hours (like working on holiday, over-time etc).

GIFT, VOUCHER OR TOKEN

- ✓ The Value of any gift, or any voucher/ token made by employer to **THE EMPLOYEE OR HIS HOUSEHOLD MEMBER, in excess of ₹ 5,000**, is fully taxable.
- ✓ If the value of such gift, voucher or token is below ₹ 5,000 in the aggregate during the previous year, the value of perquisite shall be taken as NIL.
- ✓ **The aforesaid exemption of ₹ 5,000 shall be denied in case of cash gift.**

Note:

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 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as perquisite. **As per this view, the value of perquisite would be difference between Gift Value & ₹ 5,000.**

CREDIT CARD

- ✓ The amount of expenses **including membership fees and annual fees** incurred by **THE EMPLOYEE OR ANY MEMBER OF HIS HOUSEHOLD** which is charged to a credit card (including add on card) provided by the employer or otherwise, paid for or reimbursed by the employer shall be taken to be the value of perquisite chargeable to tax.
- ✓ **Amount recovered from such employee** will be reduced from the value determined.
- ✓ **However, such expenses incurred wholly and exclusively for official purposes would not be treated as a perquisite if** it is supported by necessary documents.

CLUB EXPENDITURE

- ✓ If employer reimburses or makes payment of **any expenditure incurred in a club including the amount of annual or periodical fee** for the **EMPLOYEE OR ANY MEMBER OF HOUSEHOLD**, the actual amount of such expenditure shall be the value of perquisite.
- ✓ **Amount recovered from such employee** will be reduced from the value determined.
- ✓ **Initial fee paid for acquiring corporate membership is not a taxable perquisite**
- ✓ **No taxable perquisites in case health club, sports club** and similar facilities provided **uniformly to all employees**
- ✓ **No taxable perquisite if the club expenditure is incurred wholly and exclusively for business purposes.**

USE of Employer's MOVABLE ASSETS

If the facility of usage of any movable asset (Except LAPTOP & Computers) is provided by employer to **EMPLOYEE OR ANY MEMBER OF HIS HOUSEHOLD**, the taxable value shall be:

- **10% P.A. OF THE ACTUAL COST** of asset (if owned by the employer) or
- Actual amount of hire charges (if taken on hire by the employer)

Note:

1. Where the employee is paying any amount in respect of such asset, the amount so paid shall be deducted from the value of perquisite determined above.
2. **Member of household shall include- (a) Spouse; (b) Children and their spouses; (c) parents; and (d) Servants and dependents.**

TRANSFER of any Movable Asset

If any movable asset is transferred by the employer to employee, then, taxable value of this perquisite shall be:

Actual cost of the asset to the employer

Less: Dep. for every completed year of usage by employer

Less: The amount charged from the employee.

The following will be the rate and method of depreciation:

<u>S.N.</u>	<u>Asset</u>	<u>Rate</u>	<u>Method</u>
1.	Computer & electronic items [Not covering Household appliances]	50%	W.D.V.
2.	Motor Car	20%	W.D.V.
3.	Any other asset	10%	Straight Line

Other Benefit or Amenity

Residual Head- The value of any other benefit or amenity, service, right or privilege provided by the employer shall be determined on the basis of cost to the employer under an arms' length transaction as reduced by the employee's contribution, if any.

*However, there will be **no taxable perquisite in respect of expenses on telephones including mobile phone** actually incurred on behalf of the employee by the employer i.e., if an employer pays or reimburses telephone bills or mobile phone charges of employee, there will be no taxable perquisite.*

SECTION 10(10CC) – INCOME IN THE NATURE OF PERQUISITE – Exempted

As per section 10(10CC), tax paid by employer on non-monetary perquisite income of employee shall be exempt in the hands of employee.

TAX IMPLICATION IN HANDS OF EMPLOYER: Section 40(a)(v) disallows such expenditure in the hands of the employer. Therefore, the tax so paid by the employer will not be deductible expenditure in his hands.

Medical Facilities Provided by Employer [Proviso to Section 17(2)]**MEDICAL TREATMENT IN INDIA:**

In the following cases, medical facilities/ reimbursement incurred for employee/his family member are treated as **tax FREE perquisites**:-

- I. Expenditure incurred in a **HOSPITAL MAINTAINED BY THE EMPLOYER**.
- II. **Sum paid by the employer for any expenditure actually incurred by employee for medical treatment:**

- in any hospital maintained by
 - the **Govt. or local authority** or
 - an **approved hospital under CGHS** or
- of **prescribed diseases/ ailment in a hospital approved by CCIT**. [Certificate is required]
- **in respect of any illness relating to COVID-19 subject to such conditions notified by Central Government.**

Accordingly, **the Central Government has, vide Notification No. 90/2022 dated 5.8.2022, specified that for claiming benefit of such exemption, the employee has to submit the following documents to the employer, –**

- a. **the COVID-19 positive report of the employee or family member, or medical report if clinically determined to be COVID-19 positive through investigations, in a hospital or an in-patient facility by a treating physician of a person so admitted;**
- b. **all necessary documents of medical diagnosis or treatment of the employee or his family member for COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as COVID-19 positive; and**
- c. **a certification in respect of all expenditure incurred on the treatment of COVID-19 or illness related to COVID-19 of the employee or of any member of his family.**

III. Group Medical Insurance paid u/s 36(1)(ib).

IV. Medical Insurance paid u/s 80D.

V. Premium of Accidental Insurance Policy.

VI. ~~Any other medical expenditure reimbursed to the extent of ₹ 15,000 in the Previous Year.~~

MEDICAL TREATMENT OUTSIDE INDIA:

The following expenditure incurred by employer on treatment of the employee/his family members, outside India is **also a tax-free perquisite**:

1. **EXPENSES ON MEDICAL TREATMENT OF THE EMPLOYEE OR ANY FAMILY MEMBER:**

Exempt to the extent permitted by RBI.

2. **EXPENSES ON STAY ABROAD OF THE PATIENT AND ONE ATTENDANT:**

Exempt to the extent permitted by RBI

3. **TRAVEL EXPENSES FOR ABROAD OF THE PATIENT AND ONE ATTENDANT:**

Travel expenses shall be **wholly exempt** if the employee's **GTI** before including therein, the said travel expenditure ≤ ₹ 2,00,000.

Notes

- **Family = Spouse + Children + Dependent [Parents + Brothers + Sister]**
- Hospital includes a dispensary or a clinic or a nursing home.
- **Fixed medical allowance – always taxable.**

RELIEF UNDER SECTION 89

Where by reason of any portion of an assessee's salary being paid in arrears or in advance or by reason of his having received in any one financial year, salary for more than twelve months or a payment of profit in lieu of salary under section 17(3), his income is assessed at a rate higher than that at which it would otherwise have been assessed, the AO shall, **on an application made to him in this behalf**, grant such relief as prescribed.

Similar tax relief is extended to assessee who receive arrears of family pension as defined in the Explanation to clause (iia) of section 57.

[No relief shall be granted in respect of any amount received or receivable by an assessee on his voluntary retirement or termination of his service, in accordance with any scheme or schemes of voluntary retirement or a scheme of voluntary separation (in the case of a public sector company), if exemption under section 10(10C) in respect of such compensation received on voluntary retirement or termination of his service or voluntary separation has been claimed by the assessee in respect of the same assessment year or any other assessment year.]

COMPUTATION OF RELIEF IF SALARY RECEIVED IN ARREARS OR IN ADVANCE

<u>Steps</u>	<u>Procedure</u>
1	Compute the tax payable (after HEC) on the total income, <u>including</u> the <i>additional salary</i> , of the relevant previous year in which the same is received .
2	Compute the tax payable (after HEC) on the total income, <u>excluding</u> the additional salary, of the relevant previous year in which the same is received .
3	Find out the difference between the tax at (1) and (2).
4	Compute the tax (after HEC) on the total income after <u>including</u> the additional salary in the previous year to which such salary relates .
5	Compute the tax (after HEC) on the total income after <u>excluding</u> the additional salary in the previous year to which such salary relates.
6	Find out the difference between tax at (4) and (5).
7	➤ <u>If tax computed in step (3) > tax computed in step (6) then the excess amount is admissible as relief u/s 89.</u> ➤ <u>If tax computed in step (3) ≤ tax computed in step (6) then NO RELIEF is admissible u/s 89.</u> In such a case, the assessee employee need not apply for relief.

MEANING OF GOVERNMENT EMPLOYEES FOR DIFFERENT PURPOSE

S. No.	Purpose	Government employees
1.	GRATUITY [SECTION 10(10)]	CG/SG/LA
2.	PENSION [SECTION 10(10A)]	CG/SG/LA/SC
3.	LEAVE SALARY [SEC 10(10AA)]	CG/SG
4.	RENT FREE ACCOMODATION [SECTION 17(2)(i) & 17(2)(ii)]	CG/SG
5.	ENTERTAINMENT ALLOWANCE [SECTION 16(ii)]	CG/SG

MEANING OF SALARY FOR COMPUTATION

SECTION	Purpose of computation	Salary includes
16(ii)	Entertainment allowance	Basic salary
10(10)	Gratuity [if gratuity Act, 1972 is applicable]	Basic salary + DA
10(10)	Gratuity [if Act not applicable]	Basic salary + DA (R) + % Commission on Sales.
10(10AA)	Leave Salary	DO
10(10B)	Retrenchment Compensation	Basic salary + DA
10(13A)	HRA	Basic salary + DA (R) + % Commission on Sales.
10(10C)	VRS	DO
10(12)	RPF	DO
17(2)(i) & 17(2)(ii)	RENT FREE ACC [RFA] OR AT ACCOMMODATION CONFESIONAL RATE	Basic + Allowance + Bonus + Commission + <u>DA(R)</u> + Any money payment (which in chargeable to tax) But does not include – 1. Employer's contribution to RPF 2. Value of perquisite specified in Sec 17(2) [from one or more employer]
17(2)(iii)	SPECIFIED EMPLOYEE	Basic Salary + D.A. + Commission, whether payable monthly or turnover based + Bonus + Fees + Advance Salary + Arrear Salary + Any other taxable payment + Any taxable allowances + Any other monetary benefits – <u>Deductions under section 16</u> [from one or more employer]

DEARNESS ALLOWANCE (DA)

If in question DA is given, then it will not be treated as forming part of salary unless question specifically says that –

- If forming part of retirement benefit
- Under the terms of employment
- Consider for retirement benefit

DEARNESS PAYS (DP)

It means it is forming part of retirement benefit unless question says otherwise.

MEMBERS OF HOUSEHOLD

= Spouse, Children, Spouse of children, Parents, Servants & all other Dependents.

FAMILY

= Spouse + Children + **Dependent** [Parents + Brothers + Sisters]

SALARY FROM UNITED NATIONS ORGANISATION

Section 2 of the United Nations (Privileges and Immunities), Act 1947 grants exemption from income-tax to salaries and emoluments paid by the United Nations to its officials. Besides salary, any pension covered under the United Nations (Privileges and Immunities) Act and received from UNO is also exempt from tax **[Only if the employee has shifted out from Section 115BAC]**.

Remuneration received by individuals, who are not citizens of India [Section 10(6)]

Individual assessee **who are not citizens of India** are entitled to certain exemptions:

i. **Remuneration received by officials of Embassies etc. of Foreign States [Section 10(6)(ii)]**

The remuneration received by a person for services as an official of an embassy, high commission, legation, commission, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials is exempt.

Conditions:

- (a) The remuneration received by our corresponding Government officials or members of the staff resident in such foreign countries should be exempt.
- (b) The above-mentioned members of the staff should be the subjects of the respective countries represented and should not be engaged in any other business or profession or employment in India.

ii. **Remuneration received for services rendered in India as an employee of foreign enterprise [Section 10(6)(vi)]**

Remuneration received by a foreign national as an employee of a foreign enterprise for service rendered by him during his stay in India is also exempt from tax.

Conditions:

- (a) The foreign enterprise is not engaged in any business or trade;
- (b) The employee's stay in India **does not exceed 90 days** during the previous year;
- (c) The remuneration is not liable to be deducted from the employer's income chargeable to tax under the Act.

iii. **Salary received by a non-citizen non-resident for services rendered in connection with employment on foreign ship [Section 10(6)(viii)]**

Salary income received by or due to a non-citizen of India who is also non-resident for services rendered in connection with his employment on a foreign ship is exempt where his total stay in India **does not exceed 90 days** during the previous year.

iv. **Remuneration received by Foreign Government employees during their stay in India for specified training [Section 10(6)(xi)]**

Any remuneration received by employees of foreign Government from their respective Government during their stay in India, is exempt from tax, if such remuneration is received in connection with their training in any establishment or office of or in any undertaking owned by –

- a. the Government; or
- b. any company wholly owned by the Central or any State Government(s) or jointly by the Central and one or more State Governments; or
- c. any company which is subsidiary of a company referred to in (b) above; or
- d. any statutory corporation; or
- e. any society registered under the Societies Registration Act, 1860 or any other similar law, which is wholly financed by the Central Government or any State Government(s) or jointly by the Central and one or more State Governments.

Exemption under section 10(6) would be available to an assessee irrespective of the regime under which he pays tax.

SALARY

SATC

6.50

Class Notes

PRACTICAL QUESTIONS – SET A

1. **Examples:** Sujatha, an actress, is employed in Chopra Films, where she is paid a monthly remuneration of ₹ 2 lakh. She acts in various films produced by various producers. The remuneration for acting in such films is directly paid to Chopra Films by the different producers.

In this case, ₹ 2 lakh will constitute salary in the hands of Sujatha, since the relationship of employer and employee exists between Chopra Films and Sujatha.

In the above example, if Sujatha acts in various films and gets fees from different producers, the same income will be chargeable **as income from profession** since the relationship of employer and employee does not exist between Sujatha and the film producers.

2. **Examples:** Commission received by a Director from a company is salary if the Director is an employee of the company. If, however, the Director is not an employee of the company, the said commission cannot be charged as salary but has to be charged either as income from business or as income from other sources depending upon the facts.
3. **Examples:** Salary paid to a partner by a firm is nothing but an appropriation of profits. Any salary, bonus, commission or remuneration by whatever name called due to or received by partner of a firm shall not be regarded as salary. The same is to be charged as income from profits and gains of business or profession. **This is primarily because the relationship between the firm and its partners is not that of an employer and employee.**
4. **Examples:** Mr. A, an employee instructs his employer that he is not interested in receiving the salary for April 2024 and the same might be donated to a charitable institution.

In this case, Mr. A cannot claim that he cannot be charged in respect of the salary for April 2024. **It is only due to his instruction that the donation was made to a charitable institution by his employer. It is only an application of income.**

Hence, the salary for the month of April 2024 will be taxable in the hands of Mr. A. He is, however, entitled to claim a deduction under section 80G for the amount donated to the institution. **Deduction under section 80G is available only if Mr. A exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).**

5. **Examples:** Mr. A, a citizen of India, is posted in the United States as our Ambassador. Obviously, he renders his services outside India. He also receives his salary outside India. He is also a non-resident. The question, therefore, arises whether he can claim exemption in respect of his salary paid by the Government of India to him outside India.

Section 9(1)(iii) provides that salaries payable by the Government to a citizen of India for services outside India shall be deemed to accrue or arise in India. **However, by virtue of section 10(7), any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt.**

6. **Examples:** If 'A' draws his salary in advance for the month of April 2025 in the month of March 2025 itself, the same becomes chargeable on receipt basis and is to be assessed as income of the P.Y. 2024-25 i.e., A.Y. 2025-26. However, the salary for the A.Y. 2026-27 will not include that of April 2025.

If the salary due for March 2025 is received by 'A' later in the month of April 2025, it is still chargeable as income of the P.Y. 2024-25 i.e., A.Y. 2025-26 on due basis. Obviously, salary for the A.Y. 2026-27 will not include that of March 2025.

7. **Examples:**

If the Pay Commission is appointed by the Central Government and it recommends revision of salaries of employees, the arrears received in that connection will be charged on receipt basis. **Here also, relief under section 89 is available.**

If the Central Government announces increase in HRA in the previous year 2024-25 which is effective from 1.1.2023, then the arrears from 1.1.2023 to 31.3.2024 will be taxed in the previous year in which they are paid because they were never due earlier. Here also, relief under section 89 is available.

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

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

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

Solution:

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

9. 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:

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2022 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:

- (i) 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.
- (ii) 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:

- (1) As per Rule 3, 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 taxable income would be ₹ 6,77,769.

- (2) **Perquisite value of transfer of car:** As per Rule 3, 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 $\times ₹ 20,000$	₹ 2,00,000
(iv) Cash equivalent of leave to his credit	₹ 2,20,000
(330/30 $\times$ 20,000)	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 ₹ 5,82,769.

(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 $\frac{1}{3}$ 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
Exemption under section 10(10A) = $\frac{1}{3}$ (3,00,000 $\times$ $\frac{3}{2}$)	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.

10. 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:

- (i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).

In case the company has employed the domestic servant, what is the value of perquisite?

- (ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- (iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- (iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- (vi) Housing loan @ 6% per annum. Amount outstanding on 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 $\times$ 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

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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].

11. 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.

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

Solution:

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 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

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

12. 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 ₹ 5,000 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 ₹ 9 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 concessional accommodation			
	For the period from 01.09.2023 [7 Months]			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 9,00,000	<u>90,000</u>		
	Lower of the above	90,000		
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)	<u>60,000</u>	30,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		<u>36,000</u>	66,000
(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			NIL
	Value of perquisites chargeable to tax			98,400

13. Mr. Goyal receives the following emoluments during the previous year ending 31.03.2025.

Basic pay	₹	40,000
Dearness Allowance	₹	15,000
Commission	₹	10,000
Entertainment allowance	₹	4,000
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. Assume that Mr. Goyal exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Computation of salary of Mr. Goyal for the A.Y. 2025-26

Particulars	₹	₹
Basic Salary		40,000
Dearness Allowance		15,000
Commission		10,000
Entertainment Allowance received		4,000
Employee's contribution to RPF		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		95,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of up-to ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance being lower of :		
(a) Allowance received	4,000	
(b) One fifth of basic salary [1/5 × ₹ 40,000]	8,000	
(c) Statutory amount	5,000	4,000
under section 16(iii) - Professional tax paid		2,000
Income from Salary		39,000

14. In the case of Mr. Hari, who turned 68 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 (₹)
2014 – 2015	7,10,000	1,03,000
2015 – 2016	8,25,000	1,17,000
2016 – 2017	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
2015–16	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%
2016–17	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%
2017–18	Upto ₹ 2,50,000	Nil	Up-to ₹ 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. 2015-16		A.Y. 2016-17		A.Y. 2017-18	
	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	<u>Tax payable in A.Y. 2025-26 on arrears:</u> Tax on income including arrears Less : Tax on income excluding arrears	2,28,280 1,20,640	1,07,640
ii	<u>Tax payable in respective years on arrears :</u> Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925) Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	3,91,400 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. 2025-26 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

15. 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 previous year 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 assessment year 2025-26 assuming he has not opted for the provisions of section 115BAC assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Computation of gross salary of Mr. Mohit for A.Y. 2025-26

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 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-Mar (₹)
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 Relevant period (in months)	15,000	15,000	15,000	15,000	16,500
	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) Least of the following is exempt [u/s 10(13A)]	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)
	N.A.				
1. Actual HRA received	-	30,000		7,000	14,000
2. Rent paid (-)10% of salary	-	22,500	12,000	6,500	12,700
3. 40% of salary	-	30,000	13,000	7,500	16,500
(Residence at Ghaziabad – June to Oct, 2024) 50% of salary (Residence at Delhi– Nov, 24 - March, 25)		(40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	(50% × ₹ 15,000)	(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

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

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

Solution:

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 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 an exempt 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 section 17, reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is an exempt perquisite.
5. & 6.	As per section 17, 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 [₹ 1,05,000, in this case]; (ii) Expenditure on travel and stay abroad 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 – (a) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; (b) 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.

17. 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 [Population - 3 Crore]. 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).

Solution:**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

Note 1: Value of rent free unfurnished accommodation

= 10% of salary (₹ 300,000 + ₹ 12,000 + ₹ 12,000)
= ₹ 32,400

Note 2: Value of perquisite for interest on personal loan

= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

Note 3: Depreciated value of the motor cycle

= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.
Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

18. 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.
- (iii) Dearness allowance @ 40% of basic salary.
- (iv) Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.
- (v) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (vi) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vii) 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.
- (viii) 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.
- (ix) 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 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 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, facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
- As per the provisions of Rule 3, 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 01.11.2024, therefore the perquisite value has been calculated for 5 months.
- 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.

- 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.

- 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.

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

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

- (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.
- (vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
- (vii) He is getting telephone allowance @ ₹ 500 per month.

Solution:

Computation of taxable salary of Mr. X for A.Y. 2025-26

Particulars	₹
Basic pay [(₹ 20,000×9) + (₹ 21,000×3)] = ₹ 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:

- It has been assumed that dearness allowance forms part of salary for retirement benefits and accordingly, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been 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 10% 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 (forming part of pay) 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% of salary = ₹ 29,430

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 120,000) or 10% of salary (i.e., ₹ 29,430).

Therefore, the perquisite value is ₹ 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.

- Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

20. 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 2025-26 if she pays tax under default tax regime [Section 115BAC].	

Solution:

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	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)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3	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]	39,600
Annual credit card fees paid by employer is a taxable perquisite 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 Rule 3.

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 ₹ 11,71,600, respectively.

21. 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

Computation of taxable value of perquisite in the hands of Mr. G

Solution:

	₹	₹
Treatment of Mrs. G in a Government hospital		NIL
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		NIL
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

PRACTICAL QUESTIONS – SET B

In all questions, assume 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 under the normal provisions of the Act).

- 1) Mr. X has joined ABC Ltd. on 01.10.2011 in the pay scale of 10,000 – 900 – 16,300 – 1,100 – 25,100 – 1,500 – 32,600. The employer has allowed him dearness allowance @4.35% of basic pay up to 30.09.2023, @7.5% up to 31.12.2024. Thereafter, it was allowed @10.5% of the basic pay. **Compute employee's gross salary.**
- 2) **Raghav furnished the following particulars and requests you to compute his taxable income for the previous year ending 31.3.2025:**
 - a) Joined service on 1.10.2024, on a consolidated salary of ₹ 25,000 per month.
 - b) He was paid ₹ 1,30,000 in September, 2024, so that he should not join elsewhere.
 - c) He contributed towards:
 - i) Life Insurance Premium ₹ 20,000
 - ii) National Saving Certificates ₹ 10,000
- 3) **Mr. Sunil is working as an employee in ABC Ltd. He received the following amounts during the previous year 2024-25. Compute the gross salary:**
 - (a) He received ₹ 1,85,000 as salary after deducting ₹ 15,000 as income tax and ₹ 12,000 as contribution towards provident fund.
 - (b) He received ₹ 4,000 as guarantee commission.
 - (c) He was also acting MP and received ₹ 1,25,000 as salary from the consolidated fund of India.
 - (d) He took 1 month's salary as loan for his daughter's marriage.
- 4) Rajesh Kumar, an Indian citizen, is posted in the Indian High Commission at London during the PY 2024-25. His emoluments consist of basic pay of ₹ 1,00,000 per month and overseas allowance of ₹ 2,000 per month. Besides, he is entitled to airfare for going from and coming to India and also to free use of Government's car at London. He has no taxable income except salary income stated above. His employer did not deduct tax at source.

Rajesh Kumar argues that

- i) he is not liable to pay tax on salary earned and received outside India since he is a non – resident during the PY 2024-25 and
- ii) even if any tax is due, it is the duty of his employer to deduct tax at source and as such he has no responsibility to pay the tax.

Discuss whether his contention is correct. Will it make any difference if Rajesh Kumar is foreign citizen? Give reasons.

- 5) Mr. Shyam, an employee of AB Ltd. receives ₹ 90,000 as gratuity under the Payment of Gratuity Act, 1972. He retires on August 15, 2024 after rendering service for 32 years and 4 months. The last drawn salary was ₹ 3,250 p.m. **Calculate the amount of gratuity chargeable to tax.**

- 6) Ms. Uma, not being covered by the Payment of Gratuity Act, 1972 retires during 2024-25 from SR Private Ltd, and receives ₹ 45,000 as gratuity after a service of 40 years 11 months. Her average monthly salary during the last 10 months of service was ₹ 2,200. **Determine the taxable gratuity in her case. What would be your answer if she retired after serving for another 2 months?**
- 7) X, who is not covered by the Payment of Gratuity Act, 1972, retires on November 20, 2024 from ABC Ltd. and receives ₹ 1,86,000 as gratuity after service of 38 years and 10 months. His salary is ₹ 8,000 per month up to July 31, 2024 and ₹ 9,000 per month from August 1, 2024. Besides, he gets ₹ 500 per month as dearness allowance (69 per cent of which is part of salary for computing retirement benefits). **What amount of gratuity will be exempt from tax?**
- 8) X, a marketing specialist of Bombay, is working with two companies, viz., A Co. and B Co. He retires from A Co. on November 30, 1994 (salary at the time of retirement: ₹ 2,600) and receives ₹ 22,000 as gratuity out of which ₹ 20,000 is exempt under section 10(10). He also retires from B Co. on December 10, 2024 after 38 years and 8 months of service and receives ₹ 3,90,000 as death – cum – retirement gratuity. His average basic salary drawn from B Co. for the preceding 10 months ending on November 30, 2024 is ₹ 18,200 per month. Besides, he has received ₹ 1,000 per month as dearness allowance, 80 per cent of which forms part of salary for the purpose of computation of retirement benefits and 6 per cent commission on turnover achieved by him. Total turnover achieved by him during 10 months ending on November 30, 2024 is ₹ 2,00,000. **Determine the amount of gratuity exempt under section 10(10).**
- 9) **Determine the amount of pension taxable for the previous year in the following cases on the assumption that it becomes due on the last day of each month:**
- a) X receives ₹ 18,250 per month as pension from the Central Government during the previous year 2024-25.
 - b) X receives ₹ 21,000 per month as pension from the Government of Punjab during the previous year 2024-25.
 - c) X receives ₹ 20,000 per month as pension from ABC Ltd., a public limited company in the private sector, during the previous year 2024-25.
 - d) X retires from the Central Government service on May 31, 2024. He gets pension of ₹ 15,000 per month up to November 30, 2024 [i.e., ₹ 15,000 x 6]. With effect from December 1, 2024, he gets one – third of his pension commuted for ₹ 7,18,000.
 - e) X retires from ABC Co. on June 30, 2024. He gets pension of ₹ 20,000 per month up to January 31, 2025. With effect from February 1, 2025, he gets 60 per cent of pension commuted for ₹ 10,71,000. Does it make any difference if he also gets gratuity of ₹ 40,000 at the time of retirement?
- 10)
- a) Mr. Kumar retires from Government service on 1-1-2025. He was drawing a salary of ₹ 6,000 p.m. He was drawing dearness allowance of ₹ 1,200 p.m. On retirement, he receives a gratuity of ₹ 1,20,000. He is paid monthly pension of ₹ 4,200. Compute the Gross salary in his case.
 - b) Mr. Dalai retires from an employment covered by Payment of Gratuity Act on 30.11.2024 and he is paid gratuity of ₹ 55,000. While the last drawn salary is ₹ 1,950, the average of last 10 months salary is ₹ 1,800. He served for 36 years and 4 months before retirement. **Compute the taxable gratuity in his case.**
 - c) Mr. Rohit not covered by Payment of Gratuity Act, **retires on 28th Feb 2025** after serving the employer company for a period of 18 years and 10 months. He was drawing a salary of ₹ 5,000 **up to Sep 2024** and thereafter ₹ 6,000/ – per month. On retirement he is not in receipt of pension but gratuity of ₹ 60,000 is paid. **Compute Gross salary.**

11) Determine the gross amount of taxable pension includible in salary income for the AY 2025-26 in the following cases:

- a) On 30th June 2024, Mr. Santhosh retires from Central Government service and gets pension of ₹ 3,000 p.m. up to 31-1-2025. With effect from 1-2-2025 he gets 1/3 of his pension commuted for ₹ 1,20,000.
- b) Mr. Kamath retires from X Ltd., on 31.10.2023. He gets pension of ₹ 2,000 p.m. up to 31-10-2024. With effect from Nov 1, 2024 he gets 60% of pension commuted for ₹ 30,000. He is not in receipt of gratuity.

12) Mr. Daniel resigned from his employment and is paid leave salary of ₹ 92,400. He completed 32 years of service and he was drawing a salary of ₹ 4,200 p.m throughout the period of 10 months before retirement. During service he availed 10 months leave. Calculate the leave salary taxable in his case. [Company Policy – 1 Month]

13) Mr. Arif retired from service after serving for 12 years and encashed leave of 15 months to his credit at ₹ 60,000. As per the rules of employment he was eligible for 2 months leave per year of completed service and he was drawing ₹ 4,000 p.m. as salary throughout the period of 10 months before retirement. Determine taxable amount of leave salary.

14) Shri A.K. Gupta was employed in a factory in Faridabad. He retired on 1.1.2025 after completing a service of 26 years and 5 months. He had been getting a salary of ₹ 23,000 per month and a dearness allowance of ₹ 2,000 per month (forming part of retirement benefits) for the last four years. His pension was determined @ ₹ 9,000 p.m. and 3/4 portion of it was commuted for ₹ 2,70,000. In addition to this he received a gratuity of ₹ 4,00,000 and as per entitlement of 30 days earned leave for each year of service, he also received ₹ 3,00,000 for encashment of earned leave of 12 months during the previous year. Compute gross salary of Shri Gupta, assuming he is not covered under Payment of Gratuity Act.

15) X was employed with ABC Ltd. He retired w.e.f. 1.2.2025 after completing a service of 24 years and 4 months. He submits the following information :

Basic Salary	₹ 5,000 per month (at the time of retirement)
Dearness Allowance	100% of Basic Salary (40% of which forms part of salary for retirement benefits).
Last increment	₹ 500 w.e.f. 1.7.2024

His pension – was determined at ₹ 3,000 per month. He got 50% of the pension commuted w.e.f. 1.3.2025 and received a sum of ₹ 1,00,000 as commuted pension. In addition to this, he received a gratuity of ₹ 1,20,000 and leave encashment amounting to ₹ 56,000 on account of accumulated leave of 240 days. He was entitled to 40 days leave for every year of service.

Compute his Gross Salary assuming that he is not covered under Payment of Gratuity Act.

- 16) Mr. Narendra, who retired from the services of Hotel Samode Ltd., on 31.1.2025 after putting on service for 5 years, received the following amounts from the employer for the year ending on 31.3.2025:

Salary @ ₹ 16,000 p.m. comprising of basic salary of ₹ 10,000, Dearness allowance of ₹ 3,000, City compensatory allowance of ₹ 2,000 and Night duty allowance of ₹ 1,000. Pension @ 30% of basic salary from 1.2.2025. Leave salary of ₹ 75,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year. Gratuity of ₹ 50,000.

Compute Gross Salary of Mr Narendra.

- 17) Mr. Zakaria, staying at Chennai, receives ₹ 12,500 monthly as basic salary; ₹ 1,500 p.m. as D.A. provided in terms of employment and 4% as commission on turnover achieved by him. He is paid an house rent allowance of ₹1,800 p.m. The turnover achieved by him for the year is ₹15 lakhs. House rent paid by him is ₹ 2,500 p.m. He received advance salary of ₹ 50,000/ – in March 2025 relating to the period April to July 2025. **Determine the taxable quantum of HRA.**

- 18) Mr. Kapil is in receipt of the following allowances and seeks your advice about the taxable quantum of these allowances for FY 2024-25:

- Helper allowance ₹ 300 p.m. Mr. Kapil had appointed a helper for 9 months during the year to whom he paid ₹ 200 p.m.
- Conveyance allowance of ₹ 750 p.m. Mr. Kapil owner car which is used both for personal purposes and official purposes. Total monthly expenses Amounts to ₹ 1,200 of which 40% is attributable to office use.
- During the year Mr. Kapil received education allowance for his 3 children a sum of ₹ 250 per month each towards education and hostel expenditure. All the children are staying in hostel.

- 19) **Compute the gross salary of Mr. Kamlesh on the basis of the following information:**

- Basic pay ₹ 8,000 per month
- Dearness allowance - 40% of basic pay
- City compensatory allowance -10% of basic pay.
- Medical allowance- ₹ 800 per month
- Children education allowance - ₹ 80 per month per child for 3 children
- Hostel expenditure allowance - ₹ 400 per child per month for 2 children.
- Tribal area allowance- ₹ 500 per month
- Travelling allowance - ₹ 12,000 (However actual expenditure was only ₹ 8000 for official duties)
- Conveyance allowance - ₹ 500 per month. (The whole amount was spent for official duties)
- Transport Allowance - ₹ 28,200
- Overtime allowance - ₹ 4,000

20) Mr. M is an area manager of M/s N. Steels Co. – Ltd. During the financial year 2024-25, he gets following emoluments from his employer:

Basic Salary	
– Up to 31.08.2024	₹ 20,000 p.m.
– From 01.09.2024	₹ 25,000 p.m.
Transport allowance	₹ 1,200 p.m.
Contribution to recognized provident fund	15% of basic salary and D.A.
Children education allowance	₹ 500 p.m. for two children
City compensatory allowance	₹ 300 p.m.
Hostel expenses allowance	₹ 380 p. m. for two children
Tiffin allowance	₹ 5,000 p.a.
(actual expenses ₹ 3700)	
Tax paid on employment	₹ 2,500

Compute taxable salary of Mr. M.

21) Mr. D is employed in Nainital Transport Corporation as a conductor with basic pay ₹ 4,000 p.m. upto 30.09.2024 and ₹ 4,500 p.m. with effect from 01.10.2024. Dearness allowance is allowed @ 12% of the basic pay and 10% of it is taken into consideration as per terms of employment. The employer has paid him outstation allowance of ₹ 1,200 p.m., transport allowance of ₹ 300 p.m. (savings ₹ 100 p.m.), conveyance allowance for personal purpose ₹ 100 p.m.

He has resigned from Nainital Transport Corporation with effect from 01.03.2025 and has joined Haryana Transport Corporation at a consolidated pay of ₹ 8,500 p.m.

Compute his income under the head salary.

22) Mr. X, a resident individual is retired from A Co. Ltd. w.e.f. 1st February, 2025, after 20 years and 9 months of service. He joined B Co. Ltd. on the same day, i.e. 1st February, 2025 and remained in service till 31st March, 2025.

He furnished the following information:

Salary and allowances from 01.04.2024 to 31.01.2025 from A Co. Ltd.	₹
Basic salary	10,000 p.m.
Dearness allowance	1,500 p.m.
Commission calculated @ 4% on turnover achieved by Mr. X	4,000
Gratuity received	1,25,000
(not covered by the Payment of Gratuity Act, 1972)	

Salary and allowance from B Co. Ltd.

Basic Salary	7,000 p.m.
Entertainment allowance	1,000 p.m.
Fixed medical allowance	500 p.m.
House rent allowance	600 p.m.
Leave salary received (During the service)	5,000

Other information: Mr. X resides in his own house throughout the year.

Mr. X paid a premium of ₹ 12,000 on the policy of ₹ 150,000 on life of his minor child. Contribution to an approved superannuation fund and the Jeevan Dhara Scheme of the LIC covered under section 80C amounted to ₹ 8,000 and ₹ 5,000 respectively.

Compute Mr. X's total income.

23) From the following particulars furnished by Mr. X for the year ended 31.03.2025. Compute his total income.

- Mr. X retired on 31.12.2024 at the age of 59, after putting in 25 years and 11 months of service, for a private company at Delhi.
- He was paid a salary of ₹ 30,000 p.m. and house rent allowance of ₹ 7,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,75,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as ₹ 26,500. Mr. X has not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,20,000 was received by him in this regard. His average salary may be taken as ₹ 26,500.
- Mr. X has invested ₹ 20,500 in recognised provident fund, ₹ 45,000 in public provident fund and ₹ 29,500 in National Savings Certificates.

24) 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 Unrecognised Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the provident fund, the employer's share was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's share was ₹ 2,70,000 and the interest thereon ₹ 60,000.

What is the taxable portion of the amount received from the unrecognized provident and in the hands of Mr. A? Will your answer be any different if the fund mentioned above was a recognised provident fund?

25) 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 1%	
Turnover during the year	₹ 5,00,000
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

26) X retires on June 30, 2024. He submits the following information —

Basic salary (since January 2023): ₹ 20,000 per month, dearness allowance : ₹ 6,000 per month (1/3 of which is part of salary for retirement benefits), employer's contribution towards provident fund : ₹ 3,000 per month (X makes a matching contribution); interest credited at the rate of 15 per cent on April 30, 2024: ₹ 7,500; pension after retirement : ₹ 10,000 per month; and payment of provident fund at the time of retirement: ₹ 7,60,000 (out of which employer's contribution: ₹ 3,30,000, interest thereon ₹ 44,000, X's contributions : ₹ 3,40,000, interest thereon : ₹ 46,000). Salary and pension become due on the last day of each month. X has deposited the entire provident fund payment with a company (rate of interest: 9 per cent per annum).

Find out the income of X on the assumption that the provident fund is (a) statutory provident fund, (b) recognised provident fund, or (c) unrecognised provident fund.

27) Mr. R is employed with a transport firm. He is a member of an unrecognized provident fund. He has been drawing salary @ ₹ 10,000 p.m. since 01.01.2024. Dearness allowance, forming part of pay for superannuation benefits, is paid @ 10% of his salary. He gets house rent allowance @ ₹ 1,300 per month. He pays rent of ₹ 2,100 p.m. He contributes @ 10% of his salary to the unrecognized provident fund and the employer contributes @ 15%. The employer also paid his club bills amounting to ₹ 8,000. Besides, he is paid ₹ 1,800 p.m. as outstation allowance.

He retires on 31st December 2024 after 20 years and 10 months of service. He gets ₹ 1,56,000 accumulated balance from the fund. It consists of ₹ 30,000 as his contribution and ₹ 22,000 interest thereon. The employer's contribution is ₹ 66,000 and interest thereon is ₹ 38,000. He also gets gratuity of ₹ 90,000.

After retirement, he gets pension @ ₹ 4,000 p.m. On 1st March, 2025 he surrenders one-half pension for a consolidated amount of ₹ 1,20,000.

He has made the following payment/investments during the previous year 2024-25:

- (i) Purchases of National Savings Certificates, VIII issue, amounting to ₹ 4,000.
- (ii) Contribution of ₹ 10,000 under the Jeevan Dhara Scheme of Life Insurance Corporation of India eligible for deduction under section 80C.
- (iii) Life insurance premium amounting ₹ 4,000 on the policy taken on the life of his married son. (Sum assured ₹ 80,000)
- (iv) Public provident fund deposit ₹ 12,000
- (v) Repayment of ₹ 25,000 to the Life Insurance Corporation of India on account of loan taken for the purchase of a flat, allotted in March, 2020.
- (vi) Tuition fees of his son studying in college ₹ 1,100 per month.

From the above information you are required to compute his income under the head salary.

28) Mr. X is employed in A Ltd. getting basic pay ₹ 20,000 p.m., dearness allowance ₹ 7,000 p.m. The employer has contributed ₹ 3,500 to the unrecognised provident fund and the employee has also contributed equal amount. The employee was retired on 31.10.2024 after serving the employer for 20 years and 6 months and employer has credited interest ₹ 21,000 to the provident fund account on 31.10.2024 and interest rate is 12% p.a.

The employer has paid provident fund balance ₹ 10,00,000 to the employee on 01.11.2024 out of which employee's contribution is ₹ 4,00,000 and employer's contribution is also ₹ 4,00,000 and balance is interest. Employer has paid gratuity ₹ 2,60,000 and allowed him pension ₹ 5,000 p.m. The employee was allowed commutation of pension on 01.01.2025 for 40% of the pension and has paid ₹ 2,40,000. **Compute employee's total income for the assessment year 2025-26.**

Basic salary	₹ 6,000 p.m.
Advance salary for April 2025 received in March 2025	₹ 5,000
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

36) X, a regular employee of A Ltd., gets the following emoluments during the PY 2024-25:

Basic salary : ₹ 6,000 per month (which has been increased to ₹ 7,000 per month from January 1, 2025); dearness allowance ₹ 4,000 per month (72 per cent of which is part of salary for computing retirement benefits); education allowance : ₹ 550 per month per child for 4 children; medical allowance : ₹ 400 per month; transport allowance : ₹ 350 per month (out of which ₹ 100 per month is used for covering the journey between office and residence and ₹ 250 per month is used for other purposes). Besides, he gets ₹ 4,500 per month as house rent allowance upto November 30, 2024 (rent paid at Ghaziabad: ₹ 5,500 per month). With effect from December 1, 2024, he has been provided a furnished flat by the employer at Delhi (rent paid by employer: ₹ 7,500 per month; rent of furniture provided: ₹ 500; rent recovered from X : ₹ 900 per month). **Find out the Gross salary chargeable to tax on the assumption that with effect from January 1, 2025, he joins a part – time employment with B Ltd. (salary ₹ 2,000 per month) with the permission of A Ltd (without leaving the job of A Ltd.)**

37) Mr. X is employed in ABC Ltd. getting basic pay ₹ 11,000 p.m., dearness allowance ₹ 5,000 p.m. and 30% of it forms part of salary.

The employee is also getting dearness pay ₹ 1,000 p.m. and 10% of it forms part of salary. He is getting bonus ₹ 1,200 p.m. The employer has provided him one accommodation in Delhi for which rent paid by the employer is ₹ 1,200 p.m.

The employee was transferred to Bombay with effect from 01.01.2025 and the employer has provided him rent free accommodation at Bombay also which is owned by the employer himself.

The employee has received arrears of salary ₹ 32,000 and advance salary of ₹ 11,000.

Compute employee's total income.

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

	Car 1	Car 2
	₹	₹
Cost of the Car	6,00,000	4,00,000
Running and maintenance (Borne by the company)	40,800	28,000
Salary of driver (Borne by the company)	24,000	24,000

The taxable monetary emoluments of Mr. A are ₹ 90,000. **Compute the taxable Perk in respect of Cars, on the assumption car 2, is exclusively used by A.**

39) Please determine the taxable value of the perquisite in the following cases:

- i) X is employed by A Ltd. On June 1, 2024, the company gives an interest – free housing loan of ₹ 14,00,000. Loan is repayable within 5 years. **[Assumed SBI rate is 8%]**
- ii) Y is employed by B Ltd. On April 1, 2024, he takes a personal loan of ₹ 25,000 from B Ltd. B Ltd. recovers interest @ 7 per cent per annum from Y. **[Assumed SBI rate is 16%]**
- iii) C Ltd. gives the following interest – free loan to Z, an employee of the company - ₹ 15,000 for child's education and ₹ 5,000 for purchasing a refrigerator. No other loan is given by C Ltd.
- iv) A purchases a Honda City 1.6 Lxi on March 1, 2024 from a loan of ₹ 8,00,000 taken at concessional rate of 7 per cent per annum from his employer XYZ Ltd. As per the agreed terms of repayment, A is supposed to repay in monthly installments of ₹ 25,000 starting from January 1, 2025. **[Assumed SBI rate is 8%]**

Compute the taxable value of perquisite in respect of concessional loan.

40) Find out the taxable value of the perquisite in the following cases–

- (1) X is given a laptop by the employer – company for using it for office and private purpose (ownership is not transferred). Cost of the laptop to the employer is ₹ 96,000.
- (2) On October 15, 2024, the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music system (in 2000) to the employer is ₹ 15,000.
- (3) The employer company sells the following assets to the employees on January 1, 2025 —

Name of employee	Z	A	B
Asset sold	Car	Computer	Fridge
Cost of the asset to employer	₹ 6,96,000	₹ 1,17,000	₹ 40,000
Date of purchase (put to use - same day)	May 15, 2022	May 15, 2022	May 2022
Sale price	₹ 2,10,000	₹ 24,270	₹ 1,000

Before sale on January 1, 2025, these assets were used for business purpose by the employer.

41) Find out the perquisite value in the following cases:

Assets	Furniture	Air-conditioner	Video camera	Motor car	Computer
Original cost	2,00,000	75,000	60,000	5,40,000	1,20,000
Date of purchase by the Employer	07.03.2021	01.07.2023	10.07.2022	01.10.2020	01.01.2022
Date of putting to use by employer	31.03.2021	01.07.2023	11.07.2022	01.10.2020	10.01.2022
Date of sale of asset to the employee	01.09.2024	01.08.2024	01.08.2024	01.01.2025	09.01.2025
Payment made by the employee	40,000	15,000	20,000	1,50,000	25,000

42) Following benefits have been granted by Ved Software Ltd. to one of its employees Mr. Badri:

- a) Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000. Mr. Badri pays ₹ 12,000 per month on 5th of each month.
- b) 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.

The lending rate of State Bank of India as on 1.4.2024 for housing loan may be taken as 10%.

43) Mr. Raghu Raj is employed with Bhoruka Power Corporation Ltd., as General Manager, Finance, on a monthly salary of ₹ 26,000. He has been provided with the following perquisites:

Rent free accommodation is provided in Bangalore. The company has given him housing loan of ₹ 4 lakhs repayable in 8 years during the previous year @ 3% per annum [SBI Rate – 10.5%]. The company had purchased a car on 01.05.2022 for ₹ 2,50,000/ –. This car is sold to Mr. Raghu Raj on 1-7-2024 for ₹ 1,20,000/ –. He made Diwali purchases for office gifts amounting to ₹ 19,000/ – on his corporate credit card. This amount along with the annual fee of ₹ 1,500/ – was paid by the company. He was allowed to use the video camera and laptop belonging to the company. The company had purchased these assets for ₹ 40,000/ – and ₹ 2 lakhs respectively. **Compute taxable salary of Mr. Raghu Raj.**

44) A Ltd. has offered you a job in Delhi at a basic salary of ₹ 11,500 per month and an option to choose any one of the following two packages :

Package I

- (1) HRA ₹ 4,500 p.m. (Rent to be paid ₹ 4,500 p.m)
- (2) Education allowance ₹ 300 p.m. (for one child)
- (3) Telephone allowance ₹ 1,000 p.m.
- (4) Medical Allowance ₹ 1,500 p.m.
- (5) Conveyance allowance ₹ 1,500 p.m. (for private user)
- (6) Lunch allowance – ₹ 1500 p.m.

Package II

- (i) Company owned unfurnished accommodation [Fair Rent - ₹ 54,000 p a.]
- (ii) Education facility for one child valued at ₹ 300 p.m.(Not owned by employer)
- (iii) Free telephone facility at residence upto ₹ 1,000 p.m.
- (iv) Medical reimbursement upto ₹ 18,000 p.a.
- (v) Motor Car facility for private use with expenditure valued at ₹ 18,000 (including normal wear & tear).
- (vi) Free Lunch (₹ 60 x 300 days)

The company also offers you the services of watchman, sweeper and gardener in both the above packages. The salary of each employee is ₹ 500 p.m.

Which package will you choose so that your tax liability is minimum?

45) Mr. Albert is employed with Sonata Software Ltd., as Vice – President, Marketing, on a monthly salary of ₹ 30,000. He has been provided with the following perquisites:

- Rent free accommodation is provided in Hyderabad
- During the previous year, the company has given him interest free housing loan of ₹ 6 lakhs repayable within 12 years. (SBI rate of interest – 10%)
- The company had purchased a car on 1-4-2023 for ₹ 3,50,000/- . This car is sold to him on 1-5-2024 for ₹ 1,00,000/-
- He was allowed to use the Air conditioner and Inverter belonging to the company. The company had purchased these assets for ₹ 50,000/- and ₹ 75,000/- respectively.

Compute Gross salary of Mr. Albert.

46) Mr. A, finance manager of Jet Ltd. Mumbai, furnishes the following particulars for the financial year 2024-25:

- i. Salary ₹ 46,000 per month
- ii. Value of medical facility in a hospital maintained by the company ₹ 17,000
- iii. Housing loan of ₹ 6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) [SBI Rate – 10.5%]
- iv. Gifts (in kind) made by the company on the occasion of wedding anniversary of Mr. A ₹ 3,750
- v. Rent free accommodation owned by the company
- vi. A wooden table and 4 chairs were provided to Mr. A at his residence. These were purchased on 01.04.2021 for ₹ 60,000 and put to use on 01.04.2021 and sold to Mr. A on 01.08.2024 for ₹ 30,000
- vii. Personal purchases through credit card provided by the company amounting to ₹ 30,000 was paid by the company. No part of the amount was recovered from Mr. A.
- viii. An ambassador car which was purchased by the company on 16.07.2021 for ₹ 2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2024 for ₹ 100,000.

Compute Gross Salary of Mr. A.

47) Mr. G is the General Manager of Software Ltd, which is covered under recognised provident fund scheme. He voluntarily retired on 31.12.2024 after 20 years of service. He submits the following particulars of his salary income and approved savings during the previous years on 2024-25:

- (i) Salary @ ₹ 15,000 per month from 01.02.2024.
- (ii) Dearness allowance ₹ 1,500 per month from 01.02.2024, 50% of the dearness allowance is part of superannuation benefits,
- (iii) Pension @ ₹ 4,000 per month.
- (iv) House rent allowance @ ₹ 3,000 p.m. from 01.02.2024 rent paid by him is ₹ 4,000 p.m.
- (v) He received ₹ 5,30,000 as gratuity,
- (vi) He received ₹ 1,57,500 for encashment of 10 month unutilised earned leave. As per rules of the company, he was entitled to one month leave for every year of service. During his service, he has availed 10 months earned leave,
- (vii) An ambassador car (with engine capacity 1.6 litres is provided by the company for official & personal use. Expenses of its running and maintenance and salary of the driver are borne by the company,
- (viii) He contributes 20% of his salary to the fund which includes 12% voluntary contribution & 8% compulsory contribution. The company's contribution is 12% of the salary to the fund,
- (ix) The company paid ₹ 8,000 to quick gas service for the use of cooking gas by him. However, it was usual practice of the company to hold its business dinners at his house,
- (x) He has invested ₹ 13,000 in National Saving Certificates VIII issue. He deposited ₹ 14,000 in public provident fund. He paid ₹ 16,000 towards Life Insurance Premium on the policy taken on the life of his married son (sum assured ₹ 120,000).
- (xi) The company deducted ₹ 500 as tax at source.

Compute Total Income.

48) Mr. X employed in ABC Ltd, submits the following particulars of His income for the previous year 2024-25.

	₹
Salary after deduction of income tax at source and own contribution to the Recognised Provident fund	2,25,000
— Income tax deducted at source	25,400
— Own contribution to the recognised provident fund	40,000
Employer's contribution to recognised provident fund	35,000
Interest credited to the provident fund calculated at the rate of 9.5% per 7,000 annum	

Mr. X is given free use of 1.8 litres engine capacity car by his employer for personal and official purposes with effect from 13.12.2024, all the expenses including salary of driver being met by the employer. A sum of ₹ 1,500 is, however, recovered from Mr. X.

Mr. X is also provided free service of a watchman with effect from 05.04.2025 and a sweeper with effect from 07.12.2024. Salary ₹ 600 per month per person is paid by employer. Income of Mr. X from other sources is ₹ 1,25,000 which includes income tax refund of ₹ 10,000 and ₹ 800, being interest thereon.

Compute Mr. X's total income.

49) Babu joined a Company on 1.6.2024 and was paid the following emoluments and allowed perquisites as under:

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

Perquisites:

- Furnished accommodation owned by the employer and provided free of cost. Value of furniture therein ₹ 3,00,000.
- Motorcar owned by the Company (with engine cubic capacity less than 1.6 litres) along with chauffeur for official and personal use.
- Sweeper salary paid by Company ₹ 1,500 per month.
- Watchman salary paid by Company ₹ 1,500 per month.
- Educational facility for 2 children provided free of cost. School is owned and maintained by company.
- Interest free loan of ₹ 5,00,000 given on 1.10.2024 for purchase of a house. No repayment was made during the year. (SBI Rate 12.25%)
- Interest free loan for purchase of computer ₹ 50,000 given on 1.1.2025. No repayment was made during the year. (SBI Rate 15.25%)
- Corporate membership of a club. The initial fee of ₹ 1,00,000 was paid by the Company. Babu paid the bills for his use of club facilities.

You are required to compute Gross Salary. Suitable assumptions may be made, wherever necessary.

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

	Alternative I (₹)	Alternative II (₹)
Basic pay	92,000	92,000
Bonus	9,000	9,000
Education allowance for 2 children/ Education facility for 2 children in a school maintained by employer	30,200	30,200
Sweeper allowance/ Sweeper facility	10,000	10,000
Entertainment Allowance/Club facility	6,000	6,000
Transport allowance/Free car (1200 cc) facility for personal use (car owned by the employer)	21,600	21,600
Medical allowance/ Medical facility for Naresh and his family members in a hospital maintained by employer	18,000	18,000
Allowance for gas, electricity and water supply/ Free gas, electricity and water supply (bills will be in the name of the employer)	4,500	4,500
Holiday home allowance/Holiday home facility	8,000	8,000
Lunch allowance/ Free lunch (₹ 70 × 200 days + ₹ 80 × 50 days)	18,000	18,000
Diwali gift allowance/ Gift on Diwali	7,500	7,500

Which of the two alternatives Naresh should opt for on the assumption that both employer and employee will contribute 10% of salary towards unrecognised provident fund? Interest-free loan of ₹ 20,000 will be given to him for purchasing household items.

51) Mr. X is employed in ABC Ltd. getting basic pay of ₹ 9,000 p.m. Employer has provided him treatment outside India and has incurred a sum of ₹ 3,60,000 but Reserve Bank of India has permitted ₹ 3,50,000. Employer incurred ₹ 1,50,000 on stay but Reserve Bank of India has permitted ₹ 1,05,000; employer has incurred ₹ 97,000 on travelling and Reserve Bank of India has permitted ₹ 60,000.

Employer has paid medical allowance of ₹ 10,000 during the year and has incurred ₹ 7,000 on the treatment of father in law of Mr. X in India. The treatment was provided in a Government hospital and father in law of Mr. X is dependent on him.

The employee has been provided with a motor car of 1.8 litre engine capacity for official as well as personal use and all expenses are met by the employee himself but driver has been provided by the employer. **Compute his total income.**

52) Mrs. Z is employed with ABC Ltd. on a monthly salary of ₹ 15,000. She has been provided with the following perquisite:

- Rent free accommodation at Delhi with rent paid by the company ₹ 60,000.
- A mobile phone and a fixed line telephone at her residence. The bills reimbursed by the company during the previous year amounted to ₹ 12,000.
- On the eve of Silver Jubilee Celebrations of the company she got a gift worth ₹ 12,000 from the company.
- She was allowed to use the Video Camera and Laptop belonging to the company. The company has purchased these assets for ₹ 75,000 and ₹ 2,50,000 respectively on 01.04.2024 and the employee has used it throughout the year.
- She was given a chauffeur driven car (1.6 litres) for private and official use. All expenses of running and maintenance including driver's salary were paid by the company.

She also drew the following allowances:

(i) Dearness allowance (50% forms the part of basic pay)	5,600 p.m.
(ii) Education allowance for 2 children	300 p.m. per child
(iii) Transport allowance	1,800 p.m.

During the year she got reimbursement from the company ₹ 20,000 spent on the medical treatment of her husband at a private nursing home.

She made the following payments and contributions:

- Life insurance premium paid ₹ 6,000 each against a policy taken on the life of her husband and her married daughter, (sum assured ₹ 60,000 each)
- Contributed ₹ 2,500 p.m. to Recognised provident fund, employer contributing an equal sum.

You are required to compute her Total Income.

53) Mr. Y.R. Meena, an Indian citizen, was working with UNO till 31st July 2024 and was residing at USA. On 1st August, he joined Indian-Government service and was deputed to Karachi in Pakistan.

On 1st December he left the Indian Government service and joined a private company and started working at its Sri Lanka branch. On 1st March, he has been shifted to the head office in India. He was provided rent-free accommodation during whole of the year.

His salary structure in various assignments is as under: (in ₹)

Particulars	UNO	Government service	Private Ltd. Co.
Basic	10000 p.m.	5000 p.m.	4000 p.m.
Dearness Allowance (forms part of salary for calculation of retirement benefits)	3000 p.m.	5000 p.m.	2500 p.m.
Project Allowance	1500 p.m.	2500 p.m.	1000 p.m.
Entertainment Allowance	1800 p.m.	1000 p.m.	2000 p.m.
Servant and sweeper facility	4000 p.m.	2000 p.m.	1200 p.m.
Education to two children in employer's school. Cost per child -	2000 p.m.	2500 p.m.	3000 p.m.

Find Gross salary for the previous year 2024-25.

SOLUTIONs – SET B

Solution 1: HINT:

Basic Salary – $21800 \times 6 + 22900 \times 3 + 22900 \times 3$
 DA – 7.5% upto Dec i.e. for 9 months & 10.5% for balance 3 months
 Gross Salary: ₹ 290,376.

Answer 2: Computation of salary income of Raghav for the previous year:

	On the assumption that salary becomes due on the last day of each month
	₹
Basic salary	1,50,000
Lump-sum payment	<u>1,30,000</u>
Gross Salary	2,80,000
Less: Deduction u/s 16(ia)	<u>50,000</u>
Salary Income	230,000
Any other Income	Nil
Gross total income	2,30,000
Less: Deduction u/s 80C	<u>30,000</u>
Net Income	2,00,000

Solution 3: Computation of Gross Salary of Mr. Sunil (amounts in ₹)

Salary received	1,85,000	
Add: Income tax deducted at source	15,000	
Contribution to Provident Fund	12,000	2,12,000
Guarantee commission		4,000
Gross salary		2,16,000

Note:

- (1) Salary received as MP is taxable under Income from other sources.
- (2) Loan taken against salary cannot be regarded as 'advance' of salary. Hence, the same is not taxable.

Answer 4:

As per section 9(1)(iii), Income deemed to accrue or arise in India includes, income chargeable under the head 'Salaries' payable by the Government of India to a citizen of India for services rendered outside India.

As per section 10(7), any allowance or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India shall be exempt.

In view of the above, the computation of taxable income of Mr. Rajesh is as follows.

		₹	₹
Basic Pay	$100,000 \times 12$		12,00,000
Overseas allowance	$2,000 \times 12$	24,000	
Less: Exempt under section 10(7)		24,000	<u>Nil</u>
			12,00,000
Deduction under section 16			<u>50,000</u>
Income under the head Salaries			11,50,000

Contentions of Mr. Rajesh Kumar

- (i) The salary shall be deemed to accrue or arise in India and therefore, this contention of Mr. Rajesh Kumar is not valid.
- (ii) As per section 192, the employer is liable to deduct the tax at source from taxable salary. However, if the employer does not deduct tax, the employee is not granted exemption from tax liability.

If Mr. Rajesh Kumar is a foreign citizen, The above provisions of Sec. 9(1)(iii), shall not apply. Therefore, there will be no tax liability on Mr. Rajesh Kumar

Answer 5:**Computation of taxable gratuity of Mr. Shyam**

Particulars	₹
Actual gratuity	90,000
Less: Exempt u/s 10(10) to the extent of least of the following	
1. ₹ 20,00,000	
2. $15/26 \times ₹ 3,250 \times 32 = ₹ 60,000$	
3. Actual Gratuity received – ₹ 90,000	60,000
Taxable Gratuity ₹	30,000

Answer 6:**Computation of taxable gratuity of Ms. Uma****Case 1: 40 years and 11 months service**

Actual Gratuity	₹ 45,000
Less : Exempt u/s. 10(10) to the extent of least of the following:	
1. ₹ 20,00,000 (not covered)	
2. $₹ 2,200 \times \frac{1}{2} \times 40 = ₹ 44,000$.	
3. Actual Gratuity received ₹ 45,000	44,000
Taxable gratuity	1,000
On service of another 2 months - NIL	

Answer 7:**Computation of average monthly salary**

	₹
Basic salary from January 1, 2023 to October 31, 2024 (i.e., ₹ 8,000 × 7 ÷ ₹ 9,000 × 3)	83,000
69% of dearness allowance [i.e., 69% of ₹ 500 × 10]	3,450
Total	86,450
Average monthly salary	8,645

Amount of exempt gratuity is the least of the following:

- (a) ₹ 20,00,000 (not covered)
 (b) ₹ 1,64,255 [being half month's salary for each completed year of service (₹ 8,645 × $\frac{1}{2}$ × 38)]; and
 (c) ₹ 1,86,000
 ₹ 1,64,255, being the least, it exempt from tax.

Answer 8:**Salary for the purpose of computation of exempt gratuity:**

	₹
Basic salary of 10 months (₹ 18,200 × 10)	1,82,000
Dearness allowance of 10 months (80% of ₹ 1,000 × 10)	8,000
Commission @ 6% of turnover of preceding 10 months [6% of ₹ 2,00,000]	12,000
Total	2,02,000
Average monthly salary (₹ 2,02,000 / 10)	20,200

Amount of exempt gratuity is the least of the following (not covered)

- (a) ₹ 19,80,000 [₹ 20,00,000 - ₹ 20,000, being amount of exempt gratuity received from A Co.);
 (b) ₹ 3,83,800 [being half month's salary for each completed year of service (₹ 20,200 × $\frac{1}{2}$ × 38)]; and
 (c) ₹ 3,90,000 (being amount of gratuity received from B Co.).
 ₹ 3,83,800, being the least, it exempt from tax.

Notes :-

- (1) Dearness allowance is included in salary for the purpose of computation of exempt gratuity, if it forms part of salary for the purpose of retirement benefits. In this case, 80% of the dearness allowance forms part of salary for computation of retirement benefits. Therefore, 80% of the dearness allowance is included in average monthly salary. (It may be noted that the entire dearness allowance is chargeable to tax). Commission is included in salary for the purpose of calculating exempt gratuity if it is based on a fixed percentage of turnover achieved by the employee.
- (2) If an employee, who has received gratuity in earlier year from his former employer, receives gratuity from another employer in the same year or a later year, the limit of ₹ 20,00,000 is reduced by the amount of gratuity exempt from tax under section 10(10) in earlier year. Therefore, ₹ 20,000, being the amount of exempt gratuity from A Co., is deducted from ₹ 20,00,000.

Answer 9:

1. Uncommuted pension of ₹ 2,19,000 (i.e., ₹ 18,250 x 12) is chargeable to tax as salary
2. Uncommuted pension of ₹ 2,52,000 (i.e., ₹ 21,000 x 12) is chargeable to tax as salary
3. Uncommuted pension of ₹ 2,40,000 (i.e., ₹ 20,000 x 12) is chargeable to tax
4. While uncommuted pension is chargeable to tax, commuted pension is exempt from tax in the case of Government employees. Therefore, commuted pension of ₹ 7,18,000 is exempt from tax. The amount of uncommuted pension will be calculated as under :

	₹
Uncommuted pension up to November 30, 2024 (i.e., ₹ 15,000 x 6)	90,000
Uncommuted pension from December 1, 2024 to March 31, 2025 (i.e., 2/3 x ₹ 15,000 x 4)	40,000
Total uncommuted pension	1,30,000

5. In the case of non-Government employee while uncommuted pension is fully chargeable to tax, commuted pension is partly chargeable to tax and partly exempt from tax. Amount of taxable pension will be commuted as under

UNCOMMUTED PENSION

Uncommuted pension from July 1, 2024 to January 31, 2025 (i.e., ₹ 20,000 x 7)	140,000
Uncommuted pension from Feb 1, 2025 to March 31, 2025 (i.e., 40% of ₹ 20,000 x 2)	16,000
Total uncommuted pension chargeable to tax as salary	1,56,000

COMMUTED PENSION

Commuted value of 60% of usual pension	10,71,000
Commuted value of full pension (i.e., ₹ 10,71,000 x 100/60)	17,85,000

If X does not receive gratuity

Amount exempt (1/2 of commuted value of full pension (i.e., 1/2 x ₹ 17,85,000))	8,92,500
Commuted pension chargeable to tax as salary (i.e., ₹ 10,71,000 - ₹ 8,92,500)	1,78,500

if X receives gratuity

Amount exempt [1/3 of commuted value of full pension (i.e., 1/3 x ₹ 17,85,000)]	5,95,000
Commuted pension chargeable to tax as salary (i.e., ₹ 10,71,000 - ₹ 5,95,000)	4,76,000

Note : X can claim relief under section 89 in respect of commuted pension chargeable to tax.

Answer 10:

- (a) $6000 \times 9 + 1200 \times 9 + \text{NIL} + 4200 \times 3 = 77400$.
- (b) Taxable Gratuity = ₹ 55,000 - ₹ 40,500 = ₹ 14,500 [15/26 x 36 x 1950]
- (c) $5000 \times 6 + 6,000 \times 5 + (60,000 - 48,600) = ₹ 71,400$.

Answer 11:**(a) Taxable pension of Mr. Santhosh**

Particulars	₹	₹
(1) Uncommuted pension before the date of commutation (₹ 3,000 x 7)		21,000
(2) Uncommuted pension after the date of commutation (₹ 3,000 x 2 x 2/3)		4,000
(3) Commuted pension	1,20,000	
Less : exempt u/s 10 (10A)	<u>1,20,000</u>	Nil
Taxable pension includible in salary		25,000

(b) Taxable pension of Mr. Kamath

Particulars	₹	₹
(1) Uncommuted pension before the date of commutation (₹ 2,000 x 7)		14,000
(2) Uncommuted pension after the date of commutation (₹ 2,000 x 40% x 5)		4,000
(3) Commuted pension	30,000	
Half of the full value of commuted pension is exempt u/s.10(10A) as he is not in receipt of gratuity (₹ 30,000 x 100 ÷ 60 x 1/2)	<u>25,000</u>	<u>5,000</u>
Taxable pension includible in salary		23,000

Answer 12: Leave enactment is exempt to the extent of least of the following:

Particulars	Amount (₹)
(i) Statutory limit	25,00,000
(ii) ₹ 4200 x 22	92,400
(iii) 10 months average salary (10 x ₹ 4,200)	42,000
(iv) Actual amount received	92,400

Therefore, ₹ 42,000 is exempt under section 10(10AA)

Taxable Leave = ₹ 92400 - ₹ 42000.

Answer 13:

Leave enactment is exempt to the extent of least of the following:

Particulars	Amount (₹)
(i) Statutory limit	25,00,000
(ii) ₹ 4000 x 3	12,000
(iii) 10 months average salary (10 x ₹ 4,000)	40,000
(iv) Actual amount received	60,000

Therefore, ₹ 12,000 is exempt under section 10(10AA)

Taxable Leave = 60000 - 12000.

Answer 14:

Computation of Gross Salary of Mr. A.K. Gupta

	₹	₹
(1) Salary ₹ 23,000 x 9		2,07,000
(2) DA (2,000 x 9)		18,000
(3) Uncommuted Pension ₹ 9,000 x 25% x 3		6,750
(4) Commuted Pension Received	2,70,000	
Less: Exempt [₹ 2,70,000 x 4/3 x 1/3]	<u>1,20,000</u>	1,50,000
(5) Gratuity Received	4,00,000	
Less: Exempt		
(i) ₹ 4,00,000		
(ii) [25,000 / 2 x 26] = ₹ 3,25,000		
(iii) ₹ 20,00,000 (not covered)	<u>3,25,000</u>	75,000
(6) Leave Encashment Received	3,00,000	
Less: Exempt – least of the following		
(i) Actual	3,00,000	
(ii) 12 months x AMS		
12 x 25,000 =	3,00,000	
(iii) 10 months x AMS =	2,50,000	
(iv) Stat. Limit:	<u>25,00,000</u>	
Gross Salary	<u>2,50,000</u>	<u>5,06,750</u>

Answer 15:

Computation of Gross Salary

	₹	₹
Basic Salary (4,500 x 3 + 5,000 x 7)		48,500
Dearness Allowance (100%)		48,500
Uncommuted Pension (3,000 x 1 + 1,500 x 1)		4,500
Commuted Pension	1,00,000	
Less : Exempt [(1,00,000/ 50%) × 1/3]	<u>66,667</u>	33,333
Gratuity :		
Amount received	1,20,000	
Less : Exempt (Note No. 1)	<u>81,480</u>	38,520
Leave Encashment		
Amount received	56,000	
Less : Exempt (Note No. 2)	<u>Nil</u>	56,000
Gross Salary		<u>2,29,353</u>

Answer 16:**Computation of Total Income of Mr. Narendra**

Particulars	Amount (₹)	Amount (₹)
Income from Salaries		
Gross salary received during 1/4/2024 to 31/1/2025 @ ₹ 16,000 p.m. (₹ 16,000 x 10)		1,60,000
Pension for 2 months @ 30% of the basic salary of ₹ 10,000 p.m.		6,000
Leave Salary	75,000	
Less: Exempt under section 10(10AA) (Note 1)	<u>50,000</u>	25,000
Gratuity	50,000	
Less: Exempt under section 10(10) (Note 2)	<u>25,000</u>	25,000
Gross Salary		<u>2,16,000</u>

Notes:**1. Leave enactment is exempt to the extent of least of the following:**

Particulars	Amount (₹)
(i) Statutory limit	25,00,000
(ii) Cash equivalent of leave for 30 days (30/45 x ₹ 75,000)	50,000
(iii) 10 months average salary (10 x ₹ 10,000)	1,00,000
(iv) Actual amount received	75,000

Therefore, ₹ 50,000 is exempt under section 10(10AA)

2. Gratuity is exempt to the extent of least of the following:

Particulars	Amount
(i) Statutory limit	20,00,000
(ii) Half month's salary for 5 years of service (5 × ₹ 5,000)	25,000
(iii) Actual gratuity received	50,000

Therefore, ₹ 25,000 is exempt under section 10(10). It is assumed that the employee is not covered under the Payment of Gratuity Act, 1972.

Answer 17:**Computation of taxable house rent allowance - Mr Zakaria**

Particulars	₹	₹
Actual House Rent allowance		21,600
Less: Exempt u/s. 10(13A) to the extent of least of the following:		
1. Excess of rent paid over 10% of the salary (30,000 – 22,800)	7,200	
2. 50% of salary	1,14,000	
3. Actual HRA received	21,600	<u>7,200</u>
Taxable HRA		<u>14,400</u>

Working Note

Basic Salary 12,500 x 12	1,50,000
Dearness Allowance 1,500 x 12	18,000
Commission @ 4% on 15,00,000	<u>60,000</u>
Salary for this purpose	<u>2,28,000</u>

Note: Though advance Salary is taxable in **A.Y. 2025-26 on receipt basis**, it should not be considered in computing Salary for the purpose of calculating exemption u/s. 10(13A).

Answer 18:**Computation of taxable quantum of various allowances of Mr. Kapil**

Particulars	₹	₹
Helper allowance received	3,600	
Less: Exempt (Actually spent - 9 x 200)	<u>1,800</u>	1,800
Conveyance allowance received	9,000	
Less: Exempt (Actually spent] ₹ 1,200 x 40% x 12	<u>5,760</u>	3,240
Education & hostel expenditure allowance 250 x 3 x 12	9,000	
Less: Education & hostel expenses ₹ 250 x 2 x 12	<u>6,000</u>	<u>3,000</u>
Taxable amount of allowances		8,040

Solution 19: Computation of Gross salary of Mr. Kamlesh (amounts in ₹)

Basic salary (₹ 8,000 × 12)	96000
Dearness allowance (40% of basic pay)	38400
City compensatory allowance (10% of basic pay)	9600
Medical allowance (800 × 12)	9600
Children education allowance [2,880 - (80 × 2 × 12)]	960
Hostel expenditure allowance (9,600 - 7,200)	2400
Tribal area allowance (6,000 - 2,400)	3600
Travelling allowance (12,000 - 8,000)	4000
Conveyance allowance	Exempt
Transport allowance	28200
Overtime allowance	4000
Gross salary	196760

Answer 20:

Basic Salary		
Upto 31.8.2024 (20,000 × 5)	1,00,000	
from 1.9.2024 (25,000 × 7)	1,75,000	2,75,000
Transport allowance		14,400
City Compensatory Allowance (W.N - 2)		3,600
Contribution to PPF (in excess of 12% of salary) (W.N - 3)		8,250
Children education allowance (W.N - 4)		3,600
Hostel Expense Allowance (W.N - 5)		NIL
Tiffin Allowance (W.N. 6)		5,000
Tax paid by employer on employment		2,500
Gross Salary		3,12,350
Less: Deduction u/s 16(ia) & (iii)		(52,500)
Income from Salary		2,59,850

Working notes:

- Transport Allowance is now fully taxable**
- City Compensatory Allowance is fully taxable
- Contribution to recognized PPF is taxable in excess of 12% of salary.**
Taxable contribution = Actual - 12% of salary
= (15% × 2,75,000) - (12% × 2,75,000)
= ₹ 41,250 - ₹ 33,000 = ₹ 8,250
- Children Education Allowance is exempt upto ₹ 100 per month per child. (₹ 500 for 2 Child)**
Taxable Allowance = (500 - 100 × 2) × 12 = 3,600
- Hostel expense allowance is exempt upto ₹ 300 per month per child**
Taxable Allowance = (380 - 300 × 2) therefore NIL
- Tiffin Allowance is fully taxable
- Tax on employment is paid by Mr. M's employer. Hence it is taxable in his hand i.e. Mr. X.

Answer 21:**Computation of income under the head Salary****Nainital Transport Corporation**

Basic Pay [(4,000 × 6) + (4,500 × 5)]	46,500
Dearness Allowance (12% of basic pay)	5,580
Outstation Allowance (W. Note 1)	3,960
Transport Allowance	3,300
Conveyance Allowance (100 × 11)	1,100

Haryana Transport Corporation

Basic Pay	8,500
Gross Salary	68,940
Less: Deduction u/s 16(ia)	50,000
Income under the head Salary	18,940

Working Note:**1. Outstation allowances**

Least of the following is exempt:

1. 70% of 13,200 = ₹ 9,240

2. ₹ 10,000 × 11 = ₹ 1,10,000

Received = ₹ 13,200

Exempt = ₹ 9,240

Taxable = ₹ 3,960

Answer 22: Computation of Income of X, an individual Salary From ABC Co. Ltd.		₹	₹
Basic Salary (10,000 x 10)			1,00,000.00
Dearness Allowance (1,500 x 10)			15,000.00
Commission			4,000.00
Gratuity (W Note 1)			21,000.00
Salary from B Co. Ltd.			
Basic Salary (7,000 x 2)			14,000.00
Entertainment Allowance (1,000 x 2)			2,000.00
Medical Allowance (500 x 2)			1,000.00
House Rent Allowance (600 x 2)			1,200.00
(Exemption is not available at X resides in his own house)			
Leave Salary			5,000.00
Gross Salary			1,63,200.00
Less: Deduction u/s 16(ia)			50,000.00
Income under the head Salary			1,13,200.00
Gross Total Income			1,13,200.00
Less: Deduction u/s 80C			
Insurance premium on life of minor child	12,000		
Approved Superannuation Fund	8,000		
Jeevan Dhara Scheme	5,000		
			25,000.00
Total Income			88,200.00

Working Note:**1. Gratuity**

Least of the following is exempt:

- ₹ 1,25,000
 - ₹ 20,00,000 (not covered)**
 - $1/2 \times 10,400 \times 20 = ₹ 1,04,000$
- Received = ₹ 1,25,000
Exempt = ₹ 1,04,000
Taxable = ₹ 21,000

Answer 23:		₹	₹
Basic Pay (30,000 x 9)			2,70,000.00
House Rent Allowance (Sec 10(13A) Rule 2A) (W Note 1)			31,500.00
Gratuity {Sec 10(10)} (W Note 2)			43,750.00
Leave Salary {Sec 10(10AA)} (W Note 3)			55,000.00
Gross Salary			4,00,250.00
Less: Deduction u/s 16(ia)			50,000.00
Income under the head Salary			3,50,250.00
Gross Total Income			3,50,250.00
Less: Deduction u/s 80C			
Recognized Provident Fund	20,500		
Public Provident Fund	45,000		
National Saving Certificates	29,500		
			95,000.00
Total Income			2,55,250.00

Working Note:

1. HRA Least of the following is exempt: ₹ 63,000 ₹ 58,500 - ₹ 27,000 = ₹ 31,500 50% of retirement benefit salary = ₹ 1,35,000 (Retirement benefit salary = ₹ 2,70,000) Received = ₹ 63,000 Exempt = ₹ 31,500 Taxable = ₹ 31,500	2. Gratuity – least of the following exempt ₹ 3,75,000 ₹ 20,00,000 (not covered) $1/2 \times 26,500 \times 25 = ₹ 3,31,250$ Received = ₹ 3,75,000 Exempt = ₹ 3,31,250 Taxable = ₹ 43,750
3. Leave Salary – Lease of the following exempt ₹ 3,20,000 ₹ 25,00,000 $26,500 \times 10 = ₹ 2,65,000$ $26,500 \times 25 \times 15/30 = 3,31,250$ Received = ₹ 3,20,000 Exempt = ₹ 2,65,000 Taxable = ₹ 55,000	

Solution 24:

Taxable portion of the amount received from the URPF in the hands of Mr. A is computed hereunder:

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.

In case fund is Recognised PF

Since the fund is a recognized 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.

Solution 25:**Computation of Gross Salary of Mr. B**

Particulars	₹	₹
Basic Salary [$₹10,000 \times 12$]		1,20,000
Dearness Allowance [$₹ 8,000 \times 12$]		96,000
Commission on turnover [$1\% \times ₹ 5,00,000$]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employee's contribution to RPF [Note 2]		-
Employers contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less : Exempt [Note 3]	<u>20,760</u>	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less : Exempt @ 9.5% p.a.	<u>9,500</u>	<u>3,500</u>
Gross Salary		<u>2,92,740</u>

Note 1 : Gratuity received during service is fully taxable.

Note 2 : Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C.

Note 3 : Employers contribution in the RPF is exempt up to 12% of the salary. i.e. 12% of [B.S + D.A. for retirement benefits + Commission based on turnover]
 $= 12\% \text{ of } [₹ 1,20,000 + (50\% \times ₹ 96,000) + ₹ 5,000]$
 $= 12\% \text{ of } ₹ 1,73,000 = ₹ 20,760$

Answer 26:

	Statutory provident fund ₹	Recognised provident fund ₹	Unrecognised provident fund ₹
Basic Salary ($20,000 \times 3$)	60,000	60,000	60,000
Dearness allowance ($6,000 \times 3$)	18,000	18,000	18,000
PF by employer [$3,000 \times 3 - 12\% \text{ of } (60,000 + 1/3 \text{ of } 18,000)$]	—	1,080	
Interest credited in PF account in excess of 9.5% [$7,500 \times 5.5/15$]	—	2,750	
Pension ($10,000 \times 9$)	90,000	90,000	90,000
Payment for provident fund account			
Employer's contribution	—	—	3,30,000
Interest thereon	—	—	44,000
Gross Salary	1,68,000	1,71,830	5,42,000
Less : Standard deduction	50,000	50,000	50,000
Income from salary	1,18,000	1,21,830	4,92,000
Income from other sources			
- Interest on X's contribution to provident fund	—	—	46,000
- Interest on company deposits (i.e., 9% per annum on 7,60,000 from July 1, 2023 to March 31, 2024)	51,300	51,300	51,300
Gross total income	1,69,300	1,73,130	5,89,300
Less : Deduction under section 80C	9,000	9,000	Nil
Net Income	1,60,300	1,64,130	5,89,300

Notes :-

1. X can claim deduction under section 80C in respect of his contribution towards statutory / recognised provident fund.
2. In the case of recognised provident fund, it is assumed that X has retired after rendering service of 5 years.

Answer 27:**Computation of income under the head Salary**

	₹	₹
Basic Pay (10,000 x 9)		90,000.00
Dearness Allowance (10% of 90,000)		9,000.00
House Rent Allowance {Sec 10(13A)} (W. Note 1)		2,700.00
Payment of Club Bills		8,000.00
Outstation Allowance {Sec 10(14)} (W. Note 2)		4,860.00
Employer's Contribution to unrecognized provident fund		66,000.00
Interest on Employer's Contribution to unrecognized provident fund		38,000.00
Gratuity {Sec 10(10)} (W. Note 3)		Nil
Uncommuted Pension {Sec 17(I)(ii)} (W. Note 4)		10,000.00
Commuted Pension {Sec 10(10A)} (W. Note 5)		40,000.00
Gross Salary		2,68,560.00
Less: Deduction u/s 16(ia)		50,000.00
Income under the head Salary		2,18,560.00
Income under the head Other Sources		22,000.00
Interest on own Contribution to unrecognized provident fund		
Gross Total Income		2,40,560.00
Less: Deduction u/s 80C		68,200.00
National Saving Certificate	4,000	
Contribution in Jeevan Dhara Scheme	10,000	
Life insurance premium	4,000	
Public provident fund	12,000	
Repayment of housing loan	25,000	
Tuition fees	13,200	
Total Income		1,72,360.00

1. HRA**Least of the following is exempt:**

1. ₹ 11,700
 2. ₹ 18,900 - ₹ 9,900 = ₹ 9,000
 3. 40% of retirement benefit salary = ₹ 39,600
- {Since place of posting is not given, so it is presumed to be non-metro}
 {Retirement benefit salary = ₹ 90,000 + 9,000 = ₹ 99,000}
 Received = ₹ 11,700 Exempt = ₹ 9,000 **Taxable = ₹ 2,700**

2. Outstation allowance Least of the following is exempt: 1. 70% of ₹ 16,200 = ₹ 11,340 2. ₹ 90,000 [9 x ₹ 10,000 p.m.] Received = ₹ 16,200 Exempt = ₹ 11,340 Taxable - ₹ 4,860	3. Gratuity (not covered) Least of the following is exempt: 1. ₹ 90,000 2. ₹ 20,00,000 3. $\frac{1}{2} \times 20 \times (10,000 + 1,000) - ₹ 1,10,000$ Received = ₹ 90,000 Exempt = ₹ 90,000 Taxable = Nil
4. Uncommuted pension For January and February = ₹ 4,000 × 2 = 8,000 For March = $\frac{1}{2} \times 4,000 =$ 2,000 Total = 10,000	
5. Commuted pension Received = 1,20,000 Exempt = $\frac{1}{3}$ of Total Pension = $\frac{1}{3}$ of 2,40,000 = 80,000 Taxable = 40,000	

Answer 28:**Computation of income under the head Salary**

	₹
Basic Pay (20,000 x 7)	1,40,000
Dearness Allowance (7,000 x 7)	49,000
Refund of employer's contribution in unrecognised provident fund	4,00,000
Refund of Interest on employer's contribution in unrecognised provident fund	1,00,000
Gratuity {Sec 10(10A)} (W Note 1)	60,000
Uncommitted Pension (W Note 2)	19,000
Commuted Pension {Sec 10(10A)} (W Note 3)	40,000
Gross Salary	8,08,000
Less: Deduction u/s 16(ia)	50,000
Income under the head Salary	7,58,000
Income under the head Other Sources	1,00,000
(Interest on employee's contribution)	
Gross Total Income	8,58,000
Less: Deduction u/s 80C to 80U	Nil
Total Income	8,58,000

Working Note:**1. Gratuity (not covered)****Least of the following is exempt:**

1. ₹ 2,60,000
 2. ₹ 20,00,000
 3. $\frac{1}{2} \times 20,000 \times 20 = ₹ 2,00,000$
- Received = ₹ 2,60,000
Exempt = ₹ 2,00,000
Taxable - ₹ 60,000

2. Uncommuted Pension**For November to December**

5,000 x 2 =	10,000'
For January to March	
5,000 x 60% x 3 =	9,000
Total = ₹ 10,000 + ₹ 9,000 =	19,000

3. Commuted Pension

Received =	2,40,000
Exempt = ₹ 2,40,000 / 40% x 100% x 1/3 =	2,00,000
Taxable	40,000

Solution 29: Value of the rent free unfurnished accommodation

= **10% of salary** for the relevant period
 = 10% of [(₹ 6000 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] [See Note below]
 = 10% of ₹ 40,500
 = **₹ 4,050.**

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. Advance salary for April 2025 drawn during this year is not to be considered because it falls in respect of a period beyond the relevant previous year.

Solution 30:

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 ₹ 4,050 (i.e. 10% of ₹ 40,500). The rent paid by the employee is ₹ 3,500 (i.e., ₹ 700 x 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 rent free unfurnished accommodation [10% of salary]	= ₹ 4,050
Less: Rent paid by the employee (₹ 700 × 5)	= ₹ 3,500
Perquisite value of unfurnished accommodation given at concessional rent	= ₹ 550

Solution 31:

Value of the rent free unfurnished accommodation [Note]	= ₹ 4,050
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 3,500
Value of unfurnished accommodation given at concessional rent	= ₹ 550

Note: Value of the rent free unfurnished accommodation is lower of

(i) Lease rent paid by the company for relevant period	= ₹ 1,200 × 5	= ₹ 6,000
(ii) 10% of salary for the relevant period (computed earlier)		= ₹ 4,050

Solution 32:

Value of the rent free unfurnished accommodation (computed earlier)	= ₹ 4,050
Add: Value of furniture provided by the employer [Note]	= ₹ 4,625
Value of rent free furnished accommodation	= ₹ 8,675
Less: Rent paid by the employee (₹ 700 × 5)	= ₹ 3,500
Value of furnished accommodation given at concessional rent	= ₹ 5,175

Note: Value of the furniture provided

$$= (\text{₹ } 400 \text{ p.m.} \times 2 \times 5 \text{ months}) + (\text{₹ } 25,000 \times 10\% \text{ p.a. for 3 months})$$

$$= \text{₹ } 4,000 + \text{₹ } 625 = \text{₹ } 4,625$$

Solution 33:

Value of the rent free unfurnished accommodation (₹700 × 5)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
Value of rent free furnished accommodation	= ₹ 8,125
Less: Rent paid by the employee (₹700 × 5)	= ₹ 3,500
Perquisite value of furnished accommodation given at concessional rent	= ₹ 4,625

Answer 34:

Determination of value of rent free accommodation

Salary for this purpose:

Basic pay	₹ 60,000
Commission	6,000
Bonus	4,000
Uniform allowance (40% of ₹ 6,000)	2,400
Conveyance allowance (25% of ₹ 12,000)	3,000
Entertainment allowance	5,000
Total	₹ 80,400

(a) where the population is more than 40 lakhs

Value of rent free accommodation	= 10% of salary
	= 10% of ₹ 80,400 = ₹ 8,040

(b) where the population is less than 15 lakhs

Value of rent free accommodation	= 5% of salary
	= 5% of ₹ 80,400 = ₹ 4,020

(c) where the population is between 15 lakhs and 40 lakhs

Value of rent free accommodation	= 7.5% of salary
	= 7.5% of ₹ 80,400 = ₹ 6,030

Note: Income-tax and Profession-tax are the obligation cast on the employee. In case the same was paid by the employer they are taxable as perquisite u/s 17(2)(iv).

Answer 35: Valuation of unfurnished flat:

- (1) If X is a Secretary to the Central Government ₹ 4,000 is the taxable value of the unfurnished flat.
- (2) If X is the Managing Director of ABC (P.) Ltd. - Salary for the purpose of calculating taxable value of the perquisite works out to be ₹ 1,79,000 (₹ 1,62,000 + ₹ 17,000). As lease rent of unfurnished flat (₹ 50,000) exceeds **10% of salary, ₹ 17,900 (being 10% of salary) is taxable value of the perquisite.**

Valuation of furniture

10% per annum of cost of furniture [₹ 36,000 × 10/100 × 4/12]	₹ 1,200

Add: Rent of air-conditioners

	<u>10,000</u>

Valuation of furniture

11,200

Valuation of furnished flat:

	Valuation of		
	Unfurnished flat	Furniture	Furnished flat
If X is a Secretary to the Central Government	4,000	11,200	15,200
If X is a Managing Director of ABC (P.) Ltd.	17,900	11,200	29,100

Valuation of hotel accommodation - ₹ 42,960 (being 24% of salary or ₹ 1,20,000, whichever is lower) is chargeable to tax whether X is a Government employee or non-Government employee.

Answer 36:

	₹	₹
Basic salary (6,000 x 9 + 7,000 x 3)		75,000
Dearness allowance (4,000 x 12)		48,000
Education allowance (550 x 4 x 12)	26,400	
Less : Exemption (100 x 2 x 12)	2,400	24,000
Medical allowance (400 x 12)		4,800
Transport allowance (350 x 12)		4,200
House rent allowance (4,500 x 8)	36,000	
Less : Exempt [see note 1]	28,416	7,584
Furnished house [see note 2]		2,452
Salary from B Ltd. (2,000 x 3)		6,000
Gross Salary		1,72,036

Notes :-

- (1) House rent allowance exempt from tax - Salary for this purpose is ₹ 8,880 per month (basic salary: ₹ 6,000 per month + dearness allowance : 72% of ₹ 4,000 per month). The amount of exemption is —
- ₹ 3,552 per month (being 40% of ₹ 8,880);
 - ₹ 4,500 per month (being house rent allowance); or
 - ₹ 4,612 per month (being excess of rent paid over 10% salary, ₹ 5,500 - ₹ 888), whichever is lower.
- Hence, the amount exempt from tax is ₹ 3,552 per month from April 1, 2024 to November 30, 2024 - ₹ 28,416 i.e. for 8 months

- (2) **Valuation of the perquisite in respect of furnished flat** - X has been provided a furnished flat at Delhi with effect from December 1, 2024. Salary, for this purpose, from December 1, 2024 to March 31, 2025 is as follows -

	₹
Basic Salary (6,000 x 1 + 7,000 x 3)	27,000
Dearness allowance (72% of 4,000 x 4)	11,520
Education allowance [(550 x 4 - 100 x 2) x 4]	8,000
Medical allowance (400 x 4)	1,600
Transport allowance [350 x 4]	1,400
House rent allowance (not received during December 1, 2024 to March 31, 2025)	—
Salary from B Ltd. (2,000 x 3)	6,000
Total salary	55,520
Lease rent of 4 months (7,500 x 4) : ₹ 30,000. The perquisite shall be valued as follows -	
Value of unfurnished flat (10% of 55,520 or 30,000, whichever is lower)	5,552
Add : Rent of furniture	500
Value of rent-free furnished flat	6,052
Less : Rent paid by X (900 x 4)	3,600
Value of the perquisite	2,452

- (3) **Transport allowance is fully taxable.**

Answer 37:

Computation of Gross Salary	₹
Basic Pay (11,000 x 12)	1,32,000.00
Dearness Allowance (5,000 x 12)	60,000.00
Dearness Pay (1,000 x 12)	12,000.00
Bonus (1,200 x 12)	14,400.00
Rent Free Accommodation {Sec 17(2)(i)} (W. Note 1)	14,400.00
Arrears of Salary {Sec 15}	32,000.00
Advance of Salary {Sec 15}	11,000.00
Gross Salary	2,75,800.00

Working Note:**1. Rent Free Accommodation****April to December 2024 [9 Months]**Rent free accommodation Salary [9 Months]

= Basic Pay + Dearness Allowance (30%) + Dearness Pay (10%) + Bonus

= 99,000 + 13,500 + 900 + 10,800 = ₹ 1,24,200

10% of Rent free accommodation Salary = ₹ 12,420

Rent paid = ₹ 10,800

(A) Perquisite value of unfurnished house = ₹ 10,800**From January to March**Rent free accommodation Salary of Delhi

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 33,000 + 4,500 + 300 + 3,600 = ₹ 41,400

10% of Rent free accommodation Salary = ₹ 4,140

Rent paid = ₹ 3,600

Perquisite value of Rent free accommodation of Delhi = ₹ 3,600Rent free accommodation of BombayRent free accommodation Salary

= Basic Pay + Dearness Allowance + Dearness Pay + Bonus

= 33,000 + 4,500 + 300 + 3,600 = ₹ 41,400

10% of Rent free accommodation Salary = ₹ 4,140

Perquisite value of rent free accommodation of Bombay = ₹ 4,140**(B) Perquisite value of unfurnished house {least is in Delhi} = ₹ 3,600 [90 days – only one accommodation is taxable]****Total Amount = A + B = ₹ 10,800 + 3,600 = ₹ 14,400****Answer 38:**

Car1 [(1,800 + 900) × 12]

32,400

Car2 [(40,000 + 28,000 + 24,000)]

92,000

Total**1,24,400****Note : It is assumed that CC rating of the cars does not exceed 1600CC & chauffeur has been provided.****Answer 39:**

For the assessment year 2025-26, the taxable value of the perquisite will be as under

1. The lending rate of SBI on April 1, 2024 for similar loan is 8% per annum. ₹ 93,333 (being interest @ 8% on ₹ 14,00,000 from June 1, 2024 to March 31, 2025) is taxable in the hands of X.
2. The SBI lending rate for a similar loan is 16%. ₹ 2,250 [being interest @ 9% (i.e., 16% - 7%) on ₹ 25,000 for one year] is taxable in the hands of Y.
3. Nothing is taxable in the hands of Z as the amount of loan does not exceed ₹ 20,000.
4. The lending rate of SBI for a for a similar loan is 8%. Maximum monthly outstanding amount for the various months in the previous year 2024-25 is as follows:

Month	Maximum monthly outstanding amount on last day of the month	Interest
	₹	₹
April 30, 2024	8,00,000	666.67 (i.e., ₹ 8,00,000 × 1% × 1/12)
May 31, 2024	8,00,000	666.67
June 30, 2024	8,00,000	666.67
July 31, 2024	8,00,000	666.67
August 31, 2024	8,00,000	666.67
September 30, 2024	8,00,000	666.67
October 31, 2024	8,00,000	666.67
November 30, 2024	8,00,000	666.67
December 31, 2024	8,00,000	666.67

January 31, 2025	7,75,000	645.83 (i.e. ₹ 7,75,000 x 1% x 1/12)
February 28, 2025	7,50,000	625 (i.e., ₹ 7,50,000 x 1% x 1/12)
March 31, 2025	<u>7,25,000</u>	<u>604.16</u> (i.e. ₹ 7,25,000 x 1% x 1/12)
Total		7,875

Taxable value of concessional loan is ₹ 7,875 for the previous year 2024-25.

Answer 40:

1. X s provided use of laptop by the employer. The perquisite is not chargeable to tax.
2. Y is provided a music system by the employer. The taxable value of the perquisite is determined @ 100 per annum of cost. Accordingly ₹ 690 (being ₹ 15,000 × 10/100 × 168 days ÷ 365 days) is chargeable to tax.
3. The taxable value of the perquisite in the hands of Z, A and B shall be determined as follows -

	Car	Computer	Fridge
	₹	₹	₹
Cost of the asset on May 15, 2022	6,96,000	1,17,000	40,000
Less : Normal wear and tear for the first year ending May 14, 2023 (20% of ₹ 6,96,000, 50% of ₹ 1,17,000, 10% of ₹ 40,000)	<u>1,39,200</u>	<u>58,500</u>	<u>4,000</u>
Balance on May 15, 2023	5,56,800	58,500	36,000
Less : Normal wear and tear for the second year ending May 14, 2024 (20% of ₹ 5,56,800, 50% of ₹ 58,500, 10% of ₹ 40,000)	<u>1,11,360</u>	<u>29,250</u>	<u>4,000</u>
Balance on May 16, 2024	4,45,440	29,250	32,000
Less : Sale consideration	<u>2,10,000</u>	<u>24,270</u>	<u>1,000</u>
Taxable Value of the perquisite	2,35,440	4,980	31,000

Note: In the case of car and computer/electronic items, normal wear and tear is calculated @ 20% and 50% per annum respectively on the basis of written down value. In the case of any other asset, normal wear and is calculated at the rate of 10% per annum of cost of the asset to the employer. Normal wear and tear tax part of the year is not taken into consideration.

Answer 41:

Computation of perquisite value of Furniture

Cost of the furniture	2,00,000
Less: Depreciation on straight line method @ 10% from 31.03.2021 to 30.03.2022	20,000
Less: Depreciation on straight line method @ 10% from 31.03.2022 to 30.03.2023	20,000
Less: Depreciation on straight line method @ 10% from 31.03.2023 to 30.03.2024	20,000
Written down value	1,40,000
Less: Amount paid by the assessee	40,000
Perquisite value of Furniture	1,00,000

Computation of perquisite value Air-conditioner

Cost of the Air-conditioner	75,000
Less: Depreciation on straight line method @ 10% from 01.07.2023 to 30.06.2024	7,500
Written down value	67,500
Less: Amount paid by the assessee	15,000
Perquisite value of Air-conditioner	52,500

Computation of perquisite value Video Camera

Cost of the Video Camera	60,000
Less: Depreciation on straight line method @ 10% from 11.07.2022 to 10.07.2023	6,000
Written down value	54,000
Less: Depreciation on straight line method @ 10% from 11.07.2023 to 10.07.2024	6,000
Written down value	48,000
Less: Amount paid by the assessee	20,000
Perquisite value of Video Camera	28,000

Computation of perquisite value Motor car

Cost of the motor	5,40,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2020 to 30.09.2021	1,08,000
Written down value	4,32,000
Less: Depreciation on reducing balance method @ 20% from 01.10.2021 to 30.09.2022	86,400
Written down value	3,45,600

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Less: Depreciation on reducing balance method @ 20% from 01.10.2022 to 30.09.2023	69,120
Written down value	2,76,480
Less: Depreciation on reducing balance method @ 20% from 01.10.2023 to 30.09.2024	55,296
Written down value	2,21,184
Less: Amount paid by the assessee	1,50,000
Perquisite value of motor car	71,184

Computation of perquisite value Computer

Cost of the Computer	1,20,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2022 to 09.01.2023	60,000
Written down value	60,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2023 to 09.01.2024	30,000
Written down value	30,000
Less: Depreciation on reducing balance method @ 50% from 10.01.2024 to 09.01.2025	15,000
Written down value	15,000
Less: Amount paid by the assessee	25,000
Perquisite value of computer	Nil

Answer 42:**Chargeable perquisite in the hands of Mr. Badri for Assessment Year 2025-26***Housing Loan @ 6% p.a. is taken**SBI home loan @ 10% p.a.**Difference rate 4% p.a.***(i) Housing Loans**

Month	Maximum outstanding Balance	Interest
30 April 2024	5,88,000	1960 (5,88,000 x 4% x 1/12)
31 May 2024	5,76,000	1920 (5,76,000 x 4% x 1/12)
30 June 2024	5,64,000	1880 (5,64,000 x 4% x 1/12)
31 July 2024	5,52,000	1840 (5,52,000 x 4% x 1/12)
31 August 2024	5,40,000	1800 (5,40,000 x 4% x 1/12)
30 September 2024	5,28,000	1760 (5,28,000 x 4% x 1/12)
31 October 2024	5,16,000	1720 (5,16,000 x 4% x 1/12)
30 November 2024	5,04,000	1680 (5,04,000 x 4% x 1/12)
31 December 2024	4,92,000	1640 (4,92,000 x 4% x 1/12)
31 Jan 2025	4,80,000	1600 (4,80,000 x 4% x 1/12)
28 February 2025	4,68,000	1560 (4,68,000 x 4% x 1/12)
31 March 2025	4,56,000	1520 (4,56,000 x 4% x 1/12)
Total interest as a perquisite		20880

Taxable value of concessional loan is ₹ 20,880 for the PY 2024-25.

(ii) Air Conditioner

Cost of air conditioners	2,00,000
Less: Depreciation for 4 yrs. @ 10% p.a.	<u>80,000</u>
	1,20,000
Less: Amount charged from Badri	<u>90,000</u>
Value of perquisite	30,000

Chargeable perquisite in the hands of Mr. Badri for the Assessment Year 2025-26

Housing loan	₹ 20,880
Air conditioner	<u>30,000</u>
Total	50,880

Answer 43**Computation of taxable salary of Mr. Raghu Raj****Particulars**

Salary (26,000 x 12)	₹ 3,12,000
Perquisite value in respect of accommodation (3,12,000 x 10%)	31,200
Value of housing loan - 4,00,000 x 7.5% (i.e. 10.5% - 3%)	30,000
Perquisite in respect of sale of car (1,60,000 - 1,20,000)	40,000
Credit card expenses reimbursed (Not a perquisite)	Nil
Perquisite value of Video camera (40,000 x 10%)	4,000
Perquisite value of laptop	Nil
Gross Salary	4,17,200
Less: Deduction u/s 16(ia)	50,000
Taxable Salary	3,67,200

Answer 44:

	Option I ₹	Option II ₹
Salary	1,38,000	1,38,000
Rent Free Accommodation		13,800
HRA (₹ 54,000 - 40,200)	13,800	—
Education facilities	—	3,600
Education allowance (₹ 3,600 - 1,200)	2,400	—
Telephone facility	—	—
Telephone Allowance	12,000	—
Medical Allowance / Reimbursement	18,000	18,000
Motor Car facility	—	18,000
Conveyance Allowance	18,000	—
Lunch Allowance	18,000	—
Free Lunch (Free Lunch exempt upto ₹ 50 per male) then taxable amount = (60 - 50) x 300 days		3,000
Sweeper's Salary	6,000	6,000
Gardner's Salary	6,000	—
Watchman's Salary	6,000	6,000
	2,38,200	2,06,400
Less : Deduction under section 16	50,000	50,000
Net Salary	1,88,200	1,56,400

Working Notes:-**(1) RFA****(138,000 x 10%)****13,800****(2) HRA****(i) Actual Received**

₹ 54,000

(ii) (50% of 1,38,000)

69,000

(iii) 54,000 - 13,800

40,200

Option - Package II should be opted.**Answer 45 360000 + 36,000 [360000 x 10%] + 60000 + 180000 (20% WDV) + 5000 + 7500****Answer 46:****Computation of Gross Salary of Mr. Anil**

Salary (46,000 x 12)	₹ 5,52,000
Medical Facility {Proviso Sec 17(2)}	Nil
{In the hospital maintained by the company is exempt}	
Perquisite of interest on loan {Sec 17(2)(viii) Rule 3(7)(i)} (W. Note 1)	33,000
Gift given on the occasion of wedding anniversary	Nil
Rent Free Accommodation {Sec 17(2)(i) Rule 3(1)} (W. Note 2)	57,200
Sale of Table and Chairs {Sec 17(2)(viii) Rule 3(7)(viii)} (W. Note 3)	12,000
Credit Card Facility	30,000
Sale of Ambassador Car {Sec 17(2)(viii) Rule 3(7)(viii)} (W. Note 4)	60,000
Gross Salary	7,44,200

Working Note:

₹

1. Perquisite on sale of table and chairs

Cost	60,000
Less: Dep. on straight line method @ 10% for 3 years	18,000
Written down value	42,000
Less: Amount paid by the assessee	30,000
Perquisite value of Table and chairs	12,000

2. Rent Free Accommodation

Value of unfurnished house [46000 x 12 x 10%]	55,200
Add: 10% of cost of furniture (60,000 x 10% x 4/12)	<u>2,000</u>
Perquisite value of furnished house	57,200

3. Perquisite of interest on loan – SBI Rate is taken as 10.5%

10.5% is taxable which is to be reduced by actual rate of interest charged i.e.
 $[10.5\% - 5\% = 5.5\%]$ (6,00,000 x 5.5%) - ₹ 33,000

4. Perquisite value of car

Original cost of Car	2,50,000
Less: Dep. from 16.07.2021 to 15.07.2022	50,000
Less: Dep. from 16.07.2022 to 15.07.2023	40,000
Written down value	1,60,000
Less: amount received from the assessee	1,00,000
Perquisite value of Ambassador car	60,000

Answer 47:**Computation of income under the head Salary**

₹

₹

From 01.04.2024 to 31.12.2024

Basic Pay (15,000 x 9)	1,35,000
Dearness Allowance (1,500 x 9)	13,500
Pension {17(i)(ii)} (4,000 x 3)	12,000
House Rent Allowance {Sec 10(13A)} (W. Note 1)	5,175
Gratuity {Sec 10(10)} (W. Note 2)	3,72,500
Leave Salary {Sec 10(10AA)} (W. Note 3)	Nil
Car Facility {Sec 17(2)(iii)} (2,700 x 9)	24,300
Employer's contribution to recognised provident fund	Nil
Gas Facility {Sec. 17(2)(iii)}	8,000
Gross Salary	5,70,475
Less: Deduction u/s 16(ia) -	50,000
Income under the head Salary	5,20,475
Gross Total Income	5,20,475

Less: Deduction u/s 80C

National Saving Certificate	13,000
Public Provident Fund	14,000
Insurance premium on the life of married son	12,000
Own contribution in recognised provident fund	<u>28,350</u>
	67,350

Total Income (Rounded off 288A)**4,53,130****Working Note:****1. HRA**

Least of the following is exempt:

- ₹ 27,000
- ₹ 36,000 - ₹ 14,175 = ₹ 21,825
- 40% of retirement benefit salary = ₹ 56,700 {Since place of posting is not given}
 {Retirement benefit salary = 1.35,000 + 6,750 = ₹ 1,41,750} Received = ₹ 27,000
 Exempt = ₹ 21,825

Taxable = ₹ 5,175**2. Gratuity (not covered)**

Least of the following is exempt:

- ₹ 5,30,000
- ₹ 20,00,000**
- $\frac{1}{2} \times 20 \times 15,750 = ₹ 1,57,500$
 Received = ₹ 5,30,000
 Exempt = ₹ 1,57,500

Taxable = ₹ 3,72,500

3. Leave salary

Least of the following is exempt:

1. ₹ 1,57,500

2. ₹ 25,00,000

3. $10 \times 15,750 \times 10 / 10 = ₹ 1,57,500$ 4. $15,750 \times 10 = ₹ 1,57,500$

Received = ₹ 1,57,500

Exempt = ₹ 1,57,500

Taxable = Nil**Answer 48:**

	₹
Basic Salary	2,90,400
Employer's contribution to recognized provident fund in excess of 12% of salary	152
Motor Car {Sec 17(2)(iii)} { (2,400+900)×3 }	9,900
Sweeper [(600×3) + (600×25/31)]	2,284
Gross Salary	3,02,736
Less: Deduction u/s 16(ia)	50,000
Income under the head Salary	2,52,736
Income under the head Other Source (1,25,000 - 10,000)	1,15,000
Gross Total Income	3,67,736
Less: Deduction u/s 80C	40,000
{Employee's contribution to recognized provident fund}	
Total Income	3,27,736
	Or, 3,27,740

Note:

1. Watchmen has been provided from the next year, hence not taxable.

2. **Actual expenditure shall be taken in case of sweeper.**

3. Income tax refund or any other refund is not considered to be income. Hence ₹ 10,000 included in the income has been deducted (₹1,25,000 - ₹10,000 = ₹1,15,000)

4. Any interest received is always income.

Working Note:**Basic Salary**

Salary	2,25,000
Add: Income Tax	25,400
Own contribution to recognized provident fund	40,000
Basic Salary	2,90,400

Solution 49: Computation of Gross Salary (amounts in ₹)

Basic Salary (25,000 × 10 months)	2,50,000
Dearness allowance (10,000 × 10 months) (assumed that it does not forms part of salary for retirement benefits as question is silent)	1,00,000
Bonus (50,000 × 10 months)	5,00,000
Value of Accommodation (assumed that place of accommodation has population exceeding 25 lakhs / 40 Lakhs) [DA will not be considered]	1,00,000
[(25,000 + 50,000) × 10 × 10%] + ₹ 3 lakhs × 10% × 10 / 12]	15,000
Sweeper Salary paid by employer (₹ 1,500 × 10 months)	15,000
Watchman Salary paid by employer (₹ 1,500 × 10 months)	15,000
Car facility (partly for personal and partly for official use, assuming that the maintenance and running expenses are met by the owner-company) [(1,800 + 900) × 10]	27,000
Club facility (Initial fee for corporate membership is exempt. Further, since no further expenses have been incurred by the employer, no taxability arises.)	NIL
Education facility to children (assuming the cost of education per child does not exceed ₹ 1,000 p.m.)	NIL
Interest free housing Loan (₹ 5,00,000 × 13.25% × 6/12)	30,625
Interest free Computer Loan (₹ 50,000 × 15.25% p.a. × 3/12 months)	1,906
Gross Salary	10,39,531

Solution 50 Computation of Gross Salary of Naresh under two Alternatives (amounts in ₹)

	Alt. I	Alt. II
Basic pay	92000	92000
Bonus	9000	9000
Education allowance for 2 children [30,200 - 100 x 12 x 2]/ Education facility for 2 children, fully taxable as the value exceeds ₹ 1,000 p.m. per child	27800	30200
Sweeper allowance/Sweeper facility	10000	10000
Entertainment Allowance/Club facility	6000	6000
Transport allowance (now fully taxable) / Free car (1200 cc) facility for personal use (assumed that ₹ 21600 includes all expenses incurred including normal wear & tear)	21600	21600
Medical allowance/ Medical facility for Naresh and his family members in a hospital maintained by employer	18000	Exempt
Allowance for gas, electricity and water supply/ Free gas, electricity and water supply (bills will be in the name of the employer)	4500	4500
Holiday home allowance/Holiday home facility	8000	8000
Lunch allowance/ Free lunch [free lunch exempt upto ₹ 50 per meal, hence, taxable amount = (₹80 - ₹50) x 50 days + (₹70 - ₹50) x 200 days]	18000	5500
Diwali gift allowance/ Gift on Diwali (Gift Taxable if exceeds ₹5,000)	7500	7500
Gross Salary	222400	194300

Hence, Naresh should opt for Alternative II, as taxable income is less in that case.

Answer 51:**Computation of income under the head Salary**

Basic Pay (9,000 x 12)	₹ 108,000.00
Medical Facilities {Proviso to Sec 17(2)} (W Note 1)	62,000.00
Medical Allowance	10,000.00
Motor Car {Sec 17(2)(iii)} (W Note 1)	21,600.00
Gross Salary	2,01,600.00
Less: Deduction u/s 16(ia)	50,000.00
Income under the head Salary	1,51,600.00
Total Income	1,51,600.00

Note: Since Gross total income before taking into consideration travelling expenses is not exceeding ₹ 2 lakhs. Hence travelling is exempt.

Working Note:**1. Medical Facilities**

Expenses on treatment =	₹ 3,60,000
Exempt = Permitted by RBI =	3,50,000
(A) Taxable =	10,000
Expenses on Stay =	1,50,000
Exempt = Permitted by RBI =	1,05,000
(B) Taxable =	45,000
Treatment of father in law =	7,000
Total = 10,000 + 45,000 + 7,000 =	62,000

2. Motor Car

Since basic pay is ₹ 106,000 so monetary income is more than ₹ 50,000 hence, he is a specified employee (1,800 x 12 – 50,000)

Answer 52:**Computation of income under the head Salary**

	₹
Basic Salary (15,000 x 12)	1,80,000.00
Dearness Allowance (5,600 x 12)	67,200.00
Education Allowance (W Note 1)	4,800.00
Transport Allowance	21,600.00
Rent free Accommodation (W Note 3)	24,000.00
Mobile phone and fixed line telephone	Nil
Gift (alternate view possible)	12,000.00
Use of video Camera	7,500.00
Motor Car (1,800 + 900 x 12)	32,400.00
Reimbursement of medical treatment	20,000.00
Employer's contribution in recognised provident fund in excess of 12% of Salary (30,000 - 25,632)	4,368.00
Gross Salary	3,73,868.00
Less: Deduction u/s 16(ia)	50,000.00
Income under the head Salary	3,23,868.00
Gross Total Income	3,23,868.00
Less: Deduction u/s 80C	
Life insurance premium	12,000
Contribution in recognised provident fund	<u>30,000</u>
	<u>42,000.00</u>
Total Income (rounded off u/s 288A)	2,81,870.00

Working Note:**1. Education Allowances**

	₹
Received = 300 x 2 x 12 =	7,200
Exempt = 100 x 2 x 12 =	<u>2,400</u>
Taxable	4,800

2. Rent Free Accommodation

Rent free accommodation salary
= Basic Salary + Dearness Allowance (R) + Education Allowance + Transport Allowance
= 1,80,000 + 33,600 + 4,800 + 21,600 = 2,40,000

Particulars	₹
Rent	60,000
10% of Salary	24,000
Perquisite value - Lower of the two	24,000

Perquisite value of rent free accommodation

24,000

Solution 53: Computation of Gross salary of Mr. Y.R. Meena

	UNO April- July (Note 2)	Govt. Service Aug-Nov (Note 3)	Pvt. Ltd. Co. (Note 4)	
			Sri Lanka branch Dec-Feb	India office March
Basic Salary	—	20,000	—	4,000
Dearness Allowance	—	—	—	2,500
Project Allowance -	—	—	—	1,000
Entertainment Allowance	—	—	—	2,000
Servant & Sweeper facility (Note 5)	—	—	—	—
Education facility (Note 5)	—	—	—	—
Rent-free accommodation (Note 6)	—	—	—	950
Gross Salary	NIL	20,000	NIL	10,450

Notes:

- 1) Mr. Meena was in India for the month of March i.e. for 31 days only during the previous year. Hence, he is non-resident in India.
- 2) Since, Mr. Meena is non-resident in India and services for which salary is received from UNO were not rendered in India, therefore, the salary from UNO cannot be taxed in India. Further, even if salaries were income accrued/arisen or received in India, then also it would not be liable to be taxed in India, as it is exempt from tax.
- 3) Salary received by a citizen of India from Government of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). So, it is taxable in India. However, allowances and perquisites are exempt under section 10(7).
- 4) Salaries received from Pvt. Ltd. co. for services rendered outside India is not taxable in India. However, services rendered in the month of March in India is taxable in India.
- 5) Servant and sweeper facility and education facility is taxable only in case of specified employees. Since Mr. Meena is not a specified employee, they will not be taxable in his case.
- 6) **The perquisite in respect of rent-free accommodation has been valued as follows -**
10% of Salary = 10% of (4,000 + 2,500 + 1,000 + 2,000) = ₹ 950. (It has been assumed that population of the place where he was posted in India, exceeds 40 lacs).

INCOME FROM OTHER SOURCES

[Section 56 to Section 59]

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

[Page 7.6, 7.11, 7.19, 7.20, 7.21 & 7.22 are amended]



Any income includible in the total income of an assessee, which cannot be included under any of the first four heads of income, is chargeable under the head 'IOS'.

Following conditions must be satisfied before an income can be taxed under the head "Other Sources":

- a) There must be an income
- b) Such income must not be exempted income
- c) Such income must not be income falling under first four heads.

IOS Income may include:

- a) *Dividend Income*
- b) **Casual Income**
- c) *Family Pension*
- d) *Gift [Sum of money or property received by any person without or against inadequate consideration]*
- ~~e) *Consideration received in excess of FMV of shares of a closely held company, where such shares are issued at a premium*~~
- f) *Interest received on compensation/ enhanced compensation [deemed to be income in the year of receipt]*
- g) *Income from undisclosed sources*
- h) *Income from Sub-Letting of a House Property*
- i) *Director's Sitting Fee*
- j) *Remuneration received by MP/MLA*
- k) *Interest on bank deposit / deposits with companies*
- l) *Examiner-ship fee from non-employer*
- m) *Rent from a vacant piece of plot of land*
- n) *Agricultural Income from land situated outside India*
- o) *Interest on Income Tax Refunds*
- p) *Compensation in connection with termination/modification of employment (if not taxable under the head "Salaries")*
- q) *Advance money forfeited in the course of negotiation for transfer of a capital asset.*
- r) *Sum received, including the amount allocated by way of bonus, under a LIP other than under a ULIP and keyman insurance policy, which is not exempt u/s 10(10D)*
- s) *Deemed income under Section 59*
- t) *Any income chargeable to tax under the Act, but not falling under any other head of income*

The following income is chargeable under the head “Income from other sources” only if such income is not chargeable under the head “Profits and gains of business or profession”:

- a) Income from **letting out on hire** of plant, machinery or furniture
- b) Where letting out of buildings **is inseparable** from the letting out of plant, machinery or furniture, the income from such letting
- c) Interest on Securities
- d) Any sum received under a Keyman insurance policy including bonus on such policy (if not chargeable to tax under the head “Salaries” also)
- e) **Any sum received by an employer-assessee from his employees as contributions to any provident fund, superannuation fund or any other fund for the welfare of the employees.**

METHOD OF ACCOUNTING [SECTION 145]

Income chargeable under the head “Income from other sources” has to be computed in accordance with the cash or mercantile system of accounting **regularly employed** by the assessee.

CASUAL INCOME

Casual income means income in the nature of winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or form, gambling, betting of any form or nature whatsoever.

Here,

- "lottery" includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called
- "card game and other game of any sort" includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game

APPLICABLE RATE OF TAX IN RESPECT OF CASUAL INCOME OTHER THAN WINNINGS FROM ANY ONLINE GAME [SECTION 115BB]

- This section provides that income by way of winnings from lotteries, crossword puzzles, races including horse races or card games and other games of any sort or from gambling or betting of any form **would be taxed at a flat rate of 30% plus surcharge, if applicable, plus health and education cess@4%.**

However, income by way of winnings from any online game would not be taxed under this section.

- No expenditure or allowance** can be allowed from such income.
- Deduction under Chapter VI-A is **not allowable** from such income.
- Adjustment of unexhausted basic exemption limit **is also not permitted** against such income.

APPLICABLE RATE OF TAX IN RESPECT OF WINNINGS FROM ONLINE GAMES [SEC. 115BBJ]

- This section provides that **net winnings from any online game** would be taxed at a flat rate of 30% plus surcharge, if applicable, plus health and education cess@4%.
- Meaning of online games:** A game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device
- No expenditure or allowance** can be allowed from such income.
- Deduction under Chapter VI-A is **not allowable** from such income.
- Adjustment of unexhausted basic exemption limit** is also not permitted against such income.

Section	Section 115BB	Section 115BBJ
Income	Winnings from lotteries, crossword puzzles, races including horse races, card games and other games, gambling, betting etc. (other than winning from any online game)	Net winnings from online games
Tax rate	30% of such winnings (further increased by surcharge, if applicable, and health and education cess@4%)	30% of such winnings (further increased by surcharge, if applicable, and health and education cess@4%)

Other conditions	a) No expenditure or allowance can be allowed from such income. b) Deduction under Chapter VI-A is not allowable from such income. c) Adjustment of unexhausted basic exemption limit is also not permitted against such income. d) Set-off of losses is not permissible against such income. e) Loss under other head or under the head of IOS is not allowed to be set off with casual income

Notes:

- a) *Income derived from **owning & maintaining racehorses** is not a casual income and normal slab rate will be applicable on such income.*
- b) **Income of jockey:** *Income of jockey from such profession is not treated as winning from horse races.*
- c) **Winning from a motor car rally:** *Winning from a motor car rally is a return for skill and effort and cannot be treated as casual income but taxable as normal income*
- d) **Grossing up where earning given after TDS [TDS Rate is 30%]:**
Income by way of winnings from
- any lotteries, crossword puzzles or card game or other game of any short **or from gambling or betting of any form or nature exceeding ₹ 10,000/-***
 - online games (on the net winnings in a person's user account)*
 - any Horse Race **[Not a camel Races etc]** exceeding ₹ 10,000*
- is subject to TDS under Section 194B; Section 194BA & Section 194BB respectively.**

Thus, it is included in total income of the assessee after being grossed up as follows:

$$\text{Gross Winnings} = [\text{Net winnings} \times 100 / (100 - \text{Rate of TDS})]$$

SUM RECEIVED UNDER A KEYMAN INSURANCE POLICY

Any sum received under a Keyman insurance policy (including any bonus) is chargeable under the head "IOS" if such income is not chargeable under the head "PGBP" or under the head "Salaries" i.e. if such sum is **received by any person [Family Members]** other than the employer who took the policy (**PGBP Income**) and the employee in whose name the policy was taken (**Salary Income**).

Note:

- If it is received by Employer: PGBP
- If it is received by Employee: Salary

[Sum received under a Keyman insurance policy is not exempt under section 10(10D)]

INTEREST ON COMPENSATION OR ENHANCED COMPENSATION

As per section 145(1), income chargeable under the head “Profits and gains of business or profession” or “Income from other sources”, shall be computed in accordance with **either cash or mercantile system of accounting regularly employed by the assessee.**

Section 145B(1) provides that notwithstanding anything contained in section 145(1), the interest received by an assessee on compensation or on enhanced compensation shall be deemed to be his income for the year **in which it is received, irrespective of the method of accounting followed by the assessee.**

Section 56(2)(viii) provides that income by way of interest received on compensation or on enhanced compensation referred to in section 145B(1) **shall be assessed as “Income from other sources” in the year in which it is received.**

Interest received on compensation/enhanced compensation deemed to be income in the year of receipt and taxable under the head “Income from Other Sources”.

Note: A fixed deduction of 50% of interest received will be allowed under section 57 irrespective of actual expenses.

Advance forfeited due to failure of negotiations for transfer of a capital asset to be taxable as “Income from other sources” [Section 56(2)(ix)]

(For Detailed Discussion – Refer Capital Gain chapter)

1. Prior to A.Y. 2015-16, any advance retained or received in respect of a negotiation for transfer which failed to materialise is reduced from the cost of acquisition of the asset or the written down value or the fair market value of the asset, at the time of its transfer to compute the capital gains arising therefrom as per section 51. **In case the asset transferred is a long-term capital asset, indexation benefit would be on the cost so reduced.**
2. **With effect from A.Y. 2015-16**, section 56(2)(ix) provides for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. **Such sum shall be chargeable to income-tax under the head ‘Income from other sources’, if such sum is forfeited and the negotiations do not result in transfer of such capital asset.**
3. **In order to avoid double taxation of the advance received and retained**, section 51 was amended to provide that where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, has been included in the total income of the assessee for any previous year, in accordance with section 56(2)(ix), such amount shall not be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.
4. It may be noted that advance received and forfeited upto 31.3.2014 has to be reduced from cost of acquisition while computing capital gains, since such advance would not have been subject to tax under section 56(2)(ix). **Only the advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix). Hence, such advance would not be reduced from the cost of acquisition for computing capital gains.**

Compensation or any other payment received in connection with termination of his employment [Section 56(2)(xi)]

Any compensation or any other payment, **due to or received by any person**, by whatever name called, in connection with the termination of his employment or the modification of the terms and conditions relating thereto **shall be chargeable to tax under this head.**

Taxability of Family Pension

1) **Family pension means** pension received by the family members of the deceased employee. It is chargeable to tax under the head 'Income from Other Sources'.

2) **Deduction u/s 57: Least of the following is allowed as a deduction:**

(a) 1/3rd of such income

(b) **Statutory Limit: ₹ 15,000 [₹ 25,000 in case of section 115BAC]**

[Amended by the Finance (No. 2) Act, 2024]

3) **Exemptions:**

(a) **any income by way of—**

i. **pension received by an individual** who has been in the service of the Central Government or State Government **and has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government may, by notification in the Official Gazette, specify in this behalf;**

ii. **family pension** received by any member of the family of an individual referred to in sub-clause (i).

is exempt in full [Section 10(18)].

(b) **Family pension received by the widow or children or nominated heirs, as the case may be, of a member of the armed forces (including para-military forces) of the Union, where the death of such member has occurred in the course of operational duties, in such circumstances and subject to such conditions, as may be prescribed; is exempt in full [Section 10(19)].**

Lump sum payment made gratuitously or by way of compensation or otherwise to widow / legal heirs of an employee, who dies while in service, will not be taxable under the Act. **[CBDT Circular]**

Ex-gratia payment received, by a person or his legal heir, from the Central / State Govt. / Local Authority / Public Sector Undertaking, consequent upon injury to the person / death of a family member, while on duty, will not be taxable under the Act. **[CBDT Circular]**

Taxability of Allowances to MLA/MP

A member of the Parliament or the State legislature **is not treated as employee** of the Government. Payment received by them **shall be taxable under the head "Income from other sources"**.

However, **Daily Allowances & Constituency Allowances** to MLA & MP are **exempt from tax u/s 10(17)**.

Note: This exemption would NOT be available in case of an Individual, being an assessee, who is paying tax as per default tax regime under section 115BAC.

TAXABILITY OF INTEREST ON SECURITIES

Interest on securities may be taxed on Receipt basis or on Due basis, depending on the system of accounting adopted by the assessee. If no system of accounting is followed, it will be taxable on 'DUE' basis.

LIABILITY FOR TAX: The person who owns the security on the due date of payment of interest is liable for the entire interest even if he is not the owner for the entire period to which the interest relates.

INTEREST AFTER TDS: If interest is received after TDS, then such amount is required to be grossed up to include in the total income. **The interest is grossed up as follows:-**

$$\text{Gross Interest} = [\text{Net Interest} \times 100 / (100 - \text{Rate of TDS})]$$

Note:

1. Rate of TDS (under Section 193) is 10%.
2. In case of Govt. Securities – Rate of TDS is NIL (refer TDS chapter also – Section 193)
3. No TDS is deductible if **debentures is issued by a widely held company** if interest is paid /payable to a Resident Individual/HUF by an account payee cheque & **the aggregate amount of such interest during the FY does not exceeds ₹ 5,000.**

Section 10(15) – Interest on Securities (Exempted income)

1. Interest, premium on redemption or other payment on **notified securities, bonds or certificates**

Interest from **Post Office Saving Bank Accounts** is exempt to the extent of ₹ 3,500 in case of an Individual Account and ₹ 7,000 in the case of Joint Account.

2. Interest in the hands of an individual and Hindu undivided family **from Specified Relief Bonds**
3. Interest payable by public sector companies **on certain specified bonds and debentures** subject to the conditions which the Central Government may specify by notification, including the condition that the holder of such bonds or debentures registers his name and holding with that company;

Accordingly, the Central Government has specified **tax free bonds** issued by India Infrastructure Company Ltd. and **tax free, secured, redeemable, non-convertible Bonds** of the Indian Railway Finance Corporation Ltd. (IRFCL), National Highways Authority of India (NHAI), Rural Electrification Corporation Ltd. (RECL), Housing and Urban Development Corporation Ltd. (HUDCL), Power Finance Corporation (PFC), Jawaharlal Nehru Port Trust, Dredging Corporation of India Limited, Ennore Port Limited and The Indian Renewable Energy Development Agency Limited, **the interest from which would be exempt under this section.**

4. Interest on securities held by the Welfare Commissioner, Bhopal Gas Victims **OR** deposits for the benefit of the victims of the Bhopal gas leak disaster.
5. Interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetisation Scheme, 2015

Interest from non-SLR Securities of Banks: Whether chargeable under the head "Profits and gains of business or profession" or "Income from other sources"?

Section 56(1)(id) provides that income by way of interest on securities shall be chargeable to income-tax under the head "Income from Other Sources", **if the income is not chargeable to income-tax under the head "Profits and Gains of Business and Profession".**

The CBDT clarified that the investments made by a banking concern are part of the business of banking. **Therefore, the income arising from such investments is attributable to the business of banking falling under the head "Profits and Gains of Business and Profession".**

Interest income taxable under the head "Other Sources":**1. Interest from Tax Saving Bonds**

- ✓ Investment in Notified Tax saving bonds is eligible for Deduction under Section 80C

2. Interest from Monthly Income Scheme of Post office [POMIS]**3. Interest from NSC**

- ✓ Investment in NSC is eligible for deduction under Section 80C
- ✓ Accrued Interest from NSC is also eligible for deduction under Section 80C

4. Interest from Bank FD

- ✓ Investment in 5 Years notified FD is eligible for deduction under Section 80C
- ✓ Interest income is eligible for deduction under section 80TTB

5. Interest from Saving Bank Interest (any Bank)

- ✓ Such interest income is eligible for Deduction under Section 80TTA or Section 80TTB

Section 10(4) – Interest Income from Non Resident External Account

In the case of an individual, any income by way of interest on moneys standing to his credit in a Non-Resident (External) Account in any bank in India in accordance with the Foreign Exchange Management Act, 1999, **is exempt**.

Provided such individual is a person resident outside India as per FEMA Act or is a person who has been permitted by the Reserve Bank of India to maintain the aforesaid Account

Section 10(11) – Interest from PPF

Any payment (including interest income) from a Public Provident Fund **is exempt**. [Amount deposited in PPF will qualify for deduction u/s 80C]

Section 10(11A) – Interest from SSA

Any payment including interest Income from account opened as per Sukanya Samriddhi Account Rules 2014 **is exempt from tax**. [Amount deposited in SSA will qualify for deduction u/s 80C]

FEW MORE EXEMPTED INCOMES**Compensation received on account of disaster [Section 10(10BC)]**

- A. This clause exempts any amount received or receivable as compensation by an individual or his legal heir on account of any disaster.
- B. Such compensation should be granted by the Central Government or a State Government **or a local authority**.
- C. However, exemption **would not be available** in respect of compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.

Example:

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.

Answer:

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.

Educational scholarships [Section 10(16)]

The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.

Awards for literary, scientific and artistic works and other awards by the Government [Section 10(17A)]

Any award instituted in the public interest by the Central/State Government or by any other body approved by the Central Government and a reward by Central/State Government for such purposes as may be approved by the Central Government in public interest, will enjoy exemption under this clause.

Payment in commutation of pension received from a fund set up by LIC [Section 10(10A)]

Any commuted pension received by an individual from a fund set up by LIC of India, approved by Controller of Insurance or IRDA of India **will be exempted.**

BOND WASHING TRANSACTIONS [Section 94]

A **bond-washing transaction** is a transaction where securities are sold some time before the due date of interest and reacquired after the due date is over. This practice is adopted by persons in the higher income group to avoid tax by transferring the securities to their relatives/friends in the lower income group just before the due date of payment of interest.

In such a case, interest would be taxable in the hands of the transferee, who is the legal owner of securities. In order to discourage such practice, **section 94(1) provides** that where the owner of a security transfers the security just before the due date of interest and buys back the same immediately after the due date **and interest is received by the transferee, such interest income will be deemed to be the income of the transferor and would be taxable in his hands.**

DEDUCTIONS ALLOWABLE [SECTION 57]

The income chargeable under the head “Income from other sources” shall be computed after making the following deductions:

- (i) **In the case of dividend income [Other than deemed dividend as referred in Section 2(22)(f)] or income in respect of units of a mutual fund (as specified in Section 10(23D)] or income in respect of units of a specified company (as defined in Section 10(35):**

Only Interest expenditure to earn such income is allowed as deduction subject to a maximum of 20% of such income included in the total income, without deduction under this section.

[No Deduction shall be allowed in case of dividend income of the nature covered in section 2(22)(f)]

[Amended by the Finance (No. 2) Act, 2024, effective from 01.10.2024]

- (ii) **In the case of interest on securities:**

Any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realising such interest on behalf of the assessee.

- (iii) **Income consists of recovery from employees as contribution to any provident fund etc. in terms of section 2(24)(x):**

A deduction will be allowed in accordance with the provisions of section 36(1)(va) i.e., to the extent the contribution is remitted before the due date under the respective Acts.

- (iv) **Where the income to be charged under this head is from letting on hire of machinery, plant and furniture, with or without building:**

The following items of deductions are allowable in the computation of such income:

- a) the amount paid on account of any current repairs to the machinery, plant, furniture or building.**
- b) the amount of any premium paid in respect of insurance against risk of damage or destruction of the machinery or plant, furniture or building.**
- c) the normal depreciation allowance in respect of the machinery, plant or furniture, due thereon.**

- (v) **In the case of income in the nature of family pension:**

[“Family pension” means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death]

A deduction of a sum equal to 33-1/3 per cent of such income or ₹ 15,000, whichever is less, is allowable [₹ 25,000 in case of default tax regime i.e. section 115BAC]

[Amended by the Finance (No. 2) Act, 2024]

- (vi) **Any other expenditure not being in the nature of capital expenditure laid out or expended wholly and exclusively for the purpose of making or earning such income.**

- (vii) **In case of income by way of interest on compensation/ enhanced compensation received chargeable to tax under section 56(2)(viii):**

Deduction of 50% of such income. No deduction would be allowable under any other clause of section 57 in respect of such income.

DEDUCTIONS NOT ALLOWABLE [SECTION 58]

Following expenditures shall not be deducted from any income under this head:

S. No.	Deduction not allowable
1	Any personal expense of the assessee
2	Any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
3	Any payment chargeable to tax under the head "Salaries", if it is payable outside India unless tax has been paid thereon or deducted at source.
4	30% of expenditure in respect of sum which is payable to a resident in India on which tax is deductible at source, if such tax has not been deducted <u>OR</u> after deduction has not been paid on or before the due date of return specified in section 139(1) [Similar to Section 40(a)(ia) - PGBP]
5	Any expenditure in respect of which a payment is made to a related person , to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV. [Similar to Section 40A(2) - PGBP]
6	Any expenditure in respect of which a payment or aggregate payments exceeding ₹ 10,000 is made to a person in a day otherwise than by account payee cheque or draft or ECS through bank account <u>or through such other prescribed electronic mode such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay.</u> [Similar to Section 40A(3) - PGBP]
7	Any expenditure or allowance in connection with income by way of earnings from lotteries, cross word puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature. Above provision shall not apply in computing the income of an assessee, being the owner of horses maintained by him for running in horse races, from the activity of owning and maintaining such horses. In respect of the activity of owning and maintaining race horses, expenses incurred shall be allowed even in the absence of any stake money earned. Such loss shall be allowed to be carried forward in accordance with the provisions of section 74A [Refer set-off of loss chapter for Section 74A].

DEEMED INCOME CHARGEABLE TO TAX [SECTION 59]

The provisions of section 41(1) [Refer PGBP Chapter] are made applicable, so far as may be, to the computation of income under this head, as they apply in computing the income of an assessee under the head "**Profits and gains of business or profession**"

Accordingly, where –

- An allowance or deduction has been allowed for any year in respect of **loss, expenditure or trading liability** incurred by the assessee; and
- Subsequently, any **amount is obtained**, as revocation of such loss, expenditure or **remission of liability**, whether in cash or in any other manner, during any previous year,

- then such amount received or amount remitted shall be charged to tax.

Note: Above provision holds good even in case of succession or inheritance.

TAXABILITY OF GIFTS**Section 56(2)(vii) - Taxability from 01.10.2009 to 31.03.2017: - INDIVIDUAL/HUF****Section 56(2)(x) - Taxability from 01.04.2017: - ANY PERSON**

Gift of any sum of money or property or transfer of property for inadequate consideration on or after 1st April, 2017 to be subject to tax in the hands of Any Person as IOS subject to the following:

<u>Nature of asset</u>	<u>Particulars</u>	<u>Taxable value</u>
Money	<i>Without consideration</i>	The <u>whole of aggregate amount</u> if the same exceeds ₹ 50,000.
Movable property	<i>Without consideration</i>	The aggregate Fair Market Value (FMV) of the property, <u>if it exceeds ₹ 50,000.</u>
Movable property	<i>Inadequate consideration</i>	The difference between the aggregate FMV and the consideration, <u>if such difference exceeds ₹ 50,000.</u>
Immovable property	<i>Without consideration</i>	The Stamp Duty Value [SDV] of the property, if it exceeds ₹ 50,000. [Each Property Separately]
Immovable property	<i>Inadequate consideration</i>	The difference between the SDV and the consideration, <u>if such difference exceeds higher of the following amount:</u> a) ₹ 50,000 or b) 10% of the consideration [Each Property Separately]

Note:

- 1) Gift provisions will not be applicable **if property is received as stock in trade, consumable stores and raw materials.**
- 2) **Sum of money** may include not only cash but also cheque, drafts, **fixed deposits receipts or a NSC (alternate view possible)** since it represents a sum of money though not in cash.
- 3) For this purpose, **“property” means the capital Asset** of the assessee namely immovable property being land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art or bullion **or Virtual Digital Asset**.
- 4) **Stamp Duty Value** means the value adopted by any authority for the purpose of payment of stamp duty in respect of an immovable property.
- 5) If the **Stamp Duty Value of immovable property is disputed** by the assessee, the AO may refer the valuation of such property to a Valuation Officer. **In such a case, the provisions of section 50C shall, as far as may be, apply for determining the value of such property. – CG Class**
- 6) **When date of agreement and date of registration are not same** - Where the date of an agreement fixing the value of consideration for the transfer of the asset and the date of registration of the transfer of the asset are not same, the stamp duty value may be taken as on the date of the agreement for transfer and not as on the date of registration for such transfer. However, this exception shall apply only in those cases where amount of consideration (or a part thereof) for the transfer has been **paid by way of an account payee cheque or an account payee draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed** on or before the date of the agreement.

The prescribed electronic modes notified are 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 as other electronic modes of payment.

Exceptions: However, any gift received from following ways would be outside the ambit of Section 56(2)(x):

- (1) from any relative;
- (2) on the occasion of the marriage of the individual;
- (3) under a will or by way of inheritance;
- (4) in contemplation of death of the payer or donor, as the case may be;
- (5) from any local authority;
- (6) **by** any fund or trust or institution or university or other educational institution or hospital or other medical institution referred to in section 10(23C)(iv)/(v)/(vi)/(via);
- (7) **from** any fund or foundation or university or other educational institution or hospital or other medical institution or any trust or institution referred to **in section 10(23C)**;
[Exception is not applicable if gift is received by specified persons as referred in Section 13(3)]
- (8) **from or by** any trust or institution registered under Section 12AB [Charitable or Religious Trust];
[Exception is not applicable if gift is received by specified persons as referred in Section 13(3)]
- (9) from an Individual by a Trust created or established solely for the benefit of relative of the Individual;
- (10) From HUF on Total/Partial Partition of HUF to members;
- (11) Asset received by Amalgamated Indian company from Amalgamating company;
- (12) From Holding Company to 100% Subsidiary Company or vice versa where transferee is an Indian Company;
- (13) Asset received by Indian Resulting Company from Demerged company in a demerger;
- (14) Any shares received by shareholders under Amalgamation/Demerger which is not regarded as Transfer u/s 47;
- (15) **by an individual, from any person, in respect of any expenditure actually incurred by him on his medical treatment or treatment of any member of his family, for any illness related to COVID-19 subject to conditions notified by Central Government;**

Accordingly, the Central Government has, vide Notification No. 91/2022 dated 5.8.2022, specified the following conditions -

The individual has to keep a record of the following documents, namely:-

- a. **the COVID-19 positive report of the individual or his family member, or medical report if clinically determined to be COVID-19 positive through investigations in a hospital or an in-patient facility by a treating physician for a person so admitted;**
- b. **all necessary documents of medical diagnosis or treatment of the individual or family member due to COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as a COVID-19 positive;**

The details of the amount so received in any financial year has to be furnished in Form No. 1 to the Income-tax Department within 9 months from the end of such financial year or 31.12.2022 whichever is later.

(16) by a member of the family of a deceased person-

- A. from the employer of the deceased person; or**
- B. from any other person or persons to the extent that such sum or aggregate of such sums does not exceed ₹10,00,000,**

where the cause of death of such person is illness related to COVID-19 and the payment is-

- i. received within 12 months from the date of death of such person; and**
- ii. subject to such other conditions, as the Central Government may, by notification in the Official Gazette, specify in this behalf.**

Here Family means:

- (i) The spouse and children of the individual;**
- (ii) The parents, brothers and sisters of the individual or any of them, wholly or mainly dependent on the individual.**

Accordingly, the Central Government has, vide Notification No. 92/2022 dated 5.8.2022, specified the following conditions –

- 1. (i) the death of the individual should be within 6 months from the date of testing positive or from the date of being clinically determined as a COVID-19 case, for which any sum of money has been received by the member of the family;**

(ii) the family member of the individual has to keep a record of the following documents,
 - a. the COVID-19 positive report of the individual, or medical report if clinically determined to be COVID-19 positive through investigations in a hospital or an inpatient facility by a treating physician;**
 - b. a medical report or death certificate issued by a medical practitioner or a Government civil registration office, in which it is stated that death of the person is related to corona virus disease (COVID-19).**
- 2. The details of such amount received in any financial year has to be furnished in Form A to the Assessing Officer within 9 months from the end of such financial year or 31.12.2022 whichever is later.**

➤ For the purpose of Section 56(2)(x), the expression **"RELATIVE"** means

In Case of Individual:

- (i) spouse of the individual,
- (ii) brother or sister of the **individual**,
- (iii) brother or sister of the **spouse** of the individual,
- (iv) brother or sister of **either of the parents** of the individual,
- (v) any lineal ascendant or descendant of the individual,
- (vi) any lineal ascendant or descendant of the spouse of the individual, and
- (vii) **spouse of a person referred to in items (ii) to (vi) mentioned above.**

In Case of HUF: Any Member

Clubbing Provisions: As per Section 64(2), if a member of the HUF converts his separate property into the property belonging to the family otherwise than for adequate consideration, ***the income derived from the converted property shall be deemed to arise to the individual and not the family.***

TAXABILITY OF DIVIDEND INCOME**Basis of charge of dividend**

Any income by way of dividends received from a company, whether domestic or foreign, **is taxable in the hands of shareholder at normal rates of tax.**

Important Points

Dividend received from a Foreign Company is taxable in hands of shareholder at the normal tax rates **subject to Residential status & place of receipt.**

DEEMED DIVIDEND [Section 2(22)]**a) Distribution of accumulated profits, entailing the release of company's assets:**

Any distribution of accumulated profits, whether capitalised or not, by a company to its shareholders is dividend **if it entails the release of all or any part of its assets.**

Note:

- If accumulated profits **are distributed in cash**, it is dividend in the hands of the shareholders.
- Where accumulated profits **are distributed in kind**, for example by delivery of shares etc. entailing the release of company's assets, the **market value of such shares** on the date of such distribution is deemed as dividend in the hands of the shareholder.

b) Distribution of debentures, deposit certificates to shareholders and bonus shares to preference shareholders:

Any distribution of debentures / debenture-stock / deposit certificates etc. by a company to its shareholders

OR

Any distribution of shares by way of bonus by a company to its preference shareholders shall be deemed to be the dividend (**market value of shares**) to the extent the company possesses accumulated profits whether capitalized or not.

Note:

- (i) For the purpose of CG, the COA of above debenture in the hands of the shareholders shall be taken to be NIL
- (ii) **Bonus shares given to equity shareholders** are not treated as dividend.

c) Distribution on Liquidation:

Any distribution made by a company to the shareholders (**equity only**) on its liquidation shall be deemed to be the dividend to the extent of accumulated profits of the company standing immediately before its liquidation whether capitalized or not.

d) Distribution on Reduction of Capital :

Any Distribution by company to its shareholders (**equity only**) on reduction of its capital shall be deemed to be the dividend to the extent to which company possesses accumulated profits whether capitalized or not. **Sec. 2(22)(d)**

Example: A Ltd. Has issued bonus shares to its equity shareholders. Subsequently company has reduced its share capital and refunded the amount so reduced to the shareholders. The amount so received by the shareholders to the extent of accumulated profit (whether capitalized or not) will be considered as dividend.

e) Advance or loan by a Closely Held Company to its Shareholder [Section 2(22)(e)] – 5 Marks

Any payment, by a closely held company, of any sum by way of loan or advance:

- ✓ **to a shareholder**, being the beneficial owner of shares holding not less than 10% of voting power, **OR**
- ✓ **to any concern**, in which such a shareholder is a member/partner and in which he has a **substantial interest** (i.e. atleast 20% share of the income of the concern), **OR**
- ✓ **to any persons on behalf of or for the individual benefit of such a shareholder**,
shall be deemed to be the dividend to the extent to which the company possesses **accumulated profits**.

Note:

- 1) **Subsequent repayment** of loan or charge of **interest at market rate** does not make any difference in the applicability of section 2(22)(e).
- 2) Where loan is given and accumulated profits **exceeds the loan**, then the entire loan will be deemed as dividend. No consideration is to be given to the proportionate share of the assessee in the accumulated profits.
- 3) If any such loan was given to **more than such shareholders**, accumulated profits shall be reduced by the amount of the loan given to the earlier shareholders.
- 4) Dividend shall not include any advance or loan made to a shareholder or a concern by a company **in the ordinary course of its business** where the money lending is substantial part of the business of the company.
- 5) **Dividend paid is set off against the deemed dividend** - Where a loan had been treated as dividend and subsequently, the company declares and distributes dividend to all its shareholders including the borrowing shareholder, **and the dividend so paid is set off by the company against the previous borrowing**, the adjusted amount will not be again treated as a dividend.

- f) Effective from 01.10.2024; any payment by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 68 of the Companies Act, 2013.**

[New Clause inserted by the Finance (No. 2) Act, 2024]

SATC Note: Amount received by a shareholder on account of buy-back will be deemed dividend u/s 2(22)(f) regardless of the quantum of “accumulated profits” of the distributing company.

Section 10(34A) & Section 115QA shall NOT be applicable with respect to any buy back of shares by a domestic company on or after 01.10.2024.

**Important Points:****1) Buy Back of Own Shares**

Any payment made by a company on purchase of its own shares **(upto 30th September 2024)**, from a shareholder in accordance with the provisions of section 68 of the Companies Act, 2013 is **NOT** a deemed dividend.

2) Any distribution of shares on demerger by the resulting companies to the shareholders of the demerged company (whether or not there is a reduction of capital in the demerged company), is not a deemed dividend.**3) "Accumulated profits"**

Accumulated profits in point (a), (b), (d) and (e) above **include all profits of the company up to the date of distribution or payment of dividend.**

Accumulated profits in point (c) include all profits of the company **up to the date of liquidation whether capitalised or not.**

4) In the case of an amalgamated company, the accumulated profits, whether capitalized or not, of the amalgamating company on the date of amalgamation shall be included in the accumulated profits, whether capitalized or not or loss, as the case may be, of the amalgamated company.**Clarification regarding trade advance not to be treated as deemed dividend [CBDT Circular]**

Section 2(22)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of **advance or loan** to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e) and such views have attained finality.

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position **that trade advances, which are in the nature of commercial transactions**, would not fall within the ambit of the word 'advance' in section 2(22)(e) **and therefore, the same would not to be treated as deemed dividend.**

Basis of charge of dividend [Section 8]

Dividend declared: Dividend declared by the company at its annual general meeting is deemed to be the income of the shareholder **in the previous year in which it is so declared.**

Deemed dividend u/s 2(22)(a)/(b)/(c)/(d): Distribution by a company which is deemed as dividend u/s 2(22)(a)/(b)/(c)/(d) would be the income of the **previous year in which it is so distributed.**

Deemed dividend u/s 2(22)(e): Payment of advance or loan to a shareholder or a concern, as the case may be, which is deemed as dividend u/s 2(22)(e) will be the **income of the previous year in which it is so paid.**

Interim dividend: Interim dividend would be deemed to be the income of the **previous year in which such dividend is unconditionally made available by the company to the members** who is entitled to it.

SATC Note: Section 8 is **NOT** yet amended with reference to Section 2(22)(f).

SECTION 194 [TDS on Dividend payable to Resident Shareholders]**1. Applicability of TDS under section 194**

The principal officer of a domestic company is required to deduct tax on dividend distributed or paid by it to its resident shareholders.

2. Rate of TDS

The rate of deduction of tax in respect of such dividend is **10%**.

3. Time of tax deduction at source

The deduction of tax has to be made **before making any payment by any mode** in respect of any dividend **or before making any distribution or payment** to a resident shareholder of any amount deemed as dividend under section 2(22)(a) / (b) / (c) / (d) / (e) / (f).

[New Clause (f) inserted by the Finance (No. 2) Act, 2024, effective from 01.10.2024]

4. Non-applicability of TDS under section 194

i. **No tax is to be deducted in case of a shareholder, being an individual, where -**

a. the dividend is paid by **any mode other than cash**; and

b. the amount of such dividend or aggregate of dividend distributed or paid or likely to be distributed or paid during the financial year by the company to such shareholder **does not exceed ₹ 5,000**.

ii. The TDS provisions will not apply to such **dividend credited or paid to LIC, GIC, subsidiaries of GIC or any other insurer** provided the shares are owned by them, or they have full beneficial interest in such shares

iii. **Dividend income credited or paid to a "Business Trust" by a Special Purpose Vehicle (an Indian company in which Business Trust holds controlling interest);**

iv. **Dividend income credited or paid to any other person as may be notified by the Central Government in the Official Gazette in this behalf.**

SECTION 194K [TDS on Income in respect of Units]**Applicability and rate of tax**

Section 194K provides for deduction of tax at source **@10%** by any person responsible for paying to a resident any income in respect of –

a. units of a Mutual fund

b. units from Administrator of the specified undertaking (units of UTI)

c. units from the specified company

Time of deduction

The deduction is to be made at the time of credit of such sum to the account of the payee or at the time of payment by any mode, **whichever is earlier**.

Non-applicability of section 194K - No tax is required to be deducted if -

a. the amount of such income or the **aggregate of the amounts** of such income credited or paid or likely to be credited or paid **during a financial year does not exceed ₹ 5,000; or**

b. the income is of **the nature of capital gains**.

**Share premium in excess of the FMV to be treated as income [Section 56(2)(viib)]**

Section 56(2)(viib) provides that where **a company, not being a company in which the public are substantially interested (i.e. Closely held Company)**, receives any consideration from issue of shares in excess of the face value of such shares from any person ~~being a resident~~, then consideration as exceeds from FMV of the shares shall be chargeable to income tax under the head "IOS"

The Provisions of Section 56(2)(viib) will NOT be applicable from the Assessment Year 2025-26.

[Amended by the Finance (No. 2) Act, 2024]

PREVIOUS YEAR FOR UNDISCLOSED SOURCES OF INCOME

[4 Marks]

Unexplained Cash Credits [Section 68]

Where any **sum is found credited** in the books of the assessee and the assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, **the sum so credited may be charged as income of the assessee of that previous year.**

However, where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by the assessee in whose books such sum is credited shall not be deemed to be satisfactory, unless

- the person in whose name such credit is recorded in the books of such assessee also offers an explanation about the nature and source of such sum so credited and**
- such explanation in the opinion of the Assessing Officer has been found to be satisfactory.**

Further, **any explanation offered by a closely held company in respect of any sum credited as share application money, share capital, share premium or any such amount, by whatever name called, in the accounts of such company shall be deemed to be not satisfactory, unless**

- the person, being a resident, in whose name such credit is recorded in the books of such company also explains about the nature and the source of such sum so credited and**
- such explanation in the opinion of the Assessing Officer has been found to be satisfactory**

These additional conditions would not apply if the person, in whose name the sum is recorded, is a Venture Capital Fund or Venture Capital Company registered with SEBI.

Unexplained Investment [Section 69]

Where in the financial year immediately preceding the assessment year, **the assessee has made investments which are not recorded in the books of account** and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory in the opinion of the Assessing Officer, **the value of the investments are taxed as deemed income of the assessee of such financial year.**

Unexplained Money etc. [Section 69A]

Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the books of account and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation offered is not satisfactory in the opinion of the Assessing Officer, **the money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year.**

Investment not fully disclosed [Section 69B]

Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the **Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the books of account maintained by the assessee** and he offers no explanation for the difference or the explanation offered is unsatisfactory in the opinion of the Assessing Officer, **such excess may be deemed to be the income of the assessee for such financial year.**

Unexplained Expenditure [Section 69C]

Where in any financial year **an assessee has incurred any expenditure** and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the Assessing Officer, Assessing Officer can treat such unexplained expenditure as the income of the assessee for such financial year.

Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

Amount borrowed or repaid on Hundi other than by way of account payee cheque [Section 69D]

Where any amount is borrowed on a hundi or any amount due thereon is repaid **other than through an account-payee cheque drawn on a bank**, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying **for the previous year in which the amount was borrowed or repaid, as the case may be.**

However, where any amount borrowed on a hundi has been deemed to be the income of any person, **he will not be again liable to be assessed in respect of such amount on repayment of such amount.** The amount repaid shall include interest paid on the amount borrowed.

Taxation of Cash Credit, Unexplained Money, Unexplained Investment etc. covered u/s 68, 69, 69A, 69B, 69C & 69D [Section 115BBE]

- A. **Section 115BBE has been inserted to tax the unexplained** credits, money, investment, expenditure, etc., which has been deemed as income under section 68, 69, 69A, 69B, 69C & 69D

Total Income of an assessee

- a) includes any income referred to in Section 68, Section 69, Section 69A, Section 69B, Section 69C or Section 69D **and reflected in the return of income furnished under section 139**; or
- b) **determined by the Assessing Officer** includes any income referred to in Section 68, Section 69, Section 69A, Section 69B, Section 69C or Section 69D, **if such income is not reflected in the return**,

- B. **Tax Rate: 60% [plus surcharge (25%) and cess (4%) as applicable]**

- C. No deduction in respect of any expenditure or allowances or Set off of any loss shall be allowed in computing **above deemed income (point 'a' or 'b' above)**.

- D. **Benefit of Basic Exemption Limit** is **also not available** while computing tax liability.

Sum received, including the amount allocated by way of bonus, under a LIP other than under a ULIP and Keyman insurance policy, which is not exempt u/s 10(10D) [Section 56(2)(xiii)]

Where any sum is received, including the amount allocated by way of bonus, at any time during a previous year, under a life insurance policy, other than the sum,

(a) received under a Unit Linked Insurance Policy;

(b) received under a Keyman Insurance Policy,

which is not exempt under section 10(10D), the sum so received as exceeds the aggregate of the premium paid, during the term of such life insurance policy, and not claimed as deduction under any other provision of this Act, computed in such manner as may be prescribed, would be chargeable to tax under the head "Income from other sources".

[Refer Section 80C & Section 10(10D) discussion in Deduction chapter]

PRACTICAL QUESTIONS (SET A)

1. Rahul holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. a company in which the public are not substantially interested)?

Answer:

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, **is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.**

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

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.

2. Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 –

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

Answer:

(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.

3. 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, 2011.

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, 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 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.

Answer:**Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26**

SN.	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.	NIL
(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 ₹ 1,00,000 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.

4. Mr. Hari, a property dealer, sold a building in the course of his business to his friend 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?

Answer:

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement <u>by crossed cheque and not account payee cheque, the option cannot be exercised.</u> Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Case 2: Tax implications if Mr. Hari is a stock 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 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.	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. Rajesh.

5. 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 2021-22, ₹ 1,65,000 relates to previous year 2022-23 and ₹ 1,85,000 relates to previous year 2023-24. Discuss the tax implication, if any, of such interest income for A.Y. 2025-26.

Answer:

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

6. 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.

Answer:

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. 2024-25 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".

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 payable to 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.

Answer:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Income from other sources/ Profits and gains of business or profession
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources

(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial properties	Profits and gains from business or profession

Note - As per section 56(2), 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. 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 2018-19.

Out of this interest, ₹ 1,50,000 relates to the financial year 2019-20; ₹ 1,65,000 to the financial year 2020-21; and ₹ 1,85,000 to the financial year 2021-22. 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 for the assessment year 2025-26?

Answer:

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 2025-26:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

9. 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 “Shastiapha 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.

Answer:

- (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, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- (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 under section 56(2)(x), even though jewellery falls within the definition of “property”.

- (iii) 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-

- (1) 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”.**
- (2) 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 Shastiapha 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).

10. 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 10.4.2024 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in 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 cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2023 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

Answer:

- (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 (refer **CG class**), 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 (₹ 4,55,000) 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 cash gift 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.

11. MNO (P) Ltd. is a company in which the public are not substantially interested. K is a shareholder of the company holding 15% of the equity shares. The accumulated profits of the company as on 1.10.2024 amounted to ₹ 10,00,000. The company lent ₹ 1,00,000 to K by an account payee bank draft on 1.10.2024. The loan was not connected with the business of the company. K repaid the loan to the company by an account payee bank draft on 30.3.2025. Examine the effect of the borrowal and repayment of the loan by K on the computation of his total income for the assessment year 2025-26.

Answer:

As per section 2(22)(e), any payment by a company, in which the public are not substantially interested, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, shall be treated as dividend to the extent to which the company possesses accumulated profits.

In the instant case, MNO (P) Ltd. is a company in which the public are not substantially interested. The company has accumulated profits of ₹ 10,00,000 on 1.10.2024. The loan given by the company to K was not in the course of its business. K holds more than 10% of the equity shares in the company. Therefore, assuming that K has voting power equivalent to his shareholding, section 2(22)(e) comes into play. Deemed dividend of ₹ 1,00,000 under section 2(22)(e) would be taxable in the hands of Mr. K at normal rate of tax.

Under section 2(22)(e), the liability arises the moment the loan is borrowed by the shareholder and it is immaterial whether the loan is repaid before the end of the accounting year or not. Therefore, the repayment of loan by K to the company on 30.3.2025 will not affect the taxability of the sum of ₹ 1,00,000 as deemed dividend.

12. Sunder died on 31st July 2024 while being in Central Government service. In terms of rules governing his service, his widow Mrs. Sunder is paid a family pension of ₹ 10,000 p.m. and dearness allowance of 40% thereof. State whether the amount of family pension is assessable in her hands, and if so, under what head of income. Can she claim any relief/deduction on such receipt? Compute taxable income for the assessment year 2025-26 and tax thereon as per default tax regime.

Answer:

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

Particulars	Details	Amount
Income from other sources		
Family pension [(₹ 10,000 + ₹ 4,000) x 8] [From 01-08-2024 to 31-03-2025]		1,12,000
Less: deduction under Section 57: being minimum of the following:		
a) 1/3rd of the pension	37,333	
b) Statutory limit	25,000	25,000
Total Income		87,000
Tax on above		Nil

It is assumed that other income of Mrs. Sunder is nil.

13. Compute taxable income under the head Income from other sources of Mrs. X from the following data: [Ignore Section 115BAC]

Particulars	Amount
Private tuition fee received	10,000
Winning from lottery	2,000
Award from KBC (a TV show) [Gross]	3,20,000
Pension from employer of deceased husband	25,000
Interest on bank deposit	25,000
Directors fee (Gross)	5,000
Letting out of vacant land	25,000
Remuneration for checking the examination copy of employer's school	10,000
Remuneration for checking the examination copy of College	10,000
Income tax refund	5,000
Interest on income tax refund	100
Composite rent (related expenditures are ₹ 5,000)	10,000
Rent on sub-letting of house property (rent paid to original owner ₹ 12,000)	20,000
Income tax paid	2,000
Payment made for personal expenses	18,000
Payment made to LIC as premium	2,000

Answer:

Computation of income of Mrs. X under the head Income from other source for the A.Y. 2025-26

Particulars	Details	Amount
Private tuition fee received		10,000
Casual income		
Winning from lottery		2,000
Award from KBC (a TV show) [Gross]		3,20,000
Pension	25,000	
Less: Standard deduction (Lower of the two)		
a) 1/3rd of amount received (i.e. ₹ 8,333)		
b) ₹ 15,000	8,333	16,667
Interest on bank deposit		25,000
Directors fee		5,000

Letting out of vacant land		25,000
Remuneration for checking the examination copy of employer school	Taxable as Salary	-
Remuneration for checking examination copy of College		10,000
Income tax refund	Not an income	-
Interest on income tax refund		100
Composite rent	10,000	
Less: Expenditure	5,000	5,000
Rent on sub-letting of house property	20,000	
Less: Rent paid to original owner	12,000	8,000
Income from Other Source		4,26,767

Note: Payment of income tax and personal expenses is not deductible in any case.

14. Shri Anil follows cash basis of accounting and has furnished the Receipts & Payment A/c of previous year 2024-25 for computing his income:

Particulars	Receipts	Payments
Interest on listed debenture of A Ltd.	16,200	
Letting of building & machinery @ ₹ 15,000 p.m. under a composite lease	1,50,000	
Collection charges		1,000
Repairs		5,000
Capital repairs		16,000
Interest paid outside India without deducting tax on loan taken for construction of building		8,000
Gift from father	6,000	
Ground rent received (related to financial year 2023-24)	600	

The following additional information are also provided - Allowable depreciation on Building and Machinery - ₹ 4,000. Fire Insurance on Building and Machinery (not paid) - ₹ 1,000

Answer:

Computation of income from other sources of Anil for A.Y. 2025-26

Particulars	Details	Details	Amount	Amount
Interest on debenture of A Ltd. (gross income)	₹ 16,200 / 90%			18,000
Rent received on letting of assets			1,50,000	
Less: Expenses paid				
Collection charges		1,000		
Repair		5,000		
Capital repairs		Nil		
Depreciation		4,000	10,000	1,40,000
Gift from father [As received from relative]				Nil
Ground rent received				600
Income from other source				1,58,600

Notes

1. Since assessee follows cash basis of accounting, hence, income shall be chargeable and expenditure shall be allowed on cash basis.
2. Debenture income required to be grossed up.
3. Capital repairs are not allowed.
4. Interest paid outside India without deducting tax at source shall not be deductible expenditure.

15. X receives the following gifts during the PY 2024-25:

- On the occasion of marriage of X, he gets ₹ 2,90,000 as gift on April 2, 2024 (out of which ₹ 2,00,000 is received from friends of X and Mrs. X and remaining amount is received from close relatives of X and Mrs. X).
- On June 22, 2024, he gets a gift of ₹ 23,000 from C, who is cousin of his father.
- On August 18, 2024, he gets a gift of ₹ 15,000 from D, who is elder brother of his grandfather.
- On September 20, 2024, he gets a gift of ₹ 7,00,000 from his grandmother.
- A computer received from his employer (it was purchased for ₹ 65,000 by the employer on May 1, 2024 and given as gift to X on October 20, 2024).
- On November 30, 2024, X gets a gift of a plot of land from his grandfather (stamp duty value is ₹ 15,00,000).
- On December 30, 2024, X gets by gift a commercial flat from the elder brother of his father-in-law (stamp duty value is ₹ 25,00,000).
- On January 6, 2025, he gets a gift of ₹ 2,00,000 (cash gift of ₹ 25,000 and gift of a work of art whose market value is ₹ 1,75,000) from a notified public charitable institution.
- X receives on January 11, 2025 a house property under will of a person known to him. The stamp duty value is ₹ 15,40,000.
- On January 20, 2025, he gets a wrist watch by gift (fair market value : ₹ 40,000) from his friend B.
- On January 25, 2025, he purchases a work of art for ₹ 16,00,000 from an exhibition in New York (the fair market value of the work of art on the date of purchase is ₹ 17,00,000).
- On February 5, 2025, he gets a birthday gift of a gold chain (fair market value : ₹ 11,000) from his friend.
- On February 10, 2025 X gets by way of gift a plot of land in Pune from a partnership firm. The partnership firm has only two partners- father of X and Mrs. X. The stamp duty value of the plot of land is ₹ 19,00,000.
- On February 16, 2025, X purchases 500 shares in Tata Chemicals from his friend D at ₹ 90 per share (outside stock exchange). The lowest market quotation in the Bombay Stock Exchange and the National Stock Exchange on the date of purchase is ₹ 300 and ₹ 310 respectively.
- On March 1, 2025, X gets a gift of gold ring from a cousin of his mother-in-law. The fair market value is ₹ 20,000.
- On March 20, 2025, X gets a painting by way of gift from C Ltd. Mrs. X holds 70 per cent shares in C Ltd. The fair market value of painting is ₹ 19,000.
- On March 25, 2025, X gets a small plot of land by way of gift from a cousin of Mrs. X (stamp duty value is ₹ 44,000).
- On March 31, 2025, X receives a shop (situated in Jammu) by way of gift from a friend (stamp duty value is ₹ 50,000).

Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" from the AY 2025-26.

Answer:

	Cash gift	Gift of immovable property	Gift of movable property	Purchase movable property for inadequate consideration
	₹	₹	₹	₹
1. Gift on occasion of marriage of X (not taxable)	Nil	-	-	-
2. Cash gift from C (C is not "relative")	23,000	-	-	-
3. Cash gift from D (elder brother of grandfather is not "relative")	15,000	-	-	-
4. Cash gift from grandmother (gift from a "relative" is not taxable)	Nil	-	-	-
5. Gift from employer (it is taxable under the head Salary)	-	-	-	-

6. Gift of immovable property from grandfather [gift from "relative" is not taxable]		Nil	.	-
7. Gift of commercial property (elder brother of 'other for is not "relative")	-	25,00,000	-	-
8. Gift from notified public charitable institute [Not Taxable]	Nil	-	Nil	-
9. Gift under a will [not taxable even if received from on-emotive]	-	Nil	-	-
10. Gift of a wrist watch [wrist watch is not "property" for the purpose of section 56(2)(x) and not taxable]	-	-	-	-
11. Purchase of a work of art for inadequate consideration	-	-	-	1,00,000
12. Gift of gold chain			11,000	-
13. Gift from a partnership firm [partnership firm is not "relative" even if relatives of X are partners]	-	19,00,000	-	-
14. Purchase of shares for inadequate consideration [(₹ 300 - ₹ 90) x 500]	-	-	-	1,05,000
15. Gift of gold ring (cousin of mother-in-law is not "relative" of X)	-	-	20,000	-
16. Gift from a company (company is not a "relative" even if Mrs. X is a major shareholder)	-	-	19,000	-
17. Gift of plot of land (not taxable as stamp duty value does not exceed ₹ 50,000)	-	Nil	-	-
18. Gift of shop (not taxable as stamp duty value does not exceed ₹ 50,000)	-	Nil	-	-
Total	38,000	44,00,000	50,000	2,05,000

Amount taxable under section 56(2)(x) under the head "Income from other sources" will be calculated as follows-

	₹
Cash gift (not taxable as the aggregate amount of cash gift does not exceed ₹ 50,000)	Nil
Gift of immovable properties	44,00,000
Gift of movable properties (not taxable as the aggregate amount does not exceed ₹ 50,000)	Nil
Purchase of movable properties for inadequate consideration	2,05,000
Amount taxable	46,05,000

PRACTICAL QUESTIONS – SET B

In all questions, assume 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 under the normal provisions of the Act).

1. From the following particulars of Pankaj for the previous year ended 31st March 2025, Compute the Income under the head "Income from other Sources":

	₹
(i) Directors Fee from a Company	10,000
(ii) Interest on Bank Deposits	3,000
(iii) Income from undisclosed source	12,000
(iv) Winnings from Lotteries (Net)	35,000
(v) Royalty on a book written by him	9,000
(vi) Lectures in Seminars	5,000
(vii) Interest on loan given to a relative	7,000
(viii) Interest on Debentures of a Company (listed in a Recognised Stock Exchange) Net of Taxes	6,300
(ix) Interest on Post Office Savings Bank Account	500
(x) Interest on Government Securities	2,200
(xi) Interest on Monthly Income Scheme of Post office	33,000

He paid ₹ 1,000 for typing the manuscript of book written by him.

2. Check the taxability of the following gifts received by Mrs. Rashmi during the previous year 2024-25 and compute the taxable income from gifts (under IFOS head) for AY 2025-26:

- i) On the occasion of her marriage on 14.8.2024, she has received ₹ 90,000 as gift out of which ₹ 70,000 are from relatives and balance from friends.
- ii) On 12.9.2024, 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 15.8.2024.
- iv) She gets a gift of ₹ 25,000 from the elder brother of her husband's grandfather on 25.10.2024.
- v) She has received a gift of ₹ 2,000 from her friend on 14.4.2024.

3. A perusal of R's bank account revealed following deposits during financial year 2024-25:

Particulars	Amount (₹)
Gift from his friend on his birthday	12,000
Dividends from shares of various Indian companies (gross)	13,200
Gift from his fiancée	85,000
Gift from his mother's friend on his engagement	28,000
Gift from his sister in Netherlands	220,000
Interest on bank deposits (gross)	30,000

Compute his total income for the AY 2025-26 assuming that his income from house property (computed) is ₹ 72,000. [Ignore TDS]

4. Mr. Ashok received a sum of ₹ 5,00,000, as gift during the FY 2024-25, the details of which are as follows. Discuss the tax liability of the sum received.

- (i) from relatives on the occasion of birthday – ₹ 1,00,000;
- (ii) from an unregistered charitable institution in connection with compensation for floods – ₹ 50,000;
- (iii) ₹ 1,50,000 received from friends on the occasion of birthday;
- (iv) ₹ 2,00,000 received from a neighbor, who is in death bed.

5. Raman received ₹ 5 lakhs from his relatives and the parents of his wife on the occasion of their marriage on 21/09/2024. He also receives a car, some jewellery whose fair market values are ₹ 2,50,000 and ₹ 50,000 respectively and a sum of ₹ 1,50,000 from persons, other than relatives on the said occasion. His grandfather registers in his favour, land worth ₹ 10 lakhs after a month, as his gift. **Discuss the tax for AY 2025-26.**
6. Mr. Ketan acquired a land at Mumbai from Mr. Agarwal for a purchase consideration of ₹ 1 Crore on 01.01.2025. The assessable value of the property for stamp duty purposes is ₹ 1.30 crore. Subsequently, in a different transaction he was gifted with a land near Indore by his friend, the assessable value of which for stamp duty purpose is ₹ 49,000. **Advise on the taxability of these transactions.**
7. **Mrs. Rajni who draws a salary of ₹ 30,000 p.m. received the following gifts during the previous year:**
- i) Gift of ₹ 5,00,000 on 16.1.2025 from a friend,
 - ii) Gift of jewellery worth ₹ 4,00,000 on 17.10.2024 from her fiancée,
 - iii) Gift of ₹ 41,000 each received from her 4 friends on the occasion of her marriage on 21.10.2024.
 - iv) Gift of ₹ 1,10,000 on 22.10.2024 from her mother's sister,
 - v) Gift of ₹ 70,000 on 25.10.2024 from her father's brother,
 - vi) Gift of ₹ 40,000 from her husband's friend on 01.11.2024,
 - vii) Gift of ₹ 31,000 on 15.11.2024 from her mother's friend.
 - viii) Gift of ₹ 27,000 on 25.11.2024 from her brother's father in law.
 - ix) Gift of ₹ 1,21,000 from her husband's brother,
 - x) Gift of ₹ 23,000 from her employer.
 - xi) Scholarship of ₹ 2,20,000 from, a charitable institution registered u/s 12AB
 - xii) She has purchased an immovable property whose stamp duty value is ₹ 22,80,000 from Gita who is not her relative for a sum of ₹ 22,60,000.
- Compute her total income for the assessment year 2025-26.**
8. **Mr. V asks you to compute his taxable income from the following transactions which took place with his friends during January 2025:**
- i) Cash gifts received during the year from Mr. X and Mr. Y: ₹ 30,000 each;
 - ii) Two flats gifted to him by Mr. S and Mr. T: Stamp Value ₹ 4,00,000 and ₹ 50,000 respectively;
 - iii) He purchased a plot of land at ₹ 6,10,000 from Mr. A, which was not registered, but the prevalent stamp value of which was ₹ 6.6 lakh;
 - iv) A gold ring and a painting worth ₹ 30,000 and ₹ 35,000 respectively gifted by Mr. M and Mr. N;
 - v) A gold biscuit purchased by him at ₹ 10 lakh from Mr. P, when prevalent market value is ₹ 10.3 lakh and shares and securities purchased by him at ₹ 2.5 lakh from Mr. L, when fair market value thereof was ₹ 2.8 lakhs.
9. **X receives the following gifts during the PY 2024-25:**
- a) On April 10, 2024, he gets a gift of ₹ 25,000 from his friend A.
 - b) On May 1, 2024, he gets another gift of ₹ 500 from his friend A.
 - c) On June 1, 2024, he gets a gift of ₹ 26,000 from C, who is cousin of his father.
 - d) On July 8, 2024, he gets a gift of ₹ 5,000 from D, who is elder brother of his grandfather.
 - e) On July 20, 2024, he gets a gift of ₹ 41,000 from his grandmother.
 - f) On the occasion of marriage of X, he gets ₹ 1,90,000 as gift on July 31, 2024 (out of which ₹ 1,00,000 is received from different relatives of X and Mrs. X and remaining amount is received from friends of X and Mrs. X).
 - g) A computer received from his employer (it was purchased for ₹ 40,000 by the employer on May 1, 2024 and given as gift on August 20, 2024).
 - h) On September 6, 2024, he gets ₹ 80,000 from a notified public charitable institution.
 - i) X receives ₹ 5,40,000 on September 30, 2024 under will of a person known to him.
 - j) On October 10, 2024, he gets a gift of ₹ 40,000 from his friend.
 - k) On December 12, 2024, he purchases a work of art for ₹ 72,000 from an exhibition in Chennai (the fair market value of the work of art on the date of purchase is ₹ 2,00,000).
 - l) On March 31, 2025, he gets a birthday gift by cheque of ₹ 11,000 from his friend.

Compute the amount chargeable to tax in the hands of X under the head "Income from other sources" for the AY 2025-26.

10. X holds the following securities on April 1, 2024:

₹ 1,48,000 10% securities of the Tamil Nadu Government and ₹ 40,000 5% non – listed debentures of ABC Ltd. Interest in both the cases is payable on December every year. On August 1, 2024, X borrows ₹ 20,000 at 7 per cent per annum and invests it in purchasing ₹ 20,000, 7.5 per cent securities of the Central Government [due date of interest; March 15 every year; interest due on March 15, 2025 is received on April 2, 2025]. Interest on borrowing for the period ending March 31, 2025 is, however, paid by X on April 15, 2025. His business income is ₹ 7,86,000.

Determine the **taxable income of 'X' for the AY 2025-26** under the following situations:

- X maintains books of account on "mercantile" system, and
- X maintains books of account on "cash" basis.

11. R, a resident individual, submits the following particulars of his income for the year ended 31.3.2025:

- Royalty from a Diamond mine ₹ 20,000.
- Agricultural income in Sri Lanka ₹ 15,000.
- Salary as a MP ₹ 36,000
- Daily allowance as M.P. ₹ 5,000
- He has taken a residential house has been taken on a rent of ₹ 10,000 p.a., half of which is sublet at ₹ 1,200 p.m.
- Dividend received from a cooperative society ₹ 6,000.**
- He has incurred the following expenses —
 - Paid collection charges ₹ 200 for collecting dividends
 - ₹ 2000 spent for earning and collecting royalty income

Compute R's income from other sources for the assessment year 2025-26.

12. J furnishes the following particulars relating to his house properties and other incomes and expenditure for the year 2024-25:

- A. First House:** This house is taken by him on lease for 10 years which is let to a tenant, for his residence, at a monthly rent of ₹ 2,400. He has incurred the following expenses during this year :
- | | |
|--|-------------------|
| Lease rent | ₹ 1,000 per month |
| Salary of Durban | ₹ 200 per month |
| Interest on loan taken to pay for the acquisition of the lease | ₹ 200 per month |
- B. Second House:** This house was constructed by him in 1990, but was transferred to his wife in 1994 out of love and affection. He, however, continues to stay in this house with his wife till date. He has taken a loan for the construction of this house for which interest of ₹ 6,000 becomes due for the year, but had not been paid by him. He has paid repair expenses of ₹ 1,000 during the year.
- C.** Taxable income from business for this year amounts to ₹ 64,000.

Compute gross total income of J for the AY 2025-26

13. Ms. Rupali furnishes the following details for the AY 2025-26:

Particulars	Amount (₹)
Net Agricultural Income in India	4,800
Net agricultural income from land in Sri Lanka	10,000
Profit on sale of agricultural land situated in Mangalore City	25,00,000
Vacant land – ground rent received	12,000
Rent received on sub – letting house	37,500
Rent payable for house sub let	15,000
Maintenance expenses on house sublet	1,200
Directors sitting fees	3,600
Interest on Deposits with nationalized bank	1,000

Interest on Postal savings – bank account	1,200
Interest credited to PPF account	6,000
Interest accrued but not received on NSC VIII Issue	1,050
Interest received under Post Office Monthly Income Scheme	12,000
Interest on deposits with HDFC	900
Interest on securities (gross)	5,000
Dividends received from Indian Companies (gross)	12,000
Bank Charges for collection of above dividend	100
Dividend received from foreign companies	20,000
Interest paid on amount borrowed to invest in shares of foreign co.	8,600
Gift received from a Charitable Institution registered u/s 12AB	55,000
Gift from a friend in foreign currency	50,001
Gift from another friend in Indian currency	500
Winnings from Lottery (Net of Tax of ₹ 30,000)	70,000
Cost of Lottery Tickets purchased during the year	5,300

Debenture Interest on 10% debentures of ABC Ltd. of Face Value of ₹ 1,00,000 (due half yearly on 30.9 and 31.3.) but received on 15.4.2025. **Compute the taxable income from other sources of Ms. Rupali, who is following mercantile system of accounting.**

14. From the following particulars, compute Gross Total Income of Radha for AY 2025-26:

- (i) She is employed on a part time basis in a fashion – designing firm on a monthly salary of ₹ 15,000.
- (ii) She has a house property situated in Delhi which has been let out at a rent of ₹ 3,000 p.m.
- (iii) She holds the following shares and securities:
 - a. **1,000 Equity shares in X Ltd. of ₹ 10 each, bought @ ₹ 40 per share.**
 - b. ₹ 20,000, 8% ICICI Bonds.
 - c. 1,000, 12% Preference shares of ₹ 100 each in Rosa Ltd. **Dividend received on 25th March, 2025.**
 - d. **X Ltd. declared 18% equity dividend on 25th March, 2025, but the cheque was received subsequent to 31st March, 2025.** Other interest and dividends were, however, duly received.
- (iv) She had set up a factory with building, plant, machinery, furniture, etc. However, she decided to give it on hire at a composite rent of ₹ 12,000 p.m.

During the year, she spent ₹ 15,000 for repairs and ₹ 5,000 for insurance of the factory. The depreciation allowable is ₹ 50,000. She had borrowed ₹ 5,00,000 against mortgage of these assets and paid ₹ 60,000 interest thereon. The amount was spent for marriage of her brother.

15. Mr. 'M' a Government Servant, died on 11.5.2009 whilst still being in service. In terms of the rules governing his service, his widow Mrs. M, is paid, a Family Pension of ₹ 2,950 p.m. and Dearness Allowance of 30% thereof. For the AY 2025-26, is Mrs. M assessable on the receipt and if so, under what head of income? Is she entitled to any relief or deduction on the above sum? Discuss.

16. Mr. B, a defence personnel, was killed in a war. His wife was paid an ex-gratia payment of ₹ 1,00,000 in February, 2025. She also received the family pension of ₹ 7,500 per month during the year 2024-25. Advise her on the taxability of receipts.

17. M/s. Rama InfoTech Ltd. has taken a Keyman insurance policy for a sum of ₹ 25 lakhs in the name of Mr. Rakesh, who is heading the software division of the company. The annual premium paid by the company towards the policy is ₹ 2 lakhs. Examine the tax consequence assuming that the maturity proceeds are received by:

- i) Mr. Rakesh;
- ii) company;
- iii) assigned to Mrs. Rakesh.

SOLUTION – SET B

1. Computation of income under the head 'Income from other sources'		₹	₹
General incomes [Section 56(1)]			
Directors Fee from a Company			10,000
Interest on bank Deposits			3,000
Income from undisclosed source			12,000
Royalty on a book written by him	9,000		
Less: Expenses	<u>1,000</u>	8,000	
Lectures in Seminars			5,000
Interest on loan given to a relative			7,000
Interest on Debentures of a Company (listed in a Recognized Stock Exchange) Net of Taxes (as per W.N. 1)			7,000
Interest on Post Office Savings Bank Account	500		
Less: Exempt u/s 10	<u>500</u>	Nil	
Interest on Government Securities			2,200
Interest on Monthly Income Scheme of Post office			33,000
Specific incomes [Section 56(2)]			
Winnings from Lotteries (Gross)			<u>50,000</u>
Income from other sources			<u>1,37,200</u>
Working Notes:			
1. Interest on Debentures of a Company (Listed in a Recognized Stock Exchange) Net of Taxes		₹ 6,300	
Add: TDS			
₹ 6,300 x 10/(100 - 10)		₹ 700	
Gross Amount			<u>₹ 7,000</u>

2. Computation of taxable income of Mrs. Rashmi from gifts for A.Y. 2025-26		
Relationship	Taxability amount ₹	Reason for taxability or otherwise of each gift
Relatives and friends	Not Taxable	Gifts received on the occasion of marriage are not taxable.
Cousin of Mrs. Rashmi's mother	18,000	Cousin of Mrs. Rashmi's mother is not a relative. Hence, the gift is taxable.
Employer	Nil	Taxable Under the head Salary
Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the gift is taxable.
Friend	<u>2,000</u>	Gift from friend is taxable.
Aggregate value of gifts	45,000	

Since the aggregate value of gifts received by Mrs. Rashmi during the **previous year 2024-25** does not exceed ₹ 50,000, the same is not chargeable to tax under section 56(2)(x) of the Income-tax Act, 1961.

3. Computation of total income of Ram Mohan (All Amount in ₹)		
Income from house property		72,000
Income from other sources		
Gift from his friend on his birthday	12,000	
Gift from his fiancée	85,000	
Gift from Ms mother's friend on his engagement	28,000	
Gift from his sister	Not Taxable	
Interest on bank deposits	30,000	
Dividends from shares of various companies	<u>13,200</u>	168,200
Total income		240,200

- 4.
- any sum of money received from relatives is fully exempt from tax and therefore, ₹ 1,00,000/- is fully exempt.
 - exemption for any sum received from trust, institution is applicable only where such trust or institution is covered by sections 10(23C) or 12AB. In the given case, entire sum of ₹ 50,000/- is chargeable to tax as it is an unregistered charitable institution.
 - ₹ 1,50,000/- is chargeable to tax.
 - Any sum received in contemplation of death of the payer shall be exempt from tax. Accordingly, ₹ 2,00,000/- shall be exempt.
 - To sum up, Mr. Ashok is chargeable to tax for a sum of ₹ 2,00,000/- under the head income from other sources. The entire sum of ₹ 2,00,000/- is chargeable as the aggregate of the sum received during the year exceeded ₹ 50,000/-.
5. Gifts received on the occasion of marriage of an individual is fully exempt irrespective of whether the donors are relatives or not. Therefore, Raman cannot be taxed in respect of the gifts received on the occasion of the marriage. As regards land registered one month after marriage is not taxable because the gift has been received from a relative.
6. Where an immovable property is acquired for an inadequate consideration, the same is covered in the scope of taxability u/s 56. In the given case, difference of ₹ 30,00,000 will be taxable as a gift **as it exceeds higher of 110% of the consideration or ₹ 50,000.**

Whereas in the second transaction, the taxability does not arise as the assessable value of land is less than ₹ 50,000 though the land is received without Consideration.

7.

	₹	₹
Income under the head salary		
Salary ₹ 30,000 x 12	3,60,000	
Add : Cash gift from employer	23,000	
	3,83,000	
Less : Standard deduction u/s 16(ia)	50,000	3,33,000
Income from other sources		
(i) Gift from a friend is taxable	5,00,000	
(ii) Gift of jewellery is taxable	4,00,000	
(iii) Gifts received from her 4 friends are exempt as they have been received on the occasion of her marriage	—	
(iv) Gift from her mother's sister is exempt as the donor is covered in the definition of relative	—	
(v) Gift from her father's brother is exempt as the donor is covered in the definition of relative	—	
(vi) Gift of ₹ 40,000 from her husband's friend on 1.11.2024 is taxable.	40,000	
(vii) Gift of ₹ 21,000 from her mother's friend is includible	31,000	
(viii) Gift from her brother's father in law is taxable as the donor is not covered in the definition of relative	27,000	
(ix) Gift from her husband's brother is exempt as the donor is covered in the definition of relative	—	
(x) Gift from her employer is taxable as income from salary	—	
(xi) Gift in the form of scholarship from charitable institution registered u/s 12AB	Exempt	
(xii) Purchase of immovable property – Not taxable	-	
		9,98,000
Total Income		13,31,000

8. Mr. V has received cash and various items of property which are covered by section 56(2)(x). Hence, the taxability of these amounts in view of said section is as follows -

Aggregate cash gifts exceeding ₹ 50,000 from Mr. X and Mr. Y (fully taxable, 30000 x 2)	60,000
Gift of Flat from Mr. B (fully taxable, as stamp value exceeds ₹ 50,000)	400,000
Gift of Flat from Mr. C (not taxable, as stamp value doesn't exceed ₹ 50,000)	NIL
Plot of land acquired for inadequate consideration	NIL
Aggregate value of gift of movable properties: Total value of gift of movable properties exceeds ₹ 50,000, hence, fully taxable. (30000 + 35000)	65,000
Aggregate value of inadequate consideration of movable properties: Total price paid for all movable properties ₹ 12,50,000 (10 lakh + 2.5 lakh). Total Fair market value of such movable properties ₹ 13,10,000 (10.3 lakh + 2.8 lakh). Since the difference between the two exceeds ₹ 50,000, hence, whole of the difference will be included in income.	60,000
Total Income	585,000

9.

Date	Transaction	Amount ₹	Reason
April 10, 2024	Gift from A	25,000	As aggregate gift in cash or by cheque/draft during FY 24-25 exceeds ₹ 50,000, it is chargeable to tax
May 1, 2024	Gift from A	500	As aggregate gift in cash or by cheque/draft during FY 24-25 exceeds ₹ 50,000, it is chargeable to tax
June 1, 2024	Gift from cousin of X's father	26,000	Cousin of X's father is not a "relative" of X. As aggregate gift in cash or by cheque/draft during FY 24-25 exceeds ₹ 50,000, it is chargeable to tax
July 18, 2024	Gift from elder brother of X's grandfather	5,000	Brother of X's grandfather is not a "relative" of X. As aggregate gift in cash or by cheque/draft during FY 24-25 exceeds ₹ 50,000, it is chargeable to tax
July 20, 2024	Gift from grandmother	Nil	Gift from a "relative" is not taxable
July 31, 2024	Gift on the occasion of marriage of X	Nil	Gift from any person on the occasion of marriage of the taxpayer is not taxable
August 20, 2024	Gift from employer	Nil	Gift from employer is taxable under the head "Salaries"
September 6, 2024	Gift from a charitable institute	Nil	Gift from a charitable institute is not taxable
September 30, 2024	Gift under a will	Nil	Gift received by taxpayer under a will of any person is not taxable
October 10, 2024 and March 31, 2025	Gift in cash - ₹ 40,000	40,000	As aggregate gift in cash or by cheque/draft during FY 24-25 exceeds ₹ 50,000, it is chargeable to tax.
December 13, 2024	Purchase of a work of art for ₹ 72,000	1,28,000	As a work of art (fair market value: ₹ 2,00,000) is purchased for ₹ 72,000 and the difference is more than ₹ 50,000, it is chargeable to tax
March 31, 2025	Gift by cheque ₹ 11,000	11,000	As aggregate gift in cash or by cheque/draft during FY 24-25 exceeds ₹ 50,000, it is chargeable to tax.

10.

In situation (a) interest on securities is taxable on "due" basis. In situation (b), however, it is taxable on "receipt" basis, as follows:

	Situation (a) ₹	Situation (b) ₹
Securities of Tamil Nadu Government (i.e., ₹ 1,48,000 x 10/100)	14,800	14,800
Non-listed debentures of ABC Ltd. [i.e., ₹ 40,000 x 5/100]	2,000	2,000
Central Government securities (i.e., instalment of interest due on March 15, 2025, **not taxable in situation (b) as interest is not actually received)	1,500*	—**
Gross interest	18,300	16,800
Less: Interest due* on ₹ 20,000 @ 7% per annum from August 1, 2024 to March 31, 2025, **not deductible as it is not paid in the previous year 2024-25	933*	—**
Net Interest (taxable) u/h IFOS	17,367	16,800
Business income	7,86,000	7,86,000

Gross total income	8,03,367	8,02,800
Less : Deductions under sections 80C to 80U	Nil	Nil
Net income (rounded off)	8,03,370	8,02,800

11.

Income from other sources of Mr. R

1. Royalty from coal mine	20,000	
Less : Collection charges	2,000	18,000
2. Agricultural Income in Sri Lanka		15,000
3. Salary as MP		36,000
4. Daily allowance	5,000	
Less : Exempt	5,000	Nil
5. Dividend from a Co-operative Society	6,000	
Less : Collection charge	NIL	6,000
6. Income from sub-letting	14,400	
Less : Rent paid (50%) .	5,000	9,400
		84,400

12.

Computation of Gross Total Income of J (amounts in ₹)

Income from House Property :		
Net Annual Value of Self-occupied House II	Nil	
Less: Interest on accrual basis	6,000	(6,000)
Profits and Gains from Business or Profession		64,000
Income from other sources :		
Rent of House I (2,400 x 12)	28,800	
Less : Lease rent (1,000 x 12)	(12,000)	
Salary of Durban (200 x 12)	(2,400)	
Interest on loan taken to pay for the acquisition of the lease (200 x 12)	(2,400)	12,000
Gross Total Income		70,000

Notes:

- House II:** J is deemed to be the owner of House II, as the same had been transferred to his wife without adequate consideration. Hence the same is taxable in his hands.
- House I:** Since House I has been taken on lease for 10 year, therefore J is not deemed to be owner of this house. Deemed ownership arises when the lease is taken for 12 years or more. Therefore, income for House I is other sources income.

13. Computation of income from other sources of Ms. Rupali

Particulars	Refer Note	₹	₹
Net Agricultural Income in India	1		Nil
Net agricultural income from land in Sri Lanka	2		10,000
Profit from sale of agricultural land situated in Mangalore City	3		N.A.
Vacant land -ground rent received	4		12,000
Rent received on sub-letting house		37,500	
Less: Rent payable for house sub let		(15,000)	
Maintenance expenses on house sublet		(1,200)	21,300
Directors sitting fees			3,600
Interest on Deposits with nationalized bank			1,000
Interest on Postal savings bank account	5		Nil
Interest credited to PPF account	6		Nil
Interest accrued but not received on NSC VIII Issue	12		1,050
Interest received under Post Office Monthly Income Scheme			12,000
Interest on deposits with HDFC			900
Interest on securities (gross)			5,000
Dividends received from Indian Companies	7		12,000
Dividend received from foreign companies	8	20,000	
Less: Interest paid on amount borrowed (Maximum 20%)		(4,000)	16,000
Gift received from a Charitable Institution registered under section 12AB – Exempt Sec. 56(2)(x)	9	Nil	
Gift from a friend in foreign currency		50,001	

Gift in Indian currency		500	50,501
Winnings from Lottery (gross)	10		1,00,000
Debenture Interest on 10% debentures of ABC Ltd. of Face Value of ₹ 1 lakh.	11		10,000
Taxable income from other sources			2,55,351

Notes:

1. Agricultural income derived from land situated in India is exempt from income tax u/s. 10(1).
2. Agricultural income from land situated outside India is not covered by exemption u/s. 10(1) and therefore, ₹ 10,000 agricultural income from Sri Lanka is taxable.
3. Agricultural income derived in India is exempt. However, sale of agricultural land in a specified area is covered by definition of capital asset u/s. 2(14). Therefore, such gains shall be subject to tax under the head "Capital gains". As it is not taxable under the head "Income from other sources" it is not included in the computation.
4. Rent received from letting out of land and sub-lease is not chargeable to tax under the head "Income from House Property". However, it is taxable under income from other sources. Accordingly, expenses in connection with earning this income have been claimed as deduction u/s. 57.
5. Interest on postal saving bank account is exempt u/s. 10(15)
6. Interest of ₹ 6,000 is claimed as exemption u/s 10(11).
7. **Dividend from domestic companies are now subject to tax.** The related interest expenditure only is allowable as deduction u/s. 57. No Deduction for Bank charges.
8. Dividend from foreign companies is subject to tax. **The related interest expenditure is allowable as deduction u/s 57 to the extent of 20% of such dividend income.**
9. Gift received from charitable institutions/associations which are covered by exemption u/s 10(23C) or Sec.11, are exempt- Sec. 56(2)(x).
10. Gift received from non-relatives aggregate of which does not exceed ₹ 50,000 are not chargeable to tax. In the given case, the amount of gift received is ₹ 50,501. Therefore, the whole of such gift is chargeable without any exemption.
11. Any expenditure incurred in relation to lottery winnings are not allowable as deduction u/s. 58. Therefore, ₹ 5,300 is not allowable as a deduction.
12. Interest accrued and due on NSC and debentures are taxable even though assessee has not received such interest, since she is following mercantile system of accounting.

14.

Computation of Gross Total Income of Radha (amounts in ₹)

Income from Salaries (15,000 x 12 – 50,000)	130,000
Income from House Property (Rent of 3,000 x 12 - 30% Standard deduction)	25,200
Income from other sources :	
Interest on 8% ICICI Bonds (20,000 x 8%)	1,600
Dividend on 12% Preference shares of Rosa Ltd. (1,000 x 100 x 12%)	12,000
Dividend on 18% equity shares of X Ltd. (1,000 x 10 x 18%)	1,800
Composite rent of Building, Plant and Machinery etc. (12,000 x 12)	144,000
Less : Expenses on repairs and insurance of the factory	(20,000)
Depreciation allowable	(50,000)
Gross Total Income	244,600

15. Hint: ₹ 46,020 – ₹ 15,000 = ₹ 31,020.

16. The family pension of ₹ 90,000 (₹ 7,500*12) received by the widow is exempt by virtue of section 10(19) as the death has occurred in course of operational duties and assuming that he died in prescribed circumstances. If he does not died in prescribed circumstances, family pension shall be chargeable to tax to the extent of ₹ 75,000 (₹ 90,000 - ₹15,000, by virtue of section 57).

According to CBDT Circular, any lump sum ex-gratia payment by the Central or state Government or local authority or public sector undertaking, to the widow or other legal heirs of an employee, who dies while in active service will not be taxable as income. Hence, ₹ 1,00,000 is not taxable.

17. Section 2(24) treats the maturity proceeds of the Keyman insurance policy as income in the hands of the recipient. Exemption provided u/s.10(10D) for life insurance policy maturity proceeds is not available to Keyman insurance policy proceeds.

The tax consequence in all the 3 cases shall be as under:

- i) If the maturity proceeds are received by Mr. Rakesh, the same will be treated as profits in lieu of salary u/s. 17(3) and chargeable to tax under the head "Salaries".
- ii) If the maturity proceeds are realized by the company it is treated as business income and chargeable to tax u/s. 28.
It requires mention that, the company is entitled to deduction in respect of premium paid every year as business expenditure in the respective year.
- iii) If the maturity proceeds are received by Mrs. Rakesh, the same will be treated as her income and charged to tax under the head 'Income from other sources' by virtue of Sec. 56.

INCOME UNDER THE HEAD OF “CAPITAL GAINS”

[Section 45 to Section 55A]

Assessment Year 2025-26 [Previous Year 2024-25]
Amended by the Finance (No. 2) Act, 2024



[Page 8.3, 8.4, 8.5, 8.9, 8.12, 8.25, 8.28, 8.29, 8.30, 8.31, 8.32, 8.35 & 8.36 are amended]

SECTION 45(1) – CHARGING SECTION

Any **profits or gains** arising from the **TRANSFER** of a **CAPITAL ASSET** effected in the **PREVIOUS YEAR** shall be chargeable to income tax under the head “Capital Gain” and shall be **deemed to be the income of Previous Year in which the transfer took place**.

DEFINITION OF CAPITAL ASSET [Section 2(14)]

Capital Asset means

- (a) **property of any kind** held by an assessee, whether or not connected with his business or profession,
- (b) any **securities held by a Foreign Institutional Investor (FII)** which has invested in such securities as per SEBI Regulations
- (c) **any Unit Linked Insurance Policy to which exemption under clause (10D) of section 10 does not apply due to applicability of the fourth and fifth provisos thereof.**

but excludes

- **any stock-in-trade (other than securities referred in (b) above), consumable stores or raw materials held for the purpose of the business or profession of the assessee;**
- **PERSONAL EFFECTS**, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him,

Excluding (i.e. these are capital Assets):

a) Jewellery	b) Drawings	c) Sculptures
d) Archaeological Collections	e) Paintings	f) Any work of art

- **Agricultural land situated in Rural Area**
- **Specified Gold Bonds, Special Bearer Bonds 1991, Gold Deposit Bonds 1999 or Deposit Certificates issued under the Gold Monetisation Scheme 2015 notified by the CG**

Definition of Rural Area:

Rural area means any area which is outside the jurisdiction of a municipality or cantonment board having a population of 10,000 or more **and also which does not fall within distance given below –**

Shortest aerial distance from the local limits of municipality/ cantonment board	Population according to the last preceding census of which the relevant-figures have been published before the first day of the previous year
2 km	If the population is more than 10,000 but not more than 1 lakh
6 km	If the population is more than 1 lakh but not more than 10 lakh
8 km	If the population is more than 10 lakh

For Section 50 (CG on Depreciable Assets) – Refer Depreciation Notes/Class

Page 8.45 to 8.55 are extra in CMA Inter Syllabus as compare to CA Inter Syllabus

Examine the taxability under the head CG in following independent cases for AY 2025-26:

- (a) Mr. A sells gold deposit bonds on 1-7-2024 for ₹ 11 lakh. The bonds were acquired on 1-3-2008 for ₹ 7,50,000.
- (b) Mrs. B, a painter, sells the paintings made by him for ₹ 45 lakhs on 1-10-2024.
- (c) Mr. X, a jewellery dealer, sells jewellery on 1-7-2024 for ₹ 15,30,000, which was acquired on 1-5-2011 for ₹ 9,35,000.
- (d) Mr. Y sells his personal furniture on 1-6-2024 for ₹ 40,000, which was acquired on 1-7-2010 for ₹ 90,000. The expenses on transfer are 2% of selling price.
- (e) Mr. Z sells his personal residential house on 01-04-2025 for ₹ 12,50,000, which was acquired by him on 1-4-2007 for ₹ 7,50,000.

Treatment of Agricultural Land

The Explanation to Section 2(1A) clarifies that Capital Gains arising from transfer of any agricultural land situated in any non-rural area (Urban Area) will not constitute agricultural revenue within the meaning of Section 2(1A) for the purpose of exemption under section 10(1). Hence, such gains would be liable to tax under Section 45.

DEFINITION OF TRANSFER [SECTION 2(47)]**“TRANSFER”, IN RELATION TO A CAPITAL ASSET, INCLUDES:**

- i) Sale, Exchange or Relinquishment of the asset or Extinguishment of any rights therein; or
- ii) Reduction of Share Capital; or
- iii) Compulsory Acquisition thereof under any law; or
- iv) Conversion of Capital Asset into Stock In Trade [SIT] of a business; or
- v) Maturity or Redemption of a Zero Coupon Bond; or
- vi) Allowing of the possession of any immovable property in part performance of a contract under section 53A of the Transfer of Property Act, 1882 [**Part-performance of the contract**]; or
- vii) Any transaction (*whether by way of becoming a member of, or acquiring shares in, a co-operative society, company or other AOPs or by way of any agreement or any arrangement or in any other manner whatsoever*) which has the effect of transferring or enabling the enjoyment of any immovable property.

[POH will be counted from date of allotment of shares/membership and not from the date of allotment of immovable property]

TAX POINTS: **Redemption of Preference Shares:**

- a) Redemption of Preference Shares by the Company is a relinquishment of ownership by the Shareholder and the same is regarded as Transfer u/s 2(47).
- b) The nature of Capital Gain on such redemption depends upon the holding period of the Shareholder.

**NATURE OF CAPITAL ASSETS**

Section 2(29AA): Long-term capital asset means a capital asset which is NOT a short-term capital asset.

Section 2(42A): Short-term capital asset means a capital asset held by an assessee **for not more than 36 months** immediately **preceding the date of its transfer**.

In case of **unlisted equity or preference shares; Land or Building or Both**, period of 36 months is replaced by 24 Months.

However, w.e.f. 23.7.2024, a capital asset will be a short-term capital asset if it is held by an assessee for **not more than 24 months** immediately preceding the date of its transfer.

However, in case of following financial assets, period of holding is 12 months:

- a) A Securities ~~(other than Unit)~~ (amended w.e.f. 23.07.2024) listed in a recognized stock exchange in India;
- b) Units of an Equity Oriented Fund;
- c) Units of UTI / Zero Coupon Bond;

Tax Points:

- a) An asset **held exactly for 36/24/12 months will be a STCA**.
- b) For computing the period of 36/24/12 months, the date on which the asset was acquired is to be included while the date on which the asset is transferred is to be excluded.
- c) In the case of transfer of a depreciable asset (WDV Method), Capital Gain (if any) **is taken as STCG, irrespective of period of holding**.
- d) **[Section 50AA] Capital gains arising from transfer of**
 - market linked debentures;
 - units of a specified mutual fund;
 - **unlisted bond and unlisted debenture which is transferred or redeemed or matures on or after 23.7.2024;**

would always be capital gains arising from transfer of short term capital assets irrespective of the period of holding of such assets.

[Amended by the Finance (No. 2) Act, 2024]

TYPE OF CAPITAL GAINS

Short-Term Capital Gains: Gain arising on transfer of STCA [Section 2(42B)]

Long-Term Capital Gains: Gain arising on transfer of LTCA [Section 2(29B)]

Cost of Acquisition:

Cost of Acquisition of assets is the value for which it was acquired by the assessee. Expenses of capital nature for completing or acquiring the capital assets are includible in the COA. COA will include the followings:

(a) **Purchase Price**

(b) **Registration charges**

(c) **Brokerage/Commission paid on acquisition of assets**

(d) **any other expenses of similar nature**

Cost of Improvement:

COI is capital expenditure incurred by an assessee in making any additions/improvement to the capital assets. It also includes any expenditure to protect or complete the title to the capital assets or to cure such title. In other words, any expenditure incurred to increase the value of the capital asset is treated as COI.

COST INFLATION INDEX

<u>FY</u>	<u>CII</u>	<u>FY</u>	<u>CII</u>
2001-02	100	2013-14	220
2002-03	105	2014-15	240
2003-04	109	2015-16	254
2004-05	113	2016-17	264
2005-06	117	2017-18	272
2006-07	122	2018-19	280
2007-08	129	2019-20	289
2008-09	137	2020-21	301
2009-10	148	2021-22	317
2010-11	167	2022-23	331
2011-12	184	2023-24	348
2012-13	200	2024-25	363



SECTION 48 - MODE OF COMPUTATION OF CAPITAL GAINS

Computation of Short Term Capital Gains		
Full value of Consideration		xxxx
Less: Expenditure incurred wholly and exclusively in connection with such a transfer [Cost of Transfer - COT]		xxxx
Net Sales Consideration		xxxx
Less: Cost of Acquisition (as defined in Section 49, 51 and 55) [COA]	xxxx	
Less: Cost of Improvement [COI]	xxxx	xxxx
Gross Short Term Capital Gain		xxxx
Less: Exemption u/s 54B or 54D		Xxxx
Taxable STCG		Xxxx

Computation of Long Term Capital Gains		
Full value of Consideration		Xxxx
Less: Expenditure incurred wholly and exclusively in connection with such a transfer [COT]		Xxxx
Net Sales Consideration		Xxxx
Less: Indexed Cost of Acquisition [ICOA]	xxxx	
Less: Indexed Cost of Improvement [ICOI]	xxxx	Xxxx
Gross Long Term Capital Gain		Xxxx
Less: Exemption U/s 54 / 54B / 54D / 54EC / 54F etc.		Xxxx
Taxable LTCC		Xxxx

Note: Benefit of Indexation is available in case Long-Term Capital Assets is transferred before 23.07.2024.

$$\text{ICOA means} = \text{COA} \times \frac{\text{CII for the year in which asset is transferred}}{\text{CII for the P.Y. in which the asset was first held by the assessee or CII for the year of 2001-02, whichever is later.}}$$

However as per the view expressed by Bombay High Court in **CIT v. Manjula J. Shah**, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner.

$$\text{ICOI means} = \text{COI} \times \frac{\text{CII for the year in which asset is transferred}}{\text{CII for the year in which the improvement to the asset took place}}$$

Note: Cost of acquisition of the asset or the cost of improvement thereto would NOT include the deductions claimed on interest under section 24(b) or under the provisions of Chapter VI-A.

Cases where Benefit of Indexation is Not Available even in case of Long-Term Capital Assets:

- Transfer of a bond or a debenture other than Capital Indexed Bonds issued by the Government OR Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme 2015.
- Transfer of undertaking or division in a **Slump Sale under Section 50B.**
- Transfer of shares/debentures of an Indian company **purchased by a Non-Resident in foreign currency.**
- Transfer of Depreciation Assets** (other than an asset used by a power generating unit eligible for depreciation on SLM basis)
- If any LTCA is transferred on or after 23.07.2024**

First Proviso to Section 48 [Capital Gain to Non Resident]**Benefit of Currency Conversion**

In case of a Non-Resident, the capital gains (long term or short term) arising from the transfer of **Shares or debentures held in an Indian company** (not applicable on Units) shall be computed as under:

Convert the COA, COT and sales consideration in to the same foreign currency as was initially utilized in the purchase of such shares or debentures and then capital gains so computed (**without indexation**) in foreign currency shall be converted into Indian currency (It is mandatory).

Particulars	Conversion rate	What computation is done
Full Value of consideration	Average exchange rate as on date of transfer.	Sale consideration in Indian currency is converted into foreign currency.
Less: Expenses incurred wholly and exclusively on transfer	Average exchange rate as on date of transfer.	Expenditure in Indian currency to be converted into foreign currency.
Less: Cost of acquisition (No indexation benefit is available)	Average exchange rate as on date of acquisition.	Cost of acquisition in Indian currency is converted into foreign currency.
Resultant Capital Gains	Telegraphic transfer buying rate on date of transfer.	Capital gains computed in foreign currency are reconverted in Indian currency.

Example:

Anthony, a non-resident, acquired 1,000 shares in A Ltd. (an Indian Company) for ₹ 20,000 by utilizing foreign currency (\$) on 18/08/2024. On 16/09/2024, Anthony sold such shares for ₹ 45,000. Expenditure on transfer is ₹ 5,000. Compute capital gain liability in the PY 2024-25.

Date	\$ Buying rate	US \$ Selling rate
18/08/2024	85	86
16/09/2024	86	88

Solution:

Since the assessee is a non-resident and shares of an Indian company were acquired by utilizing foreign currency, hence, **first proviso to Sec. 48 shall be applicable** on above transactions.

Computation of capital gain for the A.Y. 2025-26

Particulars	Working	Rate applied	Amount	Amount
Sale consideration	₹ 45,000/ ₹ 87	Av. rate as on 16/09/2024		\$517.24
Less: Expenditure on transfer	₹ 5,000/ ₹ 87	Av. rate as on 16/09/2024		\$57.47
Net Sale consideration				\$459.77
Less: Cost of acquisition	₹ 20,000/ ₹ 85.5	Av rate as on 18/08/2024	\$233.92	
Less: Cost of improvement			Nil	\$233.92
Short term Capital Gain				\$225.85
Short term capital gain	\$225.85 × ₹ 86	Buying rate as on 16/09/2024		₹ 19,423

COA IN CASE OF FOLLOWING INTANGIBLE ASSETS [SECTION 55(2)(a)]:

a) Goodwill of a business or Profession	e) Tenancy rights
b) Trade mark or Brand name associated with a business or profession, <u>or any other intangible asset</u>	f) Stage carriage permits (Route Permits)
c) Right to manufacture, produce / process any article or thing	g) Loom Hours
d) Right to carry on any business or profession	h) <u>any other right</u>

<i>Situation</i>	<i>Cost of Acquisition</i>
<i>In the case of acquisition of such asset by the assessee by purchase</i>	<i>Purchase price</i>
<i>In the case falling under sub-clauses (i) to (iv) of sub-section (1) of section 49 and where such asset was acquired by the previous owner (as defined in that section) by purchase</i>	<i>Purchase price for such previous owner</i>
<i>In any other case (including self-generated assets)</i>	<i>NIL</i>

However, in case of a capital asset, being goodwill of a business or profession, in respect of which depreciation under section 32(1) has been obtained by the assessee in any previous year (upto P.Y. 2019-20), the cost of acquisition of such goodwill (as on 1.4.2020) would be the amount of the purchase price as reduced by the total amount of depreciation (upto P.Y. 2019-20) obtained by the assessee under section 32(1).

COA WHEN THE ASSET IS ACQUIRED BEFORE 01/04/2001 [SECTION 55(2)(b)]

When an asset has been acquired by the

(a) assessee or

(b) by the previous owner from whom the asset was acquired by the assessee u/s 49(1),

before 01/04/2001, the assessee **has an option** to take either ***the actual COA*** or ***FMV of the asset as on 01/04/2001*** to be the COA for computation of CG. [Higher will be preferred]

However, in case of capital asset, being land or building or both, the fair market value of such asset on 1-4-2001 shall not exceed the stamp duty value, wherever available, of such asset as on 1-4-2001.

The option is however not available in respect of the following items:

(a) Goodwill of a Business **or Profession**, or Trade Mark or Brand name associated with a business **or Profession**, **or any other intangible asset** or Right to Manufacture, produce or process any article or thing, or Right to carry on any Business **or Profession**, or Tenancy Rights, or Stage Carriage Permits, or Loom Hours (Hours granted by govt. to weave yarn or thread), **or any other right** &

(b) Depreciable Assets

COST OF IMPROVEMENT [COI] - SECTION 55(1)(b)

a) Any COI incurred by the Assessee/Previous Owner is to be considered.

b) Any COI incurred before 01-04-2001 is to be completely ignored.

c) **COI in respect of following assets is taken at NIL:**

- **Goodwill or any other intangible asset of a Business (not profession)**
- Right to manufacture, produce or process any article or thing
- Right to carry on any business or profession
- **or any other right**

IMPORTANT

COMPUTATION OF CAPITAL GAINS IN CASE OF MARKET LINKED DEBENTURES
[SECTION 50AA]

[Amended by the Finance (No. 2) Act, 2024 - Effective from 23.07.2024]

Notwithstanding anything contained in Section 2(42A) or Section 48, where the capital asset

- a) is a unit of a Specified Mutual Fund **acquired on or after the 1st day of April, 2023;** or
- b) a Market Linked Debenture; or
- c) **is an unlisted bond or an unlisted debenture which is transferred or redeemed or matures on or after the 23rd day of July, 2024,**

the full value of consideration received or accruing as a result of the transfer or redemption or maturity of such debenture or unit **as reduced by-**

- i. the COA of the **debenture or unit;** and
- ii. the expenditure incurred wholly and exclusively in connection with such transfer or redemption or maturity (COT),

shall be deemed to be the capital gains arising from the transfer of a short-term capital asset.

However, No deduction shall be allowed in computing the income chargeable under the head "Capital gains" in respect of any sum paid on account of Securities Transaction Tax (STT).

Here:

A. **"Market Linked Debenture" means** a security by whatever name called, which has an underlying **principal component in the form of a debt security** and where the returns are linked to market returns on other underlying securities or indices and include any security classified or regulated **as a market linked debenture by the Securities and Exchange Board of India (SEBI);**

B. **"Specified Mutual Fund" means** a Mutual Fund by whatever name called, where **not more than 35% of its total proceeds** is invested in the **equity shares of domestic companies**.

Here, the percentage of equity shareholding held in respect of the Specified Mutual Fund shall be computed with reference to the **annual average of the daily closing figures**.

[There is an amendment in the definition of "Specified Mutual Fund" but the same is effective from AY 2026-27. Hence, it is NOT considered now]

SECTION 51 - ADVANCE MONEY RECEIVED & FORFEITED

Where any capital asset was, on any previous occasion, the subject matter of negotiations for its transfer and any **advance or other money** received is forfeited (retained) **by the Assessee**, then the amount so forfeited shall be deducted from,

- ✓ The cost for which the asset was acquired, or
- ✓ The FMV as on 1.4.2001 where FMV as on 1.4.2001 has been taken as COA, or
- ✓ The WDV in case of depreciable assets

as the case may be, in computing the COA.

NOTES:

- *Amount forfeited either before or on/after 1.4.2001 is to be deducted as per section 51*
- *Amount forfeited on or after 01/04/2014, will not be deducted under this Section, but it will be taxable as IOS as per New Section 56(2)(ix)*
- *Amount forfeited by previous owner is not to be deducted as per 51*
- **Travancore Rubber & tea Co. Ltd (SC):** if the money forfeited exceeds the cost, the cost shall be reduced to the extent it becomes NIL, the **excess shall be a Capital Receipt not taxable.**

Advance forfeited due to failure of negotiations for transfer of a capital asset to be taxable as "Income from other sources" [Section 56(2)(ix)]

- (i) With effect from A.Y. 2015-16, new clause (ix) has been inserted in section 56(2) to provide for the taxability of any sum of money, received as an advance or otherwise in the course of negotiations for transfer of a capital asset. **Such sum shall be chargeable to income-tax under the head 'Income from other sources', if such sum is forfeited and the negotiations do not result in transfer of such capital asset.**
- (ii) Section 51 has been amended to provide that where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, has been included in the total income of the assessee for any previous year, in accordance with section 56(2)(ix), such amount **shall not be deducted from the cost for which the asset** was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

Question:

Mr. K purchases a house property on April 10, 1998 for ₹ 35,000. The FMV of the house property on April 1, 2001 was ₹ 70,000. SDV as on 01.04.2001 is ₹ 80,000. On August 31, 2004, Mr. K enters into an agreement with Mr. J for sale of such property for ₹ 1,20,000 and received an amount of ₹ 10,000 as advance. However, as Mr. J did not pay the balance amount, Mr. K forfeited the advance. In May 2007, Mr. K constructed the first floor by incurring a cost of ₹ 50,000. Subsequently, in September 2007, Mr. K gifted the house to his friend Mr. D. On **February 10, 2025**, Mr. D sold the house for ₹ 30,00,000.

You are required to compute the capital gains taxable in the hands of Mr. D for the AY 2025-26.

Question:

Mr. X purchases a house property in December 1995 for ₹ 1,25,000 and an amount of ₹ 75,000 was spent on the improvement and repairs of the property in March 2001. The property was proposed to be sold to Mr. Z in the month of May 2003 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 the month of **May 2024** for ₹ 54,00,000. The fair value of the property on April 1, 2001 was ₹ 3,90,000. SDV as on 01.04.2001 is ₹ 4,20,000.

What is the capital gain chargeable in the hands of Mr. X for the AY 2025-26?

Section 50D – FMV as a Full Value of Consideration

Fair market value of the capital asset on the date of transfer to be taken as sale consideration, **in cases where the consideration is not determinable.**

SECTION 50C – SALE CONSIDERATION IN SPECIAL CASES

Where the consideration received (as declared) for **LAND OR BUILDING OR BOTH** is **LESS THAN** the value adopted or assessed or assessable by Stamp Valuation Authority (SVA) **then, sales consideration shall be taken to be the value so adopted or assessed or assessable by SVA.**

*Where the date of the agreement fixing the amount of consideration and the date of registration for the transfer of the capital asset are **not the same**, the value adopted or assessed or assessable by the stamp valuation authority **on the date of agreement** may be taken for the purposes of computing full value of consideration for such transfer if amount of consideration, or a part thereof, has been received by way of an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed, on or before the date of the agreement for transfer.*

The prescribed electronic modes notified are 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 as other electronic modes of payment.

Where the value adopted or assessed or assessable by the stamp valuation authority does not exceed 110% of the consideration received or accruing as a result of the transfer, the consideration so received or accruing as a result of the transfer shall, for the purposes of section 48, be deemed to be the full value of the consideration.

REFERENCE TO VALUATION OFFICER:

- ✓ **Where the assessee can claim** that the value adopted or assessed or assessable by stamp valuation authority is greater than the FMV of the property as on the date of transfer;
- ✓ and value so adopted / assessed or assessable by the Stamp Valuation Authority is **not disputed** (i.e. challenged) in any appeal / revision before any authority or Court.,
- ✓ **then A.O. may refer the case to a Valuation Officer for valuation of the capital asset.**

Different situation			Consideration
<u>Where value ascertained by a valuation officer</u>	>	Value adopted / assessed or assessable by the SVA	Value adopted / assessed or assessable by the SVA
	<	<u>Value adopted or assessed or assessable by the SVA but more than 110% of declared value</u>	<u>Value ascertained by a valuation officer Under Section 55A</u>
	<	Declared value in the ROI or 110% of declared value	Section 50C is not attracted. Therefore, declared value in the ROI will be sales consideration.

SECTION 50CA – SALE CONSIDERATION IN CASE OF TRANSFER OF UNLISTED SHARES

Where the consideration received or accruing as a result of the transfer by an assessee of a capital asset, **being share of a company other than a quoted share**, is less than the fair market value of such share determined in such manner as may be prescribed, the **value so determined** shall, for the purposes of section 48, **be deemed to be the full value of consideration** received or accruing as a result of such transfer.

Explanation-

For the purposes of this section, **"quoted share" means** the share quoted on any recognised stock exchange with regularity from time to time, where the quotation of such share is based on current transaction made in the ordinary course of business.

The provisions of this section would, however, not be applicable to any consideration received or accruing as a result of transfer by such class of persons and subject to such conditions as may be prescribed.

EXEMPTED TRANSFER [Section 47] – SOME SPECIAL CASES**HUF - Taxability of Distribution of Capital Assets on the Total / Partial Partition of HUF**

1. Distribution of Capital Asset in total or partial partition of HUF is not considered as transfer and not chargeable to capital gain tax. [Section 47(i)]
2. **Holding Period in the hands of the Transferee for the purpose of subsequent transfer [Sec 2(42A)]:**
Previous owner's holding period shall be included.
3. **Cost in the hands of Transferee [Sec 49]:** Cost to Previous owner

Example: Mr. X & sons, HUF, purchased a land for ₹ 40,000 in 2004-05. In 2009-10, a partition takes place when Mr. A, a coparcener, is allotted this plot valued at ₹ 80,000. In 2012-13, he had incurred expenses of ₹ 1,85,000 towards fencing of the plot. Mr. A sells this plot of land for ₹ 15,00,000 in May 24 after incurring expenses to the extent of ₹ 20,000. You are required to compute the capital gain for the A.Y. 2025-26.

Financial year	Cost Inflation Index
2004-05	113
2009-10	148
2012-13	200
2025-26	363

Solution:

Computation of taxable capital gains for the A.Y. 2025-26

Particulars	₹	₹
Sale consideration		15,00,000
Less: Expenses incurred for transfer		<u>20,000</u>
Less:		14,80,000
(i) Indexed cost of acquisition ($₹ 40,000 \times 363/148$)	98,108	
(ii) Indexed cost of improvement ($₹ 1,85,000 \times 363/200$)	3,35,775	4,33,883
Long term capital gains		10,46,117

Note - As per the view expressed by Bombay High Court in CIT v. Manjula J. Shah, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y. 2004-05.

GIFT - Taxability of Transfer of Capital Assets under Gift / Will/ Irrevocable Trust

- (A) **Transfer of Capital Asset under Gift / Will/ Irrevocable Trust by an Individual/HUF is not considered as transfer and not chargeable to capital gain tax Under Section 47(iii) in the hands of Transferor.**

a) **Conditions to be fulfilled:** Any Capital Assets transferred by Individual or HUF other than Shares, Debentures or Warrants allotted directly or indirectly under ESOP shall be transferred.

[Amended by the Finance (No. 2) Act, 2024]

b) **Holding Periods in hands of the Transferee in case of subsequent transfer [Sec 2(42A)]:** Previous owner's holding period shall be included.

c) **Cost in the hands of Transferee [Sec. 49]:** Cost to Previous Owner.

- (B) **COA/POH for Transferee where GIFT is taxable u/h IOS:**

COA [Section 49(4)]: However where the capital gain arises from the transfer of a property, the value which has been subject to Income-Tax under section 56(2)(x) in the hands of recipient, the **COA** of such property shall be deemed to be the value [FMV/SDV] which has been taken into account for the purpose of the said Section 56(2)(x). [Previous owner cost has to be ignored]

POH: Further, POH in the hands of transferee will be started from the date of Gift in the hands of transferee.

TAXABILITY OF TRANSFER BY WAY OF CONVERSION OF BONDS/DEBENTURES ETC. OF A COMPANY INTO SHARES/DEBENTURES OF THAT COMPANY:

1. Such transfer is exempted transfer u/s 47(x).
2. **COA** of such shares / debenture for subsequent transfer: Cost of that part of the debenture, bond, debenture stock or deposits certificate, which is so converted.
3. **POH** of such converted shares or debentures shall include the period for which the bond, debentures etc was held by the assessee before conversion.

Example: Mr. B purchased convertible debentures for ₹ 5,00,000 during August 2008. The debentures were converted into shares in September 2012. These shares were sold outside stock exchange for ₹ 15,00,000 in Dec, 2024. The brokerage expenses is ₹ 50,000. You are required to compute the capital gains in case of Mr. B for the assessment year 2025-26.

Financial Year	Cost Inflation Index
2008-09	137
2012-13	200
2024-25	363

Solution:

Computation of Long Term Capital Gains of Mr. B for the A.Y. 2025-26

Particulars	₹
Sale consideration	15,00,000
Less: Expenses on transfer i.e. Brokerage paid	50,000
Net consideration	14,50,000
Less: cost of acquisition	5,00,000
Long term capital gain	9,50,000

Note: For the purpose of computing capital gains, the holding period is considered from the date of purchase of convertible debenture.

Taxability of Transfer of artistic work etc to the Government etc [Section 47(ix)]

Any Transfer of artistic work, scientific work or art collection, book, manuscript, drawing, painting photographs printings etc., **to the Govt. or University or National Museums Or National Art Gallery or any other notified public museum / institution** is EXEMPTED TRANSFER.

ESOP: TAXABILITY OF TRANSFER OF SPECIFIED SECURITY/SWEAT SHARES ALLOTTED

- A. **COA:** Where the capital gain arises from the transfer of specified security or sweat equity shares allotted under ESOP Scheme as referred to section 17(2)(vi), the COST OF ACQUISITION of such SECURITY or SHARES Shall be the FMV which has been taken into account for the purposes of section 17(2)(vi) **[Section 49(2AA)]**
- B. **POH:** From the date of allotment or transfer of such specified security or sweat equity shares.

ASCERTAINMENT OF COST IN SPECIFIED CIRCUMSTANCES**SECTION 49(1) - DEEMED COST OF ACQUISITION**

Cost to previous owner deemed as cost of acquisition of asset: In the following cases, the cost of acquisition of the asset shall be deemed to be cost for which the previous owner of the property acquired it. To this cost, the cost of improvement to the asset incurred by the previous owner or the assessee must be added.

Where the capital asset became the property of the assessee:

- (i) on any distribution of assets on the total or partition of a HUF;
- (ii) under a gift or will by an individual or HUF;
- (iii)
 - a) by succession, inheritance or devolution;
 - b) on any distribution of assets on the liquidation of a company;
 - c) under a transfer to revocable or an irrevocable trust;
 - d) under any transfer of capital asset by a holding company to its wholly owned subsidiary Indian company or by a subsidiary company to its 100% holding Indian company, referred to in section 47(iv) and 47(v) respectively;
 - e) under any transfer referred to in section 47(vi) of a capital asset by amalgamating company to the amalgamated Indian company, in a scheme of amalgamation;
 - f) under any transfer referred to in section 47(vib), of a capital asset by the demerged company to the resulting Indian company, in a scheme of demerger;

(above list is not exhaustive)
- (iv) by conversion by an individual of his separate property into a HUF property, by the mode referred to in section 64(2).

Accordingly, section 2(42A) provides that in all such cases, **for determining the period** for which the capital asset is held by the transferee, the period of holding of the asset by the previous owner shall also be considered.

Previous owner means the last previous owner of the capital asset, who acquired it through the mode of acquisition other than referred above.

Conversion of Gold into Electronic Gold Receipt or vice a versa:**Transactions not regarded as transfer [Section 47(viid)]:**

Any transfer of a capital asset, being conversion of Gold into Electronic Gold Receipt issued by a Vault Manager, or conversion of Electronic Gold Receipt into Gold.

Section 49(10) – Cost of Acquisition

- A. Where a capital asset, being an Electronic Gold Receipt issued by a Vault Manager became the property of the person as consideration for transfer of Gold**

The cost of Gold in the hands of the person in whose name Electronic Gold Receipt is issued.

- B. Where Gold is released against an Electronic Gold Receipt, which became the property of the person as consideration for transfer of Electronic Gold Receipt**

The **cost of the Electronic Gold Receipt** in the hands of such person.

Determination of period of holding [Section 2(42A)]

- A. Where Electronic Gold Receipt is issued by a Vault Manager in respect of Gold deposited**

The period for which such Gold was held by the assessee prior to conversion into the Electronic Gold Receipt

- B. Where gold is released in respect of an Electronic Gold Receipt**

The period for which such Electronic Gold Receipt was held by the assessee prior to its conversion into Gold.

COA IN CASE OF FINANCIAL ASSETS

Capital asset	Cost Of Acquisition	POH Will Start From
Shares/securities originally purchased from: ➤ Primary Market (Direct from Company) ➤ Secondary Market • Transaction through brokers • Transaction between parties directly	➤ Allotment price ➤ Purchase price + Brokerage ➤ Purchase price	➤ Date of Allotment ➤ Date of Broker's note ➤ Date of Contract of sale
Right Share / Securities	➤ Offer price by the Co.	➤ Date of Allotment
Renouncement of right: ➤ For the person who renounces the right. ➤ For the person who purchased the right.	➤ Nil ➤ Offer price + Amount paid for Renouncement	➤ Date of offer ➤ Date of Allotment
Bonus shares / Securities	➤ Nil	➤ Date of Allotment

Note:

The option to take FMV as on 01-04-2001 as COA is available if such assets were acquired before 01-04-2001. [Even in case of Bonus shares]

Example:

Ms. Usha purchases 1,000 equity shares in X Ltd. at a cost of ₹ 15 per share (brokerage 1%) in January 1998. She gets 100 bonus shares in August 2000. She again gets 1100 bonus shares by virtue of her holding on February 2005. Fair market value of the shares of X Ltd. on April 1, 2001 is ₹ 25. In May 2024, she transfers all her shares @ ₹ 150 per share (brokerage 2%). Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2025-26 assuming X Ltd is an unlisted company and securities transaction tax was not applicable at the time of sale.

Cost Inflation Index for F.Y. 2001-02 : 100, F.Y. 2004-05 : 113 & F.Y. 2024-25: 363

Solution**Computation of capital gains for the A.Y. 2025-26**

Particulars	₹
1000 Original shares	
Sale proceeds (1000 × ₹ 150)	1,50,000
Less : Brokerage paid (2% of ₹ 1,50,000)	<u>3,000</u>
Net sale consideration	1,47,000
Less : Indexed cost of acquisition [₹ 25 × 1000 × 363/100]	<u>90,750</u>
Long term capital Gain (A)	<u>56,250</u>
100 Bonus shares	
Sale proceeds (100 × ₹ 150)	15,000
Less : Brokerage paid (2% of ₹ 15,000)	<u>300</u>
Net sale consideration	14,700
Less : Indexed cost of acquisition [₹ 25 × 100 × 363/100] [See Note below]	<u>9,075</u>
Long term capital Gain (B)	<u>5,625</u>
1100 Bonus shares	
Sale proceeds (1100 × ₹ 150)	1,65,000
Less: Brokerage paid (2% of ₹ 1,65,000)	<u>3,300</u>
Net sale consideration	1,61,700
Less: Cost of acquisition	<u>NIL</u>
Long term capital gain (C)	1,61,700
Long term capital gain (A+B+C)	2,23,575

Note: Cost of acquisition of bonus shares acquired before 1.4.2001 is the FMV as on 1.4.2001 (being the higher of the cost or the FMV as on 1.4.2001).

Example:

Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of ₹ 25,000. He has been offered right shares by the company in the month of August, 2024 at ₹ 140 per share, in the ratio of 2 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 September 2024. All the shares are sold by Mr. R for ₹ 300 per share in January 2025 and Mr. Q sells his shares in December 2024 at ₹ 280 per share. What are the capital gains taxable in the hands of Mr. R and Mr. Q?

Financial Year	Cost Inflation Index
2001-02	100
2024-25	363

Solution**Computation of capital gains in the hands of Mr. R for the A.Y. 2025-26**

Particulars	₹
1000 Original shares	
Sale proceeds (1000 × ₹ 300)	3,00,000
Less : cost of acquisition	<u>25,000</u>
Long term capital gain (A)	<u>2,75,000</u>
200 Right shares	
Sale proceeds (200 × ₹ 300)	60,000
Less : Cost of acquisition [₹ 140 × 200] [Note 1]	<u>28,000</u>
Short term capital gain (B)	<u>32,000</u>

Sale of Right Entitlement	
Sale proceeds (200 × ₹ 25)	5,000
Less : Cost of acquisition [Note 2]	NIL
Short term capital gain (C)	5,000
Capital Gains (A+B+C)	3,12,000

Note 1: Since the holding period of these shares does not exceed 24 months, they are short term capital assets.

Note 2: The cost of the rights renounced in favour of another person for a consideration is taken to be nil. The consideration so received is taxed as short-term capital gains in full. The period of holding is taken from the date of the rights offer to the date of the renouncement.

Computation of capital gains in the hands of Mr. Q for the A.Y. 2025-26

Particulars	₹
200 shares :	
Sale proceeds (200 × ₹ 280)	56,000
Less: Cost of acquisition [200 shares × (₹ 25 + ₹ 140)] [See Note below]	33,000
Short term capital gain	23,000

Note: The cost of the rights is the amount paid to Mr. R as well as the amount paid to the company. Since the holding period of these shares does not exceed 2 years, they are short term capital assets.

Taxability on conversion of Inventory into Capital Asset

Section 28(via)

The fair market value of inventory as on the date on which it is converted into, or treated as, a capital asset determined in the prescribed manner shall be chargeable to tax as business income.

Explanation 1A to Section 43(1)

Where a capital asset referred to in clause (via) of section 28 is used for the purposes of business or profession, the actual cost of such asset to the assessee shall be the fair market value which has been taken into account for the purposes of the said clause.

Section 49(9)

Where the capital gain arises from the transfer of a capital asset referred to in clause (via) of section 28, the cost of acquisition of such asset shall be deemed to be the fair market value which has been taken into account for the purposes of the said clause.

Explanation 1 to Section 2(42A)

In the case of a capital asset referred to in clause (via) of section 28, the period shall be reckoned from the date of its conversion or treatment.

SECTION 45 - SCOPE AND YEAR OF CHARGEABILITY OF CAPITAL GAINS**Section 45(1)**

Any **profits or gains** arising from the **TRANSFER** of a **CAPITAL ASSET** effected in the **PREVIOUS YEAR** shall be chargeable to income tax under the head “Capital Gain” and shall be **deemed to be the income of Previous Year in which the transfer took place**.

- **For Immovable Property:** The date on which conveyance deed is executed is considered
- **For Movable Property:** The date of delivery is important.

SECTION 45(1A) - COMPENSATION RECIEVED FROM INSURANCE COMPANY

Where any person receives any money or other assets from an **INSURER** on account of damage or destruction of any capital asset, **as a result of** –

1. **Flood, Typhoon, Hurricane, Cyclone, Earthquake or Other convulsion of nature; or**
2. **Riot or Civil Disturbance; or**
3. **Accidental Fire or Explosion; or**
4. **Action by an enemy/action taken in combating an enemy (whether with/without a declaration of war)**

Then, any profits or gains arising from receipt of such money or other assets shall be chargeable to income-tax under the head “Capital gains” and **shall be deemed to be the income of the such person for the previous year in which money or other asset was received**.

For the purposes of section 48, the value of any money or the FMV of other assets on the date of such receipt shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital assets.

Capital Gains = Money received and/or FMV of assets on the date of receipt	xxx
Less: [COT + COA/ICOA + COI/ICOI]	xxx

Note: if compensation is received for depreciable assets, then provisions of Section 50 shall apply.

SECTION 45(1B) – Proceeds under a Unit Linked Insurance Policy

Where any person receives, at any time during any previous year, any amount, under a **ULIP** issued on or after 1.2.2021, **to which exemption under section 10(10D) does not apply on account of** –

- i. premium payable **exceeding ₹ 2,50,000** for any of the previous years during the term of such policy; or
- ii. the aggregate amount of premium exceeding ₹ 2,50,000 in any of the previous years during the term of any such ULIP(s), in a case where premium is payable by a person for more than one ULIP issued **on or after 1.2.2021**,

then, any profits or gains arising from receipt of such amount by such person shall be chargeable to income-tax under the head “Capital gains” and shall be deemed to be the income of the such person **for the previous year in which such amount was received**. The income taxable shall be calculated in such manner as may be prescribed.

SECTION 45(2) - CONVERSION OF A CAPITAL ASSET IN TO STOCK-IN-TRADE

Capital gains arising from the transfer, by way of *conversion of a capital asset in to stock in trade* of a business carried on by assessee, **Shall be charged to tax as his income of the Previous Year in which such stock in trade is sold or otherwise transferred by him.**

Capital gains	= FMV of assets as on the Date of Conversion	xxx
	Less: [COT + COA/ICOA + COL/ICOL]	xxx

PGBP = [Consideration Received on Sale (-) FMV of assets on the date of conversion]

Important Notes:

1. Amount recorded in the books of account of the business as the value of stock-in-trade is not relevant for computing capital gain as well as PGBP.
2. Capital gain shall be computed as per provision applicable in the Previous Year in which Stock in Trade is sold.

Example:

ABC Ltd., converts its capital asset (Jewellery) acquired for an amount of ₹ 50,000 in June, 2003 into stock-in-trade in the month of November, 2012. The fair market value of the asset on the date of conversion is ₹ 2,50,000. The stock-in-trade was sold for an amount of ₹ 3,50,000 in the month of December 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2012-13	200
2024-25	363

Solutions:

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. 2012-13) 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 long-term capital gains 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	3,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	2,50,000	1,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	2,50,000	
Less: Indexed cost of acquisition (₹ 50,000 x 200/109)	91,743	1,58,257

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.

CMA Inter Exam - Extra Syllabus

**For Section 45(2A), Section 45(3), Section 45(4), Section 9B & Section 45(5A)
– Refer Page 8.48 to Page 8.51**

SECTION 45(5) – COMPULSORY ACQUISITION OF CAPITAL ASSET

In case of the transfer of capital asset by way of compulsory acquisition **OR** the transfer is the one for which, consideration is determined or approved by CG or RBI, then, capital gain shall be computed as under:

IN RESPECT OF ORIGINAL COMPENSATION

- Taxable in the Previous Year in which such compensation is **FIRST RECEIVED by the assessee (even part thereof)**.
- POH shall be taken up to the date when asset is compulsorily acquired

IN RESPECT OF ENHANCED / ADDITIONAL COMPENSATION

- Taxable in the Previous Year in which such compensations **received by the assessee**.
- Amount of Capital Gain shall be Compensation Received **less Litigation Expenses**, if any.
- Nature of capital gain shall be the same as the nature of capital gain w.r.t. the original compensation.
- The COA & COI shall be taken to be **NIL**.

Tax Note:

1. Where the Original / Enhanced Compensation is received subsequently to the death of assessee **then it is taxable in the hands of his legal heirs.**
2. Amount of compensation received in pursuance of an interim order of the court etc shall be deemed to be income chargeable under the head 'Capital Gains' in the PY in which the final order of such courts etc is made.
3. Any interest received on delayed receipt of compensation or enhanced compensation, as the case may be, shall be subject to tax under the head 'Income from Other Sources' on receipt basis.
[50% deduction is allowed u/s 57]

Question:

Mr. X, who follows the accrual system of accounting, purchased land for ₹ 25,00,000/- in June 2013. This asset was transferred to the Government by way of compulsory acquisition in September 2019 for an immediate compensation of ₹ 75,00,000/-. However, Mr. X disputed the compensation and an enhanced compensation of ₹ 20,00,000 was awarded to him by the court in November 2021. Interest accrued on this compensation as on 31st March 2024 was ₹ 4,00,000/-. The enhanced compensation was received by him in Dec 2024 along with an interest of ₹ 5,00,000, which has accrued till date. **Discuss the year of chargeability and appropriate heads of income under which the above transactions would be taxed.**

EXEMPTION OF CAPITAL GAINS**CAPITAL GAINS ON SALE OF RESIDENTIAL HOUSE [SECTION 54]****ELIGIBLE ASSESSEE – INDIVIDUAL & HUF****CONDITIONS**

- ✓ There should be a transfer of **Residential House Property** (buildings or lands appurtenant thereto)
- ✓ It must be a **Long -Term Capital Asset**
- ✓ Income from such house should be chargeable under the head “Income from house property”
- ✓ **Where the amount of capital gains exceeds ₹ 2 crore**

Where the amount of capital gain exceeds ₹ 2 crore, one residential house in India should be

- *purchased within 1 year before or 2 years after the date of transfer (or)*
- *constructed within a period of 3 years after the date of transfer.*

- ✓ **Where the amount of capital gains does not exceed ₹ 2 crore**

Where the amount of capital gains does not exceed ₹ 2 crore, the assessee i.e., individual or HUF, may at his option,

- *purchase two residential houses in India within 1 year before or 2 years after the date of transfer (or)*
- *construct two residential houses in India within a period of 3 years after the date of transfer.*

IMP: Where during any assessment year, the assessee has exercised the option to purchase or construct two residential houses in India, he shall not be subsequently entitled to exercise the option for the same or any other assessment year.

However, he can continue to claim exemption on purchase or construct of one house.

QUANTUM OF EXEMPTION

- ✓ Amount invested in Residential House **or houses** or Capital Gain, **whichever is lower.**

Note: However, if the cost of new residential house(s) exceeds ₹ 10 crores, the amount exceeding ₹ 10 crore would NOT be taken into account for exemption. It means the maximum exemption that can be claimed by the assessee u/s 54 is ₹ 10 crore.

UNUTILISED AMOUNT – CAPITAL GAIN ACCOUNT SCHEME APPLICABLE

- a) The amount not utilized before the due date of filing ROI shall be deposited before the due date of filing ROI in Capital gain Accounts Scheme. **However, the capital gain in excess of ₹ 10 crore would not be taken into account for the purpose of deposit in CGAS.**
- b) The amount should be utilized within the prescribed period.
- c) Amount not utilized within the prescribed period (3 years from the date of transfer of the original asset) shall be treated **as LTCG** of the P/Y in which the prescribed period expires.

Note: Amount utilized by the assessee for purchase or construction of new asset and the amount so deposited shall be deemed to be the cost of new asset. The deemed cost of the new asset would be restricted to ₹ 10 crores for the purpose of exemption under section 54.

POH OF NEW ASSET - 3 YEARS

3 years from the date of acquisition or construction

CONSEQUENCES OF TRANSFER OF NEW ASSET BEFORE 3 YEARS

If the new asset is transferred before 3 years from the date of its acquisition/Construction, then cost of the asset will be reduced by capital gains exempted earlier **for computing capital gains.**

CAPITAL GAINS ON TRANSFER OF AGRICULTURE LAND [SECTION 54B]**ELIGIBLE ASSESSEE – INDIVIDUAL & HUF****CONDITIONS**

- ✓ There should be a transfer of URBAN Agricultural Land.
- ✓ Such land must have been used for agricultural purposes either by the assessee **himself or his parents** or by HUF in the **2 immediately preceding years**.
- ✓ Another agricultural land (urban or rural) should be purchased **within 2 years** from the date of transfer.

QUANTUM OF EXEMPTION – LOWER OF THE TWO

- ✓ Cost of the new agricultural land or Capital Gain **whichever is lower**.

UNUTILISED AMOUNT – CAPITAL GAIN ACCOUNT SCHEME APPLICABLE

- a) The amount not utilized before the due date of filing ROI shall be deposited before the due date of filing ROI in Capital gain Accounts Scheme.
- b) The amount should be utilized within the prescribed period.
- c) Amount not utilized within the prescribed period (2 years from the date of transfer of the original asset) shall be treated as CG of the P/Y in which the prescribed period expires.

POH of NEW ASSET - 3 YEARS

3 years from the date of acquisition.

CONSEQUENCES ON TRANSFER OF NEW AGRICULTURE LAND BEFORE 3 YEARS

- ✓ If the new agricultural land is transferred before 3 years from the date of its acquisition, then **cost of the land will be reduced by capital gains** exempted earlier for computing capital gains.
- ✓ However, if the new agricultural land is a rural agricultural land, there would be **no capital gains on transfer of such land**.

Example:

Mr. Z had purchased certain urban agricultural land on 26.12.2006 for ₹ 7,50,000. The land was being used for agricultural purpose by him. This land is sold by him on 15.09.2024 for ₹ 78,50,000. He has spent ₹ 5,00,000 for acquiring an urban agricultural land on 15.10.2024 and has deposited ₹ 3,00,000 under the capital gains account scheme on 03.05.2025. Out of the spent amount deposited in Capital Gains Account Scheme, he withdrew ₹ 1,00,000 for purchasing agricultural land on 30.03.2026. The remaining amount could not be utilized by him for purchase of agricultural land upto 14.09.2026. Compute the taxable capital gain for the AY 2025-26, AY 2026-27 & AY 2027-28.

SECTION 10(37) – Exemption on CG from Agricultural Land

Eligible Assessee: Individual & HUF

Eligible Asset: Agricultural Land Situated in Urban Area

Conditions:

1. If such land, during the period of **2 years immediately preceding the date of transfer**, was being used for **agricultural purposes** by such HUF or individual **or a parent** of individual,
2. The transfer is **by way of compulsory acquisition** under any law, or a transfer the consideration for which is determined or approved by the **CG or the RBI**.
3. Compensation must have been received **on or after 01/04/2004**.
4. Compensation as well as Enhanced Compensation both will be exempt.

Capital Gains on transfer by way of compulsory acquisition of land and building of an industrial undertaking [Section 54D]

Eligible assessee – ANY ASSESSEE

Conditions to be fulfilled

- A. There must be **compulsory acquisition of land and building or any right in land or building** forming part of an industrial undertaking.
- B. The land and building should have been **used by the assessee** for purposes of the business of the industrial undertaking **in the 2 years immediately preceding the date of transfer.**
- C. The assessee must **purchase any other land or building** or **construct any building** (for shifting or re-establishing the existing undertaking **or setting up a new industrial undertaking**) **within 3 years from the date of transfer.**
- D. **CGAS Scheme**: If such investment is not made before the date of filing of return of income, **then the capital gain has to be deposited under the CGAS.**

Amount utilized by the assessee for purchase of new asset and the amount so deposited shall be deemed to be the cost of new asset.

Quantum of exemption

- **If cost of new asset $\geq$ Capital gains**, entire capital gains is exempt.
- **If cost of new asset $<$ Capital gains**, capital gains to the extent of cost of new asset is exempt.

Note: The exemption in respect of capital gains from transfer of capital asset would be available even in respect of short-term capital asset, being land or building or any right in any land or building, provided such capital asset is used by assessee for the industrial undertaking belonging to him, **even if he was not the owner for the said period of 2 years.**

Consequences of transfer of new asset before 3 years

If the new asset is transferred before 3 Years from the date of its acquisition, **then cost of the asset will be reduced by capital gains exempted earlier for computing capital gains.**

**CAPITAL GAINS NOT CHARGEABLE ON INVESTMENT IN CAPITAL BONDS
[Section 54EC]****ELIGIBLE ASSESSEE – ANY ASSESSEE****CONDITIONS**

- ✓ There should be transfer of a **LTCA being Land or building or both**.
- ✓ Such asset **can also be a depreciable asset** held for more than **24 months as the case may be**.
- ✓ The capital gains arising from such transfer should be invested in a long-term specified asset **within 6 months** from the date of transfer.
- ✓ **LONG-TERM SPECIFIED ASSET** means specified bonds, redeemable after 5 years, issued by the
 - National Highways Authority of India (NHAI) or
 - Rural Electrification Corporation Limited (RECL)

OR any bond redeemable 5 years which is to be notified by the CG in this behalf.

For this purpose, bond issued by

 - Power Finance Corporation Limited &
 - Indian Railway Finance Corporation Limited is considered as long term specified asset.

Further, there is no TDS on interest payable from these 2 bonds.
- ✓ The assessee should **not transfer or convert or avail loan or advance** on the security of such bonds for a period of **5 years** from the date of acquisition of such bonds.
- ✓ **NOTE:** In case of conversion of capital asset into stock in trade and subsequent sale of stock in trade - period of 6 months to be reckoned from the date of sale of stock in trade for the purpose of section 54EC exemption [CBDT Circular].

QUANTUM OF EXEMPTION – LOWER OF THE TWO

- ✓ Capital gains or amount invested in specified bonds, whichever is lower.
- ✓ ***Investment made during the PY in which the original assets are transferred and in the subsequent financial year does not exceed ₹ 50,00,000.***

ON VIOLATION OF CONDITIONS

In case of transfer or conversion of such bonds or availing loan or advance on security of such bonds **before the expiry of 5 years**, the **capital gain exempted earlier shall be taxed as Capital Gain** in the year of violation of condition.

Notification dated 07.04.2025:

Applicable from Dec 2025/Jan 2026 Exam onwards

Bonds redeemable after 5 years and issued on or after 1st April, 2025, by the Housing and Urban Development Corporation Limited (HUDCO) (a public financial institution notified by the Central Government), as 'long-term specified asset' for the purposes of the said section.

CAPITAL GAINS IN CASES OF INVESTMENT IN RESIDENTIAL HOUSE [SECTION 54F]**ELIGIBLE ASSESSEE – INDIVIDUAL / HUF****CONDITIONS**

1. There must be transfer of a **LONG-TERM CAPITAL ASSET, NOT BEING A RESIDENTIAL HOUSE**
2. Transfer of plot of land is also eligible for exemption
3. 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 3 years from the date of transfer.
4. Exemption under this section is available if the investment is made in One Residential House and that too the house is situated in India.
5. The assessee should **not own more than one residential house** on the date of transfer.
6. The assessee should not –
 - purchase any other residential house within a period of 2 year or
 - construct any other residential house within a period of 3 years from the date of transfer of the original asset.

QUANTUM OF EXEMPTION

If Cost of New Residential House = Net Sale Consideration of Original Asset,

Entire Capital Gain is exempt.

If cost of new residential house < Net sale consideration of original asset, only proportionate capital gains is exempt i.e.

$$\text{LTCG} \times \text{Amount invested in RESIDENTIAL HOUSE} / \text{Net consideration}$$

Note: However, if the cost of new residential house(s) exceeds ₹ 10 crores, the amount exceeding ₹ 10 crore would NOT be taken into account for exemption.

UNUTILISED AMOUNT – CAPITAL GAIN ACCOUNT SCHEME APPLICABLE

- a) The amount not utilized before the due date of filing ROI shall be deposited before the due date of filing ROI in Capital gain Accounts Scheme. **However, the net consideration in excess of ₹ 10 crore would not be taken into account for the purpose of deposit in CGAS.**

Note: Amount utilized by the assessee for purchase or construction of new asset and the amount so deposited shall be deemed to be the cost of new asset. The deemed cost of the new asset would be restricted to ₹ 10 crores **for the purpose of exemption under section 54F.**

- b) The amount should be utilized within the prescribed period.
- c) Amount not utilized within the prescribed period shall be treated as LTCG of the P/Y in which the prescribed period expires.

$$\text{LTCG} = \text{Unutilized Amount} \times \text{Amount of LTCG} / \text{Net Consideration}$$

POH of NEW ASSET - 3 YEARS

3 years from the date of acquisition.

CONSEQUENCES OF TRANSFER OF NEW ASSET BEFORE 3 YEARS

- ✓ Capital gain on new asset shall be taxed separately.
- ✓ LTCG exempted u/s. 54F shall be chargeable to tax as LTCG in the year of transfer.

CAPITAL GAINS ACCOUNT SCHEME (CGAS)

LEGAL HEIRS: CBDT clarifies that in the event of death of an individual before the stipulated period, the unutilized amount is not chargeable to tax in the hands of the legal heirs of the deceased individual. Such unutilized amount is not income but is a part of the estate devolving upon them.

Extension of time for acquiring new asset or depositing or investing amount of Capital Gain [Section 54H]

In case of compulsory acquisition of the original asset, where the compensation is not received on the date of transfer, the period available for acquiring a new asset or making investment in CGAS under sections 54, 54B, 54EC and 54F would be considered from the date of receipt of such compensation and not from the date of the transfer.

**TAX ON STCG ON SHARES/UNITS [SECTION 111A]****[Amended by the Finance (No. 2) Act, 2024]**

1. This Section provides for a **concessional rate of tax** **[15% upto 22.07.2024; 20% from 23.07.2024 (date of transfer)]** on the STCG on transfer of

- ✓ *an equity share in a company; or*
- ✓ *a unit of a business trust; or*
- ✓ *a unit of an equity oriented fund (i.e., a fund set up under a scheme of mutual fund specified u/s 10(23D) or under a scheme of an insurance company comprising ULIPs issued on or after 1.2.2021, to which exemption under section 10(10D) does not apply*

where *transaction is subjected to STT*.

2. Special Tax rate is also applicable in the case of STCG which arises from a transaction undertaken **in foreign currency** on a recognized stock exchange **located in an International Financial Services Centre located in SEZ (evenif STT is not applicable)**.

3. **Adjustment of Unexhausted Basic Exemption Limit:**

In the case of **resident individuals or HUF**, if the basic exemption is **not fully exhausted by any other income**, then, such short-term capital gain will be reduced by the unexhausted basic exemption limit and only the balance would be taxed at *15% or 20%, as the case may be*. **However, the benefit of availing the basic exemption limit is not available in the case of non-residents.**

4. **No deduction under Chapter VI-A against STCG taxable under section 111A:**

Deductions under Chapter VI-A **cannot be availed** in respect of such short-term capital gains on equity shares of a company or units of an equity oriented mutual fund or unit of a business trust included in the total income of the assessee.

TAX ON LONG TERM CAPITAL GAINS OTHER THAN THOSE COVERED UNDER SECTION 112A [SECTION 112]

[Amended by the Finance (No. 2) Act, 2024]



Where transfer takes place before 23.7.2024

(i)	Unlisted securities, or shares of a closely held company	Non-corporate non-resident/ foreign company - 10% <u>without the benefit of indexation and foreign currency fluctuation</u> Other Assesseees - 20% with indexation benefit
(ii)	Listed securities (other than a unit) or a zero-coupon bond	- 10% without indexation or - 20% with indexation benefit whichever is more beneficial to the assessee
(iii)	Other Assets	- 20% with indexation benefit

Where transfer takes place on or after 23.7.2024

(i)	Land or building or both if acquired before 23.7.2024	Individual or HUF, being a resident – 12.5% without indexation or 20% with indexation benefit, whichever is more beneficial to the assessee Other Assesseees - 12.5% without indexation
(ii)	- Land or building or both if acquired on or after 23.7.2024 or - Other Assets (other than taxable u/s 112A)	12.5% without indexation [In case of non-residents, LTCG on transfer of unlisted securities, or shares of a closely held company, would be taxable @12.5% without indexation and foreign currency fluctuation]

NOTE:

(1) For Individuals or HUF (Residents): If their total income (excluding long-term capital gains) is below the basic exemption limit, **the unadjusted basic exemption limit can be reduced from the long-term capital gains.** The remaining amount of long-term capital gains will be taxed at 20% (with indexation) or 12.5% (without indexation), depending on the date of transfer.

(2) Debentures or Bonds: In respect of debentures or bonds (whether listed or unlisted) transferred or redeemed or matured before 23.7.2024, the resultant capital gains will be considered either long-term or short-term, based on the holding period, and taxed accordingly. **If unlisted debentures or bonds are transferred or redeemed or matured on or after 23.7.2024, the resulting capital gains will always be treated as short-term, regardless of the holding period.** Indexation benefit is in any case not available for bonds/debentures, even if transferred before 23.07.2024.

(3) No Chapter VI-A deduction against LTCG: The provisions of section 112 make it clear that the deductions under Chapter VIA **cannot be availed** in respect of the long-term capital gains included in the total income of the assessee.

Computation of tax on LTCG on transfer of land or building or both on or after 23.7.2024



A **resident individual or HUF**, while computing tax on LTCG on transfer of land or building or both, **has the option** to take the benefit of indexation under section 112 in respect of long-term capital gains arising on transfer of land or building or both which is acquired before 23.7.2024 and transferred on or after 23.7.2024. Accordingly, LTCG on transfer of such land or building or both are subject to lower of tax @12.5% (on LTCG computed without indexation benefit) or @20% (on LTCG computed with indexation benefit).

It may be noted that this **benefit to a resident individual or HUF** is to be given only while computing tax on LTCG under section 112 on transfer of land or building or both **and not while computing Income under the head "Capital Gains" which would form part of gross total income/total income**.

Thus, for computing income under the head "Capital Gains" to be included in gross total income, **indexation benefit is not to be given** even in case of resident individual/HUF transferring land or building or both on or after 23.7.2024 which was acquired before 23.7.2024.

**Section 112A – Tax on Long Term Capital Gains in certain Cases****[Amended by the Finance (No. 2) Act, 2024]**

1. Notwithstanding anything contained in Section 112, a concessional rate of tax @10% **12.5% if transfer takes place on or after 23.07.2024** will be leviable on the LTCGs exceeding **₹1,25,000** ~~₹100,000~~ on transfer of Long Term Capital Asset being
 - i. an equity share in a company; or
 - ii. a unit of a business trust; or
 - iii. a unit of an equity oriented fund (i.e., a fund set up under a scheme of mutual fund specified u/s 10(23D) or under a scheme of an insurance company comprising ULIPs issued on or after 1.2.2021, to which exemption under section 10(10D) does not apply)
2. Securities Transaction Tax has
 - a. in a case where the long-term capital asset is in the **nature of an equity share** in a company, **been paid on acquisition and transfer** of such capital asset; or
 - b. in a case where the long-term capital asset is in the nature of a unit of an equity oriented fund or a unit of a business trust, **been paid on transfer** of such capital asset.
3. **RESIDENT IND/HUF:** Such LTCG will be **reduced by the unexhausted basic exemption limit**.
4. Requirement of STT payment **shall not apply** to a transfer undertaken on a recognised stock exchange **located in any International Financial Services Centre** and where the consideration for such transfer is received or receivable in foreign currency.
5. The CG may notify the **nature of acquisition** where STT is not required to be paid.
6. **Deductions under Chapter VI-A cannot** be availed in respect of such LTCG.
7. **Currency conversion as per first proviso to section 48 – Not available.**
8. **Indexation is not permitted** to compute LTCG chargeable to tax under Section 112A.
9. **Rebate under Section 87A is not available** against tax computed under Section 112A.

Section 55(2)(ac) - COA

Cost of Acquisition, In relation to a long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust referred to in section 112A, **acquired before the 1st day of February, 2018** shall be **higher of-**

- i. the cost of acquisition of such asset; and
- ii. lower of –
 - a. the **fair market value** of such asset as on 31.01.2018; and
 - b. the **full value of consideration** received or accruing as a result of the transfer of the capital asset.

Meaning of Fair Market value (IMP)

S.No.	Circumstance	Fair Market Value
(i)	In a case where the capital asset is listed on any recognized stock exchange as on 31.01.2018	<u>If there is trading in such asset on such exchange on 31.01.2018</u> The highest price of the capital asset quoted on such exchange on the said date <u>If there is no trading in such asset on such exchange on 31.01.2018</u> The highest price of such asset on such exchange on a date immediately preceding 31.01.2018 when such asset was traded on such exchange.
(ii)	In a case where the capital asset is a unit which is not listed on any recognized stock exchange as on 31.01.2018	The net asset value of such unit as on the said date
(iii)	In a case where the capital asset is an equity share in a company which is - not listed on a recognized stock exchange as on 31.01.2018 but listed on such exchange on the date of transfer - not listed on a recognized stock exchange as on 31.01.2018 or which became the property of the assessee in consideration of shares which is not listed on such exchange as on 31.1.2018 by way of transaction covered under section 47 but listed on such exchange subsequent to the date of transfer (where transfer is in respect of sale of unlisted equity shares under an offer for sale to the public included in an initial public offer) [W.r.e.f. AY 2018-19] - listed on a recognized stock exchange on the date of transfer and which became the property of the assessee in consideration of share which is not listed on such exchange as on 31.01.2018 by way of transaction not regarded as transfer under section 47	An amount which bears to the cost of acquisition the same proportion as CII for the financial year 2017-18 bears to the CII for the first year in which the asset was held by the assessee or on 01.04.2001, whichever is later.



Important Points:

- A. In case of a **resident individual or a Hindu Undivided Family (HUF)**, the LTCG taxable u/s 112 or 112A or STCG taxable u/s 111A shall be reduced by the unexhausted basic exemption limit and the balance shall be subject to tax.
- B. **No deduction under Chapter VI-A** can be claimed in respect of such LTCG chargeable to tax u/s 112 or u/s 112A or STCG chargeable to tax u/s 111A.
- C. Rebate u/s 87A **is not available** in respect of tax payable on LTCG u/s 112A.
- D. In case the assessee pays tax under default tax regime, **enhanced surcharge of 25% would not be levied** on dividend income, STCG taxable u/s 111A and LTCG taxable u/s 112 and u/s 112A.
- E. In case the assessee exercises the option of shifting out of the default tax regime under section 115BAC, **enhanced surcharge of 25% or 37% would not be levied** on dividend income, STCG taxable u/s 111A and LTCG taxable u/s 112 and u/s 112A.

Meaning of "Equity Oriented Fund" for Section 111A & Section 112A

"Equity oriented fund" means a fund set up under a scheme of a mutual fund specified under Section 10(23D) or under a scheme of an insurance company comprising ULIPs to which exemption under Section 10(10D) does not apply and,-

- i. in a case **where the fund invests in the units of another fund** which is traded on a recognised stock exchange,-
 - A. a minimum of 90% of the total proceeds of such fund is invested in the units of such other fund; and
 - B. such other fund also invests a minimum of 90% of its total proceeds **in the equity shares of domestic companies listed on a recognised stock exchange**; and
- ii. in any other case, a minimum of 65% of the total proceeds of such fund is invested **in the equity shares of domestic companies listed on a recognised stock exchange**:

NOTE:

1. The percentage of equity shareholding or unit held in respect of the fund, as the case may be, shall be computed with reference to the **annual average of the monthly averages of the opening and closing figures**.
2. In case of a scheme of an insurance company comprising unit linked insurance policies to which exemption under clause (10D) of section 10 does not apply, the minimum requirement of 90% or 65%, as the case may be, is required to be satisfied **throughout the term of such insurance policy**;

TREATMENT OF SECURITIES TRANSACTION TAX**If Shares/Units are treated as Investment:**

The securities transaction tax (STT) paid on sale of shares / units shall **not be reduced** from the sale consideration and the STT paid on purchase of shares / units shall **not be added** to the COA.

If Shares/Units are treated as Stock-In-Trade:

If Shares/units are held as stock-in-trade then LTCG/STCG shall not arise. The profits/loss on sale of such shares/units shall be assessable as business income/business loss taxable normally. **In such a case the STT paid on purchase and sale of securities shall be allowed as deduction** under section 36(xv) of the Income Tax Act while computing PGBP.

SECTION 46 - CAPITAL GAINS ON DISTRIBUTION OF ASSETS BY COMPANIES IN LIQUIDATION**TAXABILITY IN THE HANDS OF COMPANY [EXEMPT]**

- 1) Where the assets of a company are distributed to **its shareholders** on **its liquidation**, such distribution shall **not be regarded as a transfer** by the company for the purposes of section 45 [Section 46(1)].
- 2) If, however, the **liquidator sells the assets of the company resulting in a capital gain** and distributes the funds so collected, **the company will be liable to pay tax on such gains**.

TAXABILITY IN THE HANDS OF SHAREHOLDERS [CG + DIVIDEND]

- 1) Shareholders **receive money or other assets** from the company on its liquidation against its shares. They will be chargeable to tax under the head 'capital gains' **in respect of the MARKET VALUE of the assets received on the date of distribution, or the moneys so received by them**.
- 2) The **portion of the distribution which is attributable to the accumulated profits** of the company is to be treated as **DIVIDEND INCOME** of the shareholder under section 2(22)(c) & **taxable in the hands of shareholders under the head "Income from Other sources"**.

The same will be **deducted from the amount received/FMV of the assets received** for the purpose of determining the consideration for computation of capital gains.

- 3) **POH:** In the case of a share held in a company in liquidation, the period subsequent to the date on which the company goes into liquidation **should be excluded while calculating CG in the hands of shareholders**.
- 4) **Capital Gains Tax on subsequent sale of the Capital Assets by the shareholders:**

As per Section 55(2)(b)(iii), if the asset other than cash acquired by the shareholder, then for the purpose of computation of Capital Gain of transfer of such Asset, the COA shall be the market value of the asset on the date of acquisition. POH will start from the date on which such assets are received by the shareholder.

Note: In case where an assessee, who is a shareholder, receives assets from company under liquidation, it is always subject matter of Tax u/s 46(2). It is irrelevant at this point of time to ascertain the nature of asset distributed to the shareholder. Even in a case where the asset distributed is an agricultural land outside the specified Area, which is not a capital asset, the shareholder shall be subject to tax by virtue of Section 46(2) as distribution in Kind.

SECTION 46A - CAPITAL GAINS ON PURCHASE BY COMPANY OF ITS OWN SHARES OR OTHER SPECIFIED SECURITIES

[Section 46A, Section 10(34A) & Section 115QA are amended by the Finance (No. 2) Act, 2024]

Where a shareholder or a holder of other specified securities receives any consideration from any company for purchase of its own shares or other specified securities held by them, then, subject to the provisions of section 48, the difference between the cost of acquisition and the value of consideration received by the shareholder or the holder of other specified securities, as the case may be, shall be deemed to be the capital gains, in the year in which such shares or other specified securities were purchased by the company.

However, in case the shareholder receives any consideration of the nature referred to in Section 2(22)(f) from domestic company, in respect of any buy-back of shares, that takes place on or after the 1st day of October, 2024, then for the purposes of this section, the value of consideration received by the shareholder shall be deemed to be NIL.

In case of buy back of shares effected before 01.10.2024 by domestic companies:

Section 10(34A) & section 115QA

In case of buyback of shares (whether listed or unlisted) by a domestic companies, additional income-tax@20% (plus surcharge @12% and cess@4%) is leviable in the hands of the company under section 115QA.

Consequently, the income arising to the shareholders in respect of such buyback of shares by the domestic company is exempt under section 10(34A), since the domestic company is liable to pay additional income-tax on the buyback of shares.

The provisions of Section 10(34A) & Section 115QA shall NOT be applicable to any buy back of shares by a domestic company on or after 01.10.2024.

In case of buy back of shares effected on or after 1.10.2024 by domestic companies:

In case of buyback of shares (whether listed or unlisted) on or after 1.10.2024 by a domestic company, the sum paid by a domestic company for purchase of its own shares would be treated as dividend [Deemed dividend u/s 2(22)(f)] and taxable under the head "Income from Other Sources" in the hands of shareholders (shall be charged to income-tax at applicable tax rates).

Section 57: No deduction for expenses would be available against such dividend income.

Consequently, as per section 46A, value of consideration received by a shareholder on buy back of shares by a domestic company would be Nil and the difference between the cost of acquisition and the value of consideration received by the shareholder will result into capital loss.

[The same can be set off and carried forward as per the applicable set-off & carry forward provisions of the Act. If it is long-term capital loss, it can be set-off only against long-term capital gains. If it is a short-term capital loss, it can set-off against both long term capital gains and short term capital gains.]

Below here is the example to understand the provisions of section 46A and section 2(22)(f):



No. of shares of A Ltd. bought in 2020 By Mr. B @₹ 40 per share	100 shares
Total cost of acquisition	₹ 4,000 (100 x ₹ 40)
No. of shares bought back in November 2024 by A Ltd. @₹ 60 per share	20 shares
Income taxable as deemed dividend u/s 2(22)(f) [₹ 60 per share x 20 shares]	₹ 1,200
Long-term capital loss on such buyback as per section 46A (Value of consideration - COA) (Nil - ₹ 40 x 20) [Such LTCL can be set-off against other LTCG or it can be carried forward to the next year for set-off against other LTCG]	₹ 800
No. of shares sold in December 2025 by Mr. B @₹ 70 per share	50 Shares
Long-term capital Gain (₹ 70 x 50 – ₹ 40 x 50)	₹ 1,500
Chargeable long-term capital gain in P.Y. 2025-26 after set-off of long-term capital loss [₹ 1,500 – ₹ 800] would be	₹ 700

SECTION 50B – SPECIAL PROVISIONS FOR COMPUTATION OF GAINS IN CASE OF SLUMP SALE

SECTION 2(42C) - *SLUMP SALE means the transfer of one or more undertakings, by any means, for a lump sum consideration without values being assigned to the individual assets and liabilities in such transfer.*

Here, "Transfer" shall have the meaning assigned to it in Section 2(47) [it would include sale, exchange, relinquishment of capital asset, extinguishment of any rights therein, compulsory acquisition under any law etc.]

However, the values can be assigned to the assets for the limited purpose of payment of stamp duty, registration fees etc. This must be clarified in the agreement of slump sale.

Charge of Capital Gains: Profit or gains arising from slump sale shall be taxable as Capital Gains in the previous year in which slump sale is effected.

NATURE OF CAPITAL GAINS: If the capital asset, being one or more undertakings, was owned and held by the assessee for **not more than 36 months**, the capital gains will be 'Short Term Capital Gains'. In any other case, it shall result into Long-Term Capital Gains.

Mode of computation of capital gains: The capital Gains shall be computed in the following manner -

Full Value of consideration (FMV of the Capital Assets transferred)	XXXX
Less: Expenses wholly and exclusively in connection with such transfer	XXXX
Less: Cost of acquisition and cost of improvement being net worth of the undertaking (no indexation benefit even in case of long-term capital asset)	XXXX
Short Term/Long Term Capital gains	XXXX

Deemed cost of acquisition and cost of improvement [Section 50B(2)(i)]

The net worth of the undertaking or the division, as the case may be, shall be deemed to be the cost of acquisition and the cost of improvement for the purposes of sections 48 and 49 in relation to capital assets of such undertaking or division transferred. No indexation benefit would, however, be available, even if the slump sale has taken place of an undertaking held for more than 36 months, resulting in a long-term capital gain.

Deemed full value of consideration [Section 50B(2)(ii)]

Fair market value of the capital assets as on the date of transfer, calculated in the prescribed manner (as per Rule 11UAE), shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of such capital asset.

Computation of Fair Market Value of Capital Assets for the purpose of Section 50B**[Rule 11UAE]**

CBDT has prescribed that, for the purpose of section 50B(2)(ii), the fair market value (FMV) of capital assets **would be the higher of-**

- (i) **FMV 1**, being the fair market value of capital assets transferred by way of slump sale; and
- (ii) **FMV 2**, being the fair market value of the consideration (monetary and nonmonetary) received or accruing as a result of transfer by way of slump sale

Note:

- 1. FMV value will be given in question in exam.
- 2. Detailed discussion of Rule 11UAE [NN 68/2021 dated 24.05.2021] is NOT in Syllabus.

NET WORTH

For calculating the Net Worth, the Aggregate VALUE of total assets, ignoring revaluation effect, shall be-

- (a) In case of depreciable assets: the WDV of block of assets as per the Income Tax Act, 1961 (i.e. Section 43(6))
- (b) *In case of capital asset, being goodwill of a business or profession, which has not been acquired by the assessee by purchase from a previous owner [self-generated goodwill]:*
NIL
- (c) In case of capital Assets for which the whole of the expenditure has been allowed or is allowable as a deduction u/s. 35AD:
NIL
- (d) In the case of any other assets: The book value of such assets

Less:

Value of liability (as appearing in the books of a/c on the date of transfer of undertaking)

Report of a Chartered Accountant:

Every assessee, in the case of slump sale, shall furnish in the prescribed form a report of an accountant as defined in the Explanation below sub-section (2) of section 288 **before the specified date referred to in section 44AB [i.e., the date one month prior to the due date for filing return of income under section 139(1)]** indicating the computation of the net worth of the undertaking or division, as the case may be, and certifying that the net worth of the undertaking or division, as the case may be, has been correctly arrived at in accordance with the provisions of this section.

Concept of Reverse Mortgage

Applicability:

- (a) Reverse Mortgage is as scheme for the benefit of senior citizens who own a residential house property.
- (b) The Senior Citizens can mortgage their house property with a scheduled bank or housing finance company, in return for a lump-sum amount or for a regular monthly/quarterly/annual income.

Tax implication:

1. Any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government would not amount to a transfer for the purpose of capital gains. [Section 47(xvi)]
2. Further, the amount received by the senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax. [Section 10(43)]

ZERO COUPON BOND [ZCB]

1. Section 2(48) - ZCB means a Bond Issued By:

- i. Any Infrastructure Capital Company, or
- ii. Infrastructure Capital Fund, or
- iii. **Infrastructure Debt Fund as notified in Section 10(47), or**
- iv. Public Sector Company, or
- v. Scheduled Banks.

2. **Payment only on redemption:** No payment and benefit is received or receivable before maturity or redemption.
3. **The income on transfer of a ZCB (not being held as stock-in-trade) is to be treated as capital gains.**
4. **Section 2(47)(iva)** provides that maturity or redemption of a ZCB shall be treated as a transfer for the purposes of capital gains tax. ZCBs held for not more than 12 months would be treated as short term capital assets.

SECTION 55A - REFERENCE TO VALUATION OFFICER

The AO may refer the valuation of a capital asset to a Valuation Officer in the following circumstances with a view to ascertaining the FMV of the capital asset for the purposes of capital gains –

- 1) In a case where the value of the asset as claimed by the assessee is in accordance with the estimate made by a registered valuer:
“if the AO is of the opinion that the value so claimed is at variance with its Fair Market Value.”
- 2) **In other case, If** the AO is of the opinion that the FMV of the asset exceeds the value of the asset as claimed by the assessee by more than 15% of the value of asset as claimed or by more than ₹ 25,000 of the value of the asset as claimed by the assessee.
- 3) Further, if the AO is of the opinion that, having regard to the nature of asset and other relevant circumstances, it is necessary to make the reference.

AMALGAMATION – SECTION 2(1B)

Amalgamation in relation to companies, means the merger of one or more companies with another company or the merger of two or more companies to form one company **in such a manner that-**

- (a) **All the property** of the amalgamating company or companies immediately before the amalgamation becomes the property of the amalgamated company by the virtue of amalgamation.
- (b) **All the liabilities** of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of amalgamation.
- (c) Shareholders **holding not less than 75% in the value of** shares in amalgamating company or companies (**other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary**) become shareholders of the amalgamated company by virtue of the amalgamation,

otherwise than as a result of the acquisition of the property of one company by another company **pursuant to the purchase of such property** by the other company or as a result of the distribution of such property to the other company **after the winding up of the first mentioned company.**

DEMERGER [SECTION 2(19AA)]

“Demerger” in relation to company’s means

- the transfer, pursuant to a scheme of arrangement **under sections 230 to 232 of the Companies Act, 2013** by a demerged company
- Of its one or more undertakings to any resulting company.
- and **all the following conditions** are fulfilled :-
 - (i) **All the property** of the undertaking, being transferred by the demerged company immediately before the demerger, becomes the property of the resulting company by virtue of the demerger.
 - (ii) **All the liabilities** relating to the undertaking, being transferred by the Demerged Co., immediately before the demerger, becomes the liabilities of the resulting company by virtue of the demerger.
 - (iii) The property and the liabilities of the undertaking or undertakings being transferred by the demerged company are **transferred at the values [ignoring revaluation] appearing in the books of account immediately** before demerger.
However, this provision does not apply where, in compliance to the Indian Accounting Standards specified in Annexure to the Companies (Indian Accounting Standards) Rules, 2015, the resulting company records the value of the property and the liabilities of the undertaking or undertakings at a value different from the value appearing in the books of account of the demerged company, immediately before the demerger.
 - (iv) The resulting company issues, in consideration of the demerger, **its shares** to the shareholders of the demerged company **on a proportionate basis**.
Note - If the resulting company is a shareholder of the demerged company, it cannot issue shares to itself. However, the resulting company has to issue shares to the other shareholders of the demerged company.
 - (v) The shareholders holding **not less than 75% in value** of the shares in the demerged company becomes the shareholders of resulting company or companies by virtue of demerger.
 - (vi) The transfer of undertaking is on a **going concern basis**.
 - (vii) the demerger is in accordance with the conditions, if any, notified by the Central Government in this behalf.

NOTES:

1. "Undertaking" shall include any part of an undertaking, or a unit or division of an undertaking or a business activity taken as a whole, **but does not include individual assets or liabilities or any combination thereof not constituting a business activity.**

2. The liabilities referred to in sub-clause (ii), shall include-

- a. the liabilities which arise out of the activities or operations of the undertaking;*
- b. the specific loans or borrowings (including debentures) raised, incurred and utilised solely for the activities or operations of the undertaking; and*
- c. in cases, other than those referred to in clause (a) or clause (b), so much of the amounts of general or multipurpose borrowings, if any, of the demerged company as stand in the **same proportion** which the value of the assets transferred in a demerger bears to the total value of the assets of such demerged company immediately before the demerger.*

Demerged Company - Demerged company means the company **whose undertaking is transferred**, pursuant to a demerger, to a resulting company.

Resulting Company - Resulting company means one or more companies (including a wholly owned subsidiary thereof) to which the undertaking of the demerged company is transferred in a demerger and, the resulting company in consideration of such transfer of undertaking, issues shares to the shareholders of the demerged company **and includes any authority or body or local authority or public sector company or a company established, constituted or formed as a result of demerger.**

SECTION 47 – OTHER TRANSACTIONS NOT REGARDED AS TRANSFER

Taxability of Transfer of Capital Assets under Scheme of Amalgamation of Companies

- **Transfer of Capital Asset**, in a scheme of amalgamation, by the Amalgamating Company to the Indian Amalgamated Company is not considered as transfer and not chargeable to capital gain tax. [Sec 47(vi)]
- Condition to be fulfilled:** Scheme approved by CG.
 - Holding Period** in the hands of the transferee in case of subsequent transfer: Previous Owner's holding period shall be included.
 - Cost in the hands of Transferee [Sec 49]:** Cost to the Amalgamating Company.
- **Transfer of shares by Shareholder** in a scheme of Amalgamation is not considered as transfer and not chargeable to capital gain tax. [Sec 47(vii)]
- Condition to be fulfilled:**
 - Asset Transferred:** Shares held in Amalgamating Company.
 - Consideration received: Only** Shares of Amalgamated Company.
 - The amalgamated company is an **Indian Company**
 - Holding Period in the hands of the transferee in case of subsequent transfer:** Period of holding of Amalgamating Company's Shares shall be included.
 - Cost in the hands of Transferee [Sec 49]:** Cost to original shares in Amalgamating Company.

Taxability of Transfer of Capital Assets under Scheme of Demerger of Companies

- Transfer of capital asset**, by a demerged company to the resulting company is not considered as transfer and not chargeable to capital gain tax. [sec. 47(vib)]
 - Condition:** Resulting company shall be an Indian company.
 - Holding Period in the hands of the transferee in case of subsequent transfer:** Previous Owner's holding period shall be included.
 - Cost in the hands of transferee [Sec. 49]:** Cost to the demerged company.
- Transfer of shares**, by the Resulting Company to the shareholders of the demerged company if the transfer is made in consideration of Demerger [Sec 47(vii)]
 - Holding Period in the hands of the transferee for subsequent transfer:** Period of holding of Demerged Company's Shares shall be included.
 - Cost of acquisition of Resulting Company's Shares on demerger [Sec. 49(2C)]**

$$\frac{\text{Cost of acquisition of Demerged Co's Shares} \times \text{Net book value of Assets transferred to resulting company}}{\text{net worth of the demerged company before demerger}}$$

[Net Worth of demerged Company] = Paid up share Capital and General reserve before demerger.]

- Cost of Acquisition of Demerged Company's Shares after demerger [Sec. 49(2D)]**

Original Cost of Acquisition of shares in Demerged Company	XXX
Less: Cost of acquisition of resulting company shares as per Section 49(2C)	(XXX)

Taxability of Transfer of Capital Assets between Holding and 100% Subsidiary Companies

1. **Transfer of Capital Asset (not by way of Stock in Trade) by Holding Company to its subsidiary is not considered as transfer and not chargeable to capital gain tax [Sec 47(iv)]**
 - a) **Conditions to be fulfilled:**
 - Holding Company or its Nominees shall hold 100% Shares in Subsidiary Company.
 - Subsidiary Company should be an Indian Company.
 - b) **Holding period in the hands of the Transferee in case of subsequent transfer Sec. 2(42A):** Previous owner's holding periods shall be included.
 - c) **Cost in the hands of Transferee [Sec 49]:** Cost to Previous Owner.
2. **Transfer of Capital Asset (not by way of SIT) by Subsidiary Company to its Holding Company is not considered as transfer and not chargeable to capital gain tax [Sec. 47(v)]**
 - a) **Conditions to be fulfilled:**
 - Whole of the Share Capital of the subsidiary Company shall be held by Holding Company
 - Holding Company should be an Indian Company.
 - b) **Holding period in the hands of the Transferee in case of subsequent transfer Sec. 2(42A):** Previous owner's holding periods shall be included.
 - c) **Cost in the hands of Transferee [Sec 49]:** Cost to Previous Owner.

Withdrawal of exemption [Sec 47A]:

Where at any time **before the expiry of a period of 8 years from the date of the transfer of a capital asset** referred to in clause (iv) / (v) of section 47-

- i. such capital asset is **converted by the transferee company into, or is treated by it as, stock-in-trade** of its business; or
- ii. the parent company or its nominees or, as the case may be, the holding company **ceases or cease to hold the whole of the share capital** of the subsidiary company,

the amount of profits or gains arising from the transfer of such capital asset **not charged** under section 45 by virtue of the provisions contained in clause (iv) / (v) of section 47 shall, notwithstanding anything contained in the said clauses, **be deemed to be income chargeable under the head "Capital gains" of the previous year in which such transfer took place.**

Conversion of a partnership firm/sole proprietor concern into company is not considered as transfer and not chargeable to capital gain tax. [Sec. 47(xiii)/(xiv)]

a) Conditions to be fulfilled:

- i. **All the assets and liabilities** of the proprietary concern/firm shall become the Assets & Liabilities of the company.
- ii. The **aggregate Shareholding** of the proprietary / partners **should not be less than 50% of the total voting power, for a period of 5 consecutive years** from the date of the succession.
- iii. The proprietary / partners **should not receive any consideration or benefit other than by way of allotment of Shares** in the company
- iv. **All the partners** of the firm immediately before the succession become the shareholders of the company in the ratio of their Capital Balance in the Firm's books.

b) Withdrawal of exemption [Sec 47A]:

Where Conditions laid down in proviso to sec. 47 (xiii)/ (xiv) are not complied with, Profits and gains arising from transfer of such Capital Asset or Intangible Asset in this transaction is deemed to be Profits and Gains chargeable to tax **in the hands of Successor Company** in the Previous year in which such conditions are not complied with.

c) Carry forward of loss of proprietor firm / firm by company [Section 72A(6)]

According to section 72A(6), where there has been reorganisation of business, whereby, a firm is succeeded by a company fulfilling the conditions laid down in clause (xiii) of section 47 or a proprietary concern is succeeded by a company fulfilling the conditions laid down in clause (xiv) of section 47, then, notwithstanding anything contained in any other provisions of this Act,

the accumulated loss and the unabsorbed depreciation of the predecessor firm or the proprietary concern, as the case may be, **shall be deemed to be the loss or allowance** for depreciation of the successor company for the purpose of previous year in which business reorganization was effected and other provisions of this Act relating to set off and carry forward of loss and allowance for depreciation shall apply accordingly.

In other words, the accumulated loss and unabsorbed depreciation of the predecessor proprietor/firm shall become the accumulated loss and unabsorbed depreciation of the successor company of the previous year in which business reorganization was effected ***and such business loss can be carried forward for fresh 8 assessment years and the unabsorbed depreciation will be carried forward indefinitely.***

Consequences if the conditions laid down under section 47(xiii) and (xiv) are not complied with [Proviso to section 72A(6)]:

If any of the conditions laid down under section 47(xiii) and (xiv) are not complied with, the set off of loss or allowance of depreciation made in any previous year in the hands of the successor company, ***shall be deemed to be the income of the company chargeable to tax in the year in which such conditions are not complied with.***

COST OF ACQUISITION IN CASE OF CERTAIN TRANSFERS [SEC. 49(1)]

Section 49 has been amended to provide that the COA of the various capital assets in the hands of successor company in such cases shall be taken to be the cost of acquisition of the respective asset in the hands of the sole proprietorship or the firm, as the case may be.

Further, in case the asset becomes the property of the company on account of succession of a sole proprietorship concern or firm by the company, then, in order to determine the POH of such asset in the hands of the company, the period for which such asset was held by the sole proprietorship concern or the firm, as the case may be, shall also be considered.

Example

Amber was carrying on the textile business under a proprietorship concern, Amber Textiles. On 21.04.2024 the business of Amber Textiles was succeeded by New Look Textile Private Limited and all the assets and liabilities of Amber Textiles on that date became the assets and liabilities of New Look Textile Private Limited and Amber was given 52% share in the share capital of the company. No other consideration was given to Amber on account of this succession.

The assets and liabilities of Amber Textiles transferred to the company included an urban land which was acquired by Amber on 19.7.2013 for ₹ 9,80,000. The company sold the same on 30.06.2024 for ₹ 15,00,000.

Discuss the tax implication of the above mentioned transaction and compute the income chargeable to tax in such case(s).

Answer

As per provisions of section 47(xiv), in case a proprietorship concern is succeeded by a company in the business carried by it and as a result of which any capital asset is transferred to the company, **then the same shall not be treated as transfer and will not be chargeable to capital gain tax in case the following conditions are satisfied:**

1. all the assets and liabilities of sole proprietary concern becomes the assets and liabilities of the company.
2. the shareholding of the sole proprietor in the company is not less than 50% of the total voting power of the company and continues to so remain as such for a period of 5 years from the date of succession.
3. the sole proprietor does not receive any consideration or benefit in any form from the company other than by way of allotment of shares in the company.

In the present case, all the conditions mentioned above are satisfied therefore, the transfer of capital asset by Amber Textiles to New Look Textiles Private Limited shall not attract capital gain tax **provided Amber continues to hold 50% or more of voting power of New Look Textiles Private Limited for a minimum period of 5 years.**

Taxability in case of transfer of land by New Look Textiles Private Limited

As per the provisions of section 49(1) and Explanation 1 to section 2(42A), in case a capital asset is transferred in the circumstances mentioned in section 47(xiv), the **cost of the asset in the hands of the company shall be the cost of the asset in the hands of the sole proprietor. Consequently, for the determining the period of holding of the asset, the period for which the asset is held by the sole proprietor shall also be considered.**

Therefore, in the present case, the urban land shall be a long-term capital asset since it is held for more than 36 months by New Look Textile Private Limited and Amber Textiles taken together. Cost of acquisition of land in the hands of the company shall be ₹ 9,80,000 i.e., the purchase cost of the land in the hands of Amber.

Computation of capital gain chargeable to tax in the hands of New Look Textile Private Limited

Particulars	₹
Net sale consideration	15,00,000
Less: Indexed cost of acquisition 9,80,000 x CII of F.Y 2024-25 / CII of F.Y 2024-25	9,80,000
Long-term capital gain	5,20,000

Note: The year of transfer and the year in which the company **first held the asset** are the same in this case.

However as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by taking the CII of FY 2013-14, being the year in which the capital asset was acquired by the previous owner Amber, as the denominator, in which case, the capital gains chargeable to tax would undergo a change.

Section 47 – Few Transaction not regarded as a transfer

1. Any transfer of Capital asset, being **government securities** carrying a periodic payment of interest, made **outside India** through an intermediary dealing in settlement of securities, **by a NR to another NR** shall not be considered as transfer.
2. **Transfer of Rupee Denominated Bond outside India by a Non-Resident to another Non-Resident:** Any transfer, made outside India, of a Capital Asset being rupee denominated bond **of an Indian Company** issued outside India, by a non-resident to another non-resident.
3. Any transfer of **Sovereign Gold Bond** issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015, by way of redemption, **by an assessee being an individual** [Indexation benefit is available in case of LTCG arising from transfer of such bond]
4. **Conversion of Preference Shares into Shares:**
Section 47(xb) - Any Transfer by way of conversion of preference shares of a company into equity shares of that company shall not be regarded as a Transfer.

Section 45(2A) – TRANSFER OF BENEFICIAL INTEREST IN SECURITIES

- ✓ **CAPITAL GAIN IS CHARGEABLE IN THE HANDS OF BENEFICIAL OWNER OF SECURITIES HELD IN DEMAT FORM** (and not be regarded as income of the depository who is deemed to be the registered owner of the securities)

- ✓ **COST OF ACQUISITION & PERIOD OF HOLDING:**

For the purposes of computing Capital Gain, the COA and the POH of securities shall be determined on the basis of the first-in-first-out (FIFO) method. In FIFO Method, the date of entry in "Demat Account" is important and not the date of purchase of security in physical form.

SECTION 45(3) – INTRODUCTION OF CAPITAL ASSET AS CAPITAL CONTRIBUTION

- ✓ Where a person transfers a capital asset to a Firm, AOP or BOI in which he is already a partner/member or is to become a partner/member by way of **Capital Contribution or otherwise**, the profits or gains arising from such transfer will be chargeable to tax as income of the previous year in which such transfer takes place.
- ✓ For this purpose, the **value of the consideration will be the amount recorded in the books of account** of the firm, AOP or BOI as the value of the capital asset.

SECTION 45(4) – Distribution of a Capital Asset or Money from Specified entity

Notwithstanding anything contained in sub-section (1),

- *where a **specified person receives** during the previous year **any money or capital asset or both from a specified entity** in connection with the **reconstitution of such specified entity**,*
- *then any profits or gains arising from such receipt by the specified person shall be chargeable to income-tax as income of such specified entity under the head "Capital gains"*
- *and shall be deemed to be the income of such specified entity of the previous year in which such money or capital asset or both **were received** by the specified person,*
- *and **notwithstanding anything to the contrary contained in this Act, such profits or gains shall be determined in accordance with the following formula, namely:—***

$$A = B + C - D$$

Where,

A = income chargeable to income-tax under this subsection **as income of the specified entity** under the head "Capital gains";

B = value of any money received by the specified person from the specified entity **on the date of such receipt;**

C = the amount of **fair market value of the capital asset** received by the specified person from the specified entity on the date of such receipt; and

D = the amount of balance in the capital account (represented in any manner) of the specified person in the books of account of the specified entity at the time of its reconstitution:

If the value of "A" in the above formula is negative, its value shall be deemed to be zero

Further, that the balance in the capital account of the specified person in the books of account of the specified entity is to be calculated without taking into account the increase in the capital account of the specified person due to revaluation of any asset or due to self-generated goodwill or any other self-generated asset.

Note:

- 1. The expressions "reconstitution of the specified entity", "specified entity" and "specified person" shall have the meanings respectively assigned to them in section 9B;***
- 2. "self-generated goodwill" and "self-generated asset" mean goodwill or asset, as the case may be, which has been acquired without incurring any cost for purchase or which has been generated during the course of the business or profession.***
- 3. Further, when a capital asset is received by a specified person from a specified entity in connection with the reconstitution of such specified entity, the provisions of this sub-section shall operate in addition to the provisions of section 9B and the taxation under the said provisions thereof shall be worked out independently.***

SECTION 9B - Income on receipt of capital asset or stock in trade by specified person from specified entity

- 1. Where a specified person receives during the previous year any capital asset or stock in trade or both from a specified entity in connection with the dissolution or reconstitution of such specified entity, then the specified entity shall be deemed to have transferred such capital asset or stock in trade or both, as the case may be, to the specified person in the year in which such capital asset or stock in trade or both are received by the specified person.***
- 2. Any profits and gains arising from such deemed transfer of capital asset or stock in trade or both, as the case may be, by the specified entity shall be-***
 - i. deemed to be the income of such specified entity of the previous year in which such capital asset or stock in trade or both were received by the specified person; and***
 - ii. chargeable to income-tax as income of such specified entity under the head "Profits and gains of business or profession" or under the head "Capital gains", in accordance with the provisions of this Act.***
- 3. For the purposes of this section, fair market value of the capital asset or stock in trade or both on the date of its receipt by the specified person shall be deemed to be the full value of the consideration received or accruing as a result of such deemed transfer of the capital asset or stock in trade or both by the specified entity.***

4. If any difficulty arises in giving effect to the provisions of this section and sub-section (4) of section 45, the **Board may, with the approval of the Central Government, issue guidelines for the purposes of removing the difficulty.**
5. Every guideline issued by the Board shall, as soon as may be after it is issued, **be laid before each House of Parliament, and shall be binding on the income-tax authorities and on the assessee.**

NOTE:

1. **"Reconstitution of the specified entity" means, where-**
- a. one or more of its partners or members, as the case may be, of such specified entity **ceases to be partners or members;** or
 - b. one or more new partners or members, as the case may be, are admitted in such specified entity in such circumstances that one or more of the persons who were partners or members, as the case may be, of the specified entity, before the change, continue as partner or partners or member or members after the change; or
 - c. all the partners or members, as the case may be, of such specified entity continue with a change in their respective share or in the shares of some of them;
2. **"Specified entity" means a firm or other association of persons or body of individuals (not being a company or a co-operative society);**
3. **"Specified person" means a person, who is a partner of a firm or member of other association of persons or body of individuals (not being a company or a co-operative society) in any previous year.**

Consequential Amendment in Section 48 - Mode of computation

The income chargeable under the head "Capital gains" shall be computed, **by deducting** from the full value of the consideration received or accruing as a result of the transfer of the capital asset **the following amounts, namely :—**

- i. expenditure incurred wholly and exclusively in connection with such transfer;
- ii. the cost of acquisition of the asset and the cost of any improvement thereto;
- iii. **in case of value of any money or capital asset received by a specified person from a specified entity referred to in subsection (4) of section 45,**
the amount chargeable to income-tax as income of such specified entity under that sub-section which is attributable to the capital asset being transferred by the specified entity, calculated in the prescribed manner.

SECTION 45(5A) – Transfer under Specified Agreement

1. Notwithstanding anything contained in Sub-section (1), where the capital gain arises to an assessee, being **an Individual or a HUF**, from the transfer of a capital asset, being land or building or both, under a specified agreement, the capital gains shall be chargeable to income-tax as income of the previous year **in which the certificate of completion for the whole or part of the project is issued by the competent authority.**
2. For the purposes of section 48, the stamp duty value, on the date of issue of the said certificate, **of his share, being land or building or both in the project, as increased by any consideration received in cash or by a cheque or draft or by any other mode** ~~the consideration received in cash, if any,~~ shall be deemed to be the full value of the consideration received or accruing as a result of the transfer of the capital asset.
3. The provisions of this sub-section **shall not apply** where the assessee transfers his share in the project on or **before the date of issue of said certificate of completion**, and the capital gains shall be deemed to be the income of the previous year in which such transfer takes place and the provisions of this Act, other than the provisions of this sub-section, shall apply for the purpose of determination of full value of consideration received or accruing as a result of such transfer
4. "Competent Authority" means the authority empowered to approve the building plan by or under any law for the time being in force;
5. "Specified Agreement" means a registered agreement in which a person owning land or building or both, **agrees to allow another person to develop a real estate project on such land or building or both**, in consideration of a **share, being land or building or both in such project**, whether with or without payment of part of the consideration in cash;
6. "Stamp Duty Value" means the value adopted or assessed or assessable by any authority of Government for the purpose of payment of stamp duty in respect of an immovable property being land or building or both

Consequential amendments due to Section 45(5A):**(A) Cost of acquisition of the share in the project [Section 49(7)]:**

COA of the share in the project being land or building or both, in the hands of the Individual or HUF who was the owner of land or building or both **shall be the amount which is deemed as full value of consideration under section 45(5A) mentioned above**

(B) TDS on monetary consideration – Section 194-IC:

Notwithstanding anything contained in Section 194-IA, any person responsible for paying **to a Resident** any sum by way of consideration, **not being consideration in kind**, under the agreement referred in Section 45(5A), shall at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, **whichever is earlier, deduct an amount equal to 10% of such sum** as income tax thereon.

DIVIDEND / INTEREST STRIPPING (Dividend is now Taxable)

Section 94(7) provides that where any person buys or acquires any securities or unit within a period of 3 months prior to the record date and such person sells or transfers –

- (a) **such securities** within a period of **3 months** after such date, **OR**
- (b) **such unit** within a period of **9 months** after such date

and the dividend or income on such securities or unit received or receivable by such person is exempted, **then**, the loss, if any, arising therefrom shall be ignored to the extent of exempted income for the purposes of computing his income chargeable to tax.

BONUS STRIPPING [Section 94(8)]**Conditions for applicability****Where-**

- a. any person buys or acquires **any securities or units within a period of 3 months** prior to the record date;
- b. such person is allotted **additional securities or units** without any payment on the basis of holding of **such securities or units** on such date;
- c. such person sells or transfers **all or any of the original securities or original units within a period of 9 months** after such date, **while continuing to hold all or any of the additional securities or units.**

Tax treatment

- a. **Loss, if any,** arising to him on account of such purchase and sale of all or any of **such securities or units (Original)** **shall be ignored** for the purposes of computing his income chargeable to tax; and
- b. Notwithstanding anything contained in any other provision of this Act, the amount of loss so ignored shall be **deemed to be the cost of purchase or acquisition** of **such additional securities or units** as are held by him on the date of such sale or transfer.

"Securities" includes stocks and shares**"Unit" shall mean:**

- a. a unit of a business trust;
- b. a unit of mutual fund specified u/s 10(23D) or of Unit Trust of India (UTI); or
- c. **beneficial interest of an investor in an Alternative Investment Fund**, defined in regulation 2(1)(b) of the SEBI (Alternative Investment Funds) Regulations, 2012, made under the SEBI Act, 1992, and shall include shares or partnership interests

"Record date" means such date as may be fixed for the purposes of entitlement of the holder of the securities or units, as the case may be, **to receive dividend, income, or additional securities or units without any consideration, as the case may be.**

Question:

Reliance Mutual Fund declares 1:1 bonus units on its units on 30.5.2024. The Fund fixed the record date for bonus entitlement to be 30.6.2024. Mr. A purchases 1,000 units of Fund on 20.6.2024 @ ₹20 per unit. A sells 1000 original units on 11.12.2024 for ₹ 9 per unit. Discuss the tax implications.

Question: 5 to 6 Marks

Mr. A purchased 5,000 units of a mutual fund as on 10/10/2024 @ ₹ 80. On 1/11/2024, the fund declares 4 bonus units for every 5 units held. The record date for declaring bonus is 01/11/2024.

- On 01/12/2024, Mr. A sold 2,500 original units @ ₹ 20.
- On 10/01/2025, Mr. A sold 1,000 bonus units @ ₹ 25.
- On 12/02/2025, Mr. A sold remaining 2,500 original units @ ₹ 30.
- On 14/03/2025, Mr. A sold remaining 3,000 bonus units @ ₹ 45.

All units sold to his friend. Compute capital gain.

Solution:**Computation of capital gain of Mr. A for the A.Y. 2025-26**

Particulars	Workings	Amount
Capital gain on transfer of 2,500 original units on 1/12/2024		
Sale consideration	2,500 units @ ₹ 20	50,000
Less: Cost of acquisition	2,500 units @ ₹ 80	2,00,000
Cost of bonus units as per provision of Sec. 94(8)		(1,50,000)
Taxable short term capital gain		Nil[#]
[#] As per Sec. 94(8), above loss shall be ignored for the purposes of computing his income, and the amount of loss so ignored shall be deemed to be the cost of acquisition of such bonus unit. Hence, the cost of 4,000 bonus units (5,000 units / 5 * 4) is ₹ 1,50,000 i.e. cost of each bonus units is ₹ 37.5 (₹ 1,50,000 / 4,000 units).		
Capital gain on transfer of 1,000 bonus units on 10/01/2025		
Sale consideration	1,000 units @ ₹ 25	25,000
Less: Cost of acquisition	1,000 units @ ₹ 37.5 as per Sec. 94(8)	37,500
Short term capital gain		(12,500)
Capital gain on transfer of 2,500 original units on 12/02/2025		
Sale consideration	2,500 units @ ₹ 30	75,000
Less: Cost of acquisition	2,500 units @ ₹ 80	2,00,000
Cost of remaining bonus units as per provision of sec. 94(8)		(1,25,000)
Taxable short term capital gain		Nil[#]
[#] As per Sec. 94(8), above loss shall be ignored for the purposes of computing his income, and the amount of loss so ignored shall be deemed to be the cost of acquisition of remaining bonus unit.		
Hence, the cost of 3,000 bonus units (4,000 units – 1,000 units) shall be as under:		
Loss on transfer of original units on 1/12/2024		₹ 37.50 per unit
Loss on transfer of original units on 12/02/2025	₹ 1,25,000 / 3,000 units	₹ 41.67 per unit
		₹ 79.17 per unit
Capital gain on transfer of 3,000 bonus units on 14/03/2025		
Sale consideration	3,000 units @ ₹ 45	1,35,000
Less: Cost of acquisition	3,000 units @ ₹ 79.17 as per sec. 94(8)	2,37,510
Short term capital gain		(1,02,510)

EXEMPTIONS FROM CAPITAL GAINS IN RESPECT OF INDUSTRIAL UNDERTAKINGS

[SECTIONS 54D, 54G AND 54GA]

Provisions	Compulsory acquisition of land & buildings [Section 54D]	Shifting of undertaking to rural area [Section 54G]	Shifting of undertaking to SEZ [Section 54GA]
1. Assessee	Any person	Any person	Any person
2. Asset transferred	Compulsory acquisition of <u>land or building</u> which was used in the business of industrial undertaking during 2 years prior to date of transfer.	Transfer of plant, machinery or land or building for shifting industrial undertaking <u>from urban area to other area</u> [<i>Furniture not included</i>]	Transfer of plant, machinery or land or building for shifting industrial undertaking <u>from urban area to SEZ</u> [<i>Furniture not included</i>]
3. Nature of Asset	Short term / Long term	Short term / Long term	Short term / Long term
4. New Asset to be purchased/ constructed	<u>New land or building</u> for the industrial undertaking.	(a) Purchase/ Construction of NEW plant, machinery, land or building in such rural area or, (b) Shifting original assets to that area or, (c) Incurring notified expenses. [<i>Furniture not included</i>]	(a) Purchase/ construction of plant, machinery, land or building in such SEZ or, (b) Shifting the original assets to SEZ or, (c) Incurring notified expenses. [<i>Furniture not included</i>]
5. Time-limit for purchase/ construction of new asset.	Within 3 years from date of receipt of initial compensation.	Within 1 year before or 3 years after the date of transfer.	Within 1 year before or 3 years after the date of transfer.
6. Deposit scheme	Applicable	Applicable	Applicable
7. Amount of Exemption	Lower of capital gains or investment in new asset.	Lower of - Capital gains, or Cost incurred for (a) to (c) of point 4.	Lower of - Capital gains, or Cost incurred for (a) to (c) of point 4.
8. Exemption -will be with-drawn on -	Transfer of new asset within a period of 3 years from the date of its acquisition or construction.	Transfer of new or shifted asset within a period of 3 years from the date of its acquisition or construction or shifting	Transfer of new or shifted asset within a period of 3 years from the date of its acquisition or construction or shifting
9. Taxability on Withdrawal of Exemption	Amount of exemption claimed earlier shall be reduced from the cost of acquisition of new asset.	Exemption claimed earlier shall be reduced from cost of acquisition of new or shifted asset.	Exemption claimed earlier shall be reduced from cost of acquisition of new or shifted asset

COST INFLATION INDEX

<u>F/Y</u>	<u>CII</u>	<u>F/Y</u>	<u>CII</u>
2001-02	100	2013-14	220
2002-03	105	2014-15	240
2003-04	109	2015-16	254
2004-05	113	2016-17	264
2005-06	117	2017-18	272
2006-07	122	2018-19	280
2007-08	129	2019-20	289
2008-09	137	2020-21	301
2009-10	148	2021-22	317
2010-11	167	2022-23	331
2011-12	184	2023-24	348
2012-13	200	2024-25	363

PRACTICAL QUESTIONS – SET A

1. **[Period of Holding]** How will you calculate the period of holding in case of the following assets?

- (a) Shares held in a company in liquidation
- (b) Bonus shares
- (c) Flat in a co-operative society

Solution:

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.

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.

Flat in a co-operative society - The period of holding shall be reckoned from the date of allotment of membership in the society and will end with the date of transfer.

2. **[Capital Asset]** 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.

3. **[Section 45(2)]** X converts his capital asset (acquired on June 10, 2016 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.

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.

4. In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 2005 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 1995 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 day of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 2005 which are converted into 500 shares worth ₹ 85,000 in November 2024 by the company.

Solution:

We know that capital gains arise 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), transfer of a capital asset under **a gift by 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), transfer 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), transfer by way of 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.

5. **[Reverse Mortgage]** 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 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.

However, capital gains tax liability would be attracted at the stage of alienation of the mortgaged property by the bank for the purposes of recovering the loan.

6. **Examine, with reasons, whether the following statements are True or False.**

- 1. **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.**
- 2. **Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.**
- 3. **Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.**

Solution:

- 1. **False:** As per section 47, 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.
- 2. **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 bond held for more than 12 months will be a long-term capital asset.
- 3. **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or a public sector company, or Scheduled Bank, 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.

7. **[Section 45(2)]** Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2003 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
2003-04	109
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. 2016-17) 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 long-term capital gains 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 348/109)	1,59,633	2,90,367

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.

8. **[After Depreciation Chapter]** Singhania & Co., a sole proprietorship own six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The written down value of these machines as on 1st April, 2024 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:

(a) Computation of depreciation for A.Y. 2025-26

Particulars	₹
W.D.V. of the block as on 1.4.2024	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.

(b) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- (i) When one or some of the assets in the block are sold for consideration more than the value of the block.
- (ii) When all the assets are transferred for a consideration more than the value of the block.
- (iii) 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.

(c) 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: W.D.V. of the machines as on 1.4.2024	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

9. 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	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 (Transfer took place before 23.07.2024)	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

Note - Assume that 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:

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

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non- resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
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 ₹ 1,00,000]	₹ 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 (after adjusting Basic Exemption limit)	₹ 15,000	-	-	-
On Other income	Nil	₹ 3,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	₹ 12,500			
Tax after rebate	₹ 2,500	₹ 3,000	₹ 18,000	₹ 11,500
Add: Health and education cess @4%	100	₹ 120	₹ 720	₹ 460
Total tax liability	₹ 2,600	₹ 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.
- Since Mr. A is a resident whose total income does not exceed ₹ 5 lakhs, he is eligible for rebate of ₹ 12,500 or the actual tax payable, whichever is lower, under section 87A.

10. [IMPORTANT] 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% to celebrate his 75th birthday.

Compute his total income and tax liability for Assessment Year 2025-26 (if Mr. Mithun pays tax under default tax regime), assuming that he is having other income of ₹ 800,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Solution:**Computation of total income and 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 2)	2,00,000
Long term capital gains (Taxable u/s 112A)	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains (Taxable u/s 111A)	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

Computation of Tax:

Tax on STCG u/s 111A 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
Tax before cess	1,18,275
Add: Health and education cess @4%	4,731
Tax liability	1,23,006
Tax liability (rounded off)	1,23,010

Notes:

- Long-term capital gains exceeding ₹ 1,25,000 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 12.5%.
- 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.
So, the cost of acquisition of original share is ₹ 2,000 per share.
- Since bonus shares are held for less than 12 months before sale, the gain arising there from is a short-term capital gain chargeable to tax @20% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of ₹ 3,00,000 for A.Y. 2025-26.
- Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48.
- Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- Securities transaction tax is not allowable as deduction.
- 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.

Solution:

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
	25,000
Capital Gains	
Sale 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 (Rounded off)	78,630

12. **[Section 45(2) + Section 54EC]** Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the financial year 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 Assessment Year 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].

Solution:

Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	₹
Capital Gains	
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
Business Income	
Sale price of flats [$10 \times \text{₹ } 30$ lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [$\text{₹ } 210$ lacs $\times 2/3$]	1,40,00,000
Cost of construction of flats [$10 \times \text{₹ } 10$ lakhs]	1,00,00,000
Business income chargeable to tax for A.Y. 2025-26	60,00,000

Notes:

- (1) 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).
- (2) However, 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.
- (3) 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. PY 2023-24) and not up to the year of sale of stock-in-trade (i.e. PY 2024-25).
- (4) 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.

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.

- (5) 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.
- (6) 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]. 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.

13. **[After Depreciation/PGBP chapter]** Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in Dec 2024.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2024 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:

(a) Towards loss of stock	₹ 4,80,000
(b) Towards damage of machinery	₹ 6,00,000
(c) Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

Solution:

- (a) 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".

- (b) 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.

- (c) 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.

14. **[VERY IMP. FOR EXAM]** Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

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

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

Solution:

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

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration , then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration , stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	1,70,00,000
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	
Less: cost of acquisition of residential house	<u>30,00,000</u>
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 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.	55,00,000
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.

15. **[VERY IMP. FOR EXAM]** 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 investments:

- (i) Acquired two residential houses at Delhi for ₹ 130 lakhs and ₹ 50 lakhs 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 09-01-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y. 2024-25. 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.**

Solution:

**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 × 363/129)	281.40	554.43

Long-term capital gains 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]		247.47
Less: Exemption under section 54 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.		130.00
Less: Exemption under section 54EC 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).		50.00
Long term capital gains chargeable to tax		65.64

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.

16. **[VERY IMP. FOR EXAM AS PER AMENDMENT]** Mr. Shiva purchased a house property on February 15, 1995 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance.

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

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque.

Mr. Manish paid the balance entire sum and **Mr. Shiva transferred the house to Mr. Manish on February 20, 2025**. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

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

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

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

Solution:

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 (Amended) 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%	<u>12,603</u>
Total Tax	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]	<u>5,57,362</u>
Long-term capital loss	<u>1,69,032</u>

Since the computation results in a long term capital loss, if indexation benefit is given, **the tax u/s 112 would be Nil.**

However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.

Notes:

(1) Computation of cost of acquisition

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

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. **Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. ₹ 10,70,000 – ₹ 1,11,000 = ₹ 9,59,000.**

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, is taxable under the head “Income from other sources” in PY 2015-16.**

17. 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

Note: The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

18. Long term capital gain of ₹ 75 lakh arising from transfer of building on 01.5.2024 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 lakh, 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 lakh, provided the investment is made **before 01.11.2024** (i.e., within six months from the date of transfer).

19. M held 2000 shares in a company ABC Ltd. This company amalgamated with another company 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, assuming that the amalgamated company is an Indian company, 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.

20. Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for ₹ 75,00,000 to Mr. Vipul **on December 15, 2024** when the stamp duty value of agricultural land was ₹ 95 lakhs. However, the "agreement to sell" the agricultural land was entered on July 15, 2024 and Mr. Vipul gave ₹ 4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was ₹ 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for ₹ 10.85 lakhs and it was being used for agricultural purposes by him since its purchase.

Mr. Raj purchased another rural land in rural area on January 1, 2025 for ₹ 40 lakhs and this land was sold by him on March 12, 2026 for ₹ 45 lakhs.

Compute capital gain for assessment year 2025-26 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Cost Inflation Index for: F.Y. 2002-03: 105; F.Y. 2024-25: 363.

Solution:

Computation of Capital Gains of Mr. Raj for A.Y. 2025-26

Particulars		₹
Capital gain on sale of urban agricultural land		
Actual sale consideration	75,00,000	
Stamp duty value as on date of agreement i.e., on 15.7.2024 [Since part consideration is received through IMPS on the date of agreement]	85,00,000	
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]		85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., ₹ 75 lakhs]		75,000
Net Sales Consideration		84,25,000
Less: Cost of acquisition (no indexation since date of transfer is 15.12.2024)		10,85,000

Long Term Capital Gain before Exemption	73,40,000
Less: Exemption u/s 54B – In respect of rural agricultural land purchased on 1.1.2025. Mr. Raj is eligible to claim exemption u/s 54B since he has used the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer.	40,00,000
Long term capital gain (Taxable)	33,40,000

21. Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2025. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01.04.2001 is ₹ 13 lakhs. In the year 2013-2014, further construction and improvements costing of ₹ 10 lakhs. The House was originally purchased by his father on 01.03.2000 for ₹ 10 Lakhs. **On 10.05.2024**, the House was sold for ₹ 85 Lakhs. Expenditure in connection with transfer is ₹ 50,000. On 20.12.2024, he purchased a Residential House for ₹ 12 lakhs and he does not own any other house.

Compute the taxable Capital Gain for the assessment year 2025-26.

(Cost Inflation Index: F.Y. 2013-14:220, F.Y.2024-25:363, F.Y. 2009-10:148 and F.Y. 2001-02:100)

Solution:

Computation of Taxable Capital Gains for A.Y. 2025-26

Particulars	₹
Full Value of Consideration	85,00,000
Less: Expenditure in connection with transfer	<u>50,000</u>
Net Sales Consideration	84,50,000
Less: Indexed cost of acquisition [₹ 13,00,000 (higher of actual cost to the previous owner of ₹ 10 lakhs and Fair market value as on 1.4.2001 of ₹ 13 lakhs) x 363/100]	47,19,000
Less: Indexed cost of improvements [₹ 10 lakhs x 363/220]	<u>16,50,000</u>
	20,81,000
Less: Exemption u/s 54 – in respect of residential house purchased on 20.12.2024	<u>12,00,000</u>
Taxable Long Term Capital Gains	<u>8,81,000</u>

Note – The above answer is on the basis of the view expressed by *Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42*, wherein it was held that Indexed cost of acquisition in case of gifted asset has to be computed with reference to the year in which the previous owner first held the asset and not the year in which the assessee became the owner of the asset.

Alternative answer is possible on basis of the plain reading of the provisions of section 48 wherein the indexed cost of acquisition would be determined by taking the Cost Inflation Index (CII) for the year in which the asset is first held by the assessee i.e. F.Y.2009-10. In such a case, the Indexed cost of acquisition would ₹ 31,88,514 (₹ 13,00,000 x 363/148) and taxable long term capital gains would be ₹24,11,486.

22. Mr. Asif bought a vacant land for ₹ 80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. Hari (not a relative) in July 2024. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Asif received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs.

The sale deed was executed and registered on 10-2-2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 670 lakhs. Mr. Asif paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Asif made investments in NHAI bond: ₹ 45 lakhs on 29-5-2025 and ₹ 15 lakhs on 12-7-2025.

Compute the Capital Gain chargeable to tax for A.Y. 2025-26.

Cost Inflation Index:

F.Y. 2004-05	113
F.Y. 2006-07	122
F.Y. 2024-25	363

Solution:

Computation of income chargeable under the head “Capital Gains” for A.Y. 2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration	₹ 600 lakhs	
Value adopted by Stamp Valuation Authority	₹ 670 lakhs	
Full Value of Consideration		670.00
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
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 on or before the date of agreement.		
However, where the stamp duty value does not exceed 110% of the sale consideration received or accruing as a result of the transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value of ₹ 620 lakhs on the date of agreement cannot be adopted as the full value of consideration and stamp duty value on the date of registration would be considered. However, since stamp duty value on the date of registration exceeds 110% of the actual consideration, stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹ 600 lakhs)		6.00
Net Sale consideration		664.00
Less: 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	

- Construction cost of residential building	100	188.00
Long-term capital gains before exemption		476.00
Less: Exemption under section 54EC		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2025) would qualify for exemption, to the maximum extent of ₹ 50 lakhs.		
Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 09.08.2025 (i.e., within six months from the date of transfer).		
Long Term Capital Gains [Since it was held for more than 24 months]		426.00

23. **[Very Important]** Ms. Priya has always been financially aware and strategic with her investments. In January 2022, she saw an opportunity in gold and purchased gold jewellery worth ₹ 3,25,000, believing it would be a safe investment for the future. In October 2024, gold prices increased and she decided to sell her jewellery on 31.10.2024 for ₹ 4,75,000.

She also sold her house property in Delhi on 01.12.2024 for ₹ 80 lakhs. The stamp duty value of property at the time of transfer was ₹ 90 lakhs.

She purchased this property on 15.07.1998 for ₹ 8.80 lakhs. The FMV of the property as on 1st April, 2001 was ₹ 10.8 lakhs and Stamp duty value on the said date was ₹ 10 lakhs. She had incurred brokerage and other expenses @1% on purchase price at that time.

Compute the capital gain tax to be paid by Ms. Priya for A.Y. 2025-26 assuming her other income exceeds the basic exemption limit.

CII – F.Y. 2001-02: 100; F.Y. 2021-22: 317; F.Y. 2024-25: 363



Solution:

Computation of capital gain tax paid by Ms. Priya for A.Y. 2025-26

Particulars	₹	₹
<u>On sale of jewellery</u>		
Sale consideration	4,75,000	
Less: Cost of acquisition (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	<u>3,25,000</u>	
Long term capital gains [Since jewellery is sold on or after 23.7.2024 and held for more than 24 months]		1,50,000
<u>On sale of house property</u>		
Full Value of Consideration [Stamp duty value of ₹ 90 lakhs, since stamp duty value of ₹ 90 lakhs exceed actual consideration of ₹ 80 lakhs by more than 10%]	90,00,000	
Less: Cost of acquisition [₹ 10,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	<u>10,00,000</u>	<u>80,00,000</u>
Cost of acquisition		
Higher of -		
- Actual cost ₹ 8,80,000 + ₹ 8,800 = ₹ 8,88,800 and		
- Lower of Fair Market Value (FMV) as on 1.4.2001 of ₹ 10.8 lakhs and stamp duty value of ₹ 10 lakhs.		

Capital Gain chargeable to tax		<u>81,50,000</u>
Tax on capital gains		
Tax on LTCG on sale of jewellery [₹ 1,50,000 x 12.50%]	18,750	
Tax @12.5% on LTCG on sale of house property		
[As the asset is a long term capital asset, being land or building acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed with indexation @20% and without indexation @12.5%, whichever is beneficial to the assessee.]		
<u>Tax @20% with indexation –</u>		
Sale consideration	₹ 90,00,000	
Less: Indexed cost of acquisition		
₹ 10,00,000 x 363/100 =	₹ 36,30,000	
LTCG =	₹ 53,70,000	
Tax @20% = ₹ 53,70,000 x 20% =	₹ 10,74,000	
<u>Tax @12.5% without indexation -</u>		
Tax @12.5% = ₹ 80,00,000 x 12.5% =	₹ 10,00,000	10,18,750
Add: Surcharge @10% [Since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		<u>1,01,875</u>
Tax before cess		11,20,625
Add: HEC@4%		<u>44,825</u>
Tax on capital gain		11,65,450

PRACTICAL QUESTIONS – SET B

1. [Advance Forfeiture (Section 51) + Concept of First held/Previous Owner + Indexation + FMV/SDV as on 01.04.2001]

Mr. Rakesh purchased a house property on 14th April, 1999 for ₹ 1,05,000. He entered into an agreement with Mr. B for the sale of house on 15th September, 2004 and received an advance of ₹ 25,000. However, since Mr. B did not remit the balance amount, Mr. Rakesh forfeited the advance. Later on, he gifted the house property to his friend Mr. A on 15th June, 2006. Following renovations were carried out by Mr. Rakesh and Mr. A to the house property:

Particulars	₹
By Mr. Rakesh during FY 2000-01	10,000
By Mr. Rakesh during FY 2005-06	50,000
By Mr. A during FY 2008-09	1,90,000

The fair market value of the property as on 1.4.2001 is ₹ 1,50,000 and Stamp duty value was ₹ 1,70,000. Mr. A entered into an agreement with Mr. C for sale of the house on 1st June, 2009 and received an advance of ₹ 80,000. The said amount was forfeited by Mr. A, since Mr. C could not fulfil the terms of the agreement. Finally, the house was sold by Mr. A to Mr. Sanjay on 2nd May, 2024 for a consideration of ₹ 12,00,000.

Compute the capital gains chargeable to tax in the hands of Mr. A for the assessment year 2025-26.

Cost inflation indices are as under:

Financial Year	Cost inflation index
2001-02	100
2005-06	117
2006-07	122
2008-09	137
2024-25	363

2. [Capital Gains/Section 50C + IFOS (Gift)]

Ms. Chhaya transferred a vacant site to Ms. Dayama for ₹ 4,25,000 on 1.12.2024. 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 cost of acquisition for Ms. Chhaya in respect of vacant site is ₹ 4,00,000 (purchased in 2018). **Determine the total income of both Ms. Chhaya and Ms. Dayama taking into account the above said transaction.**

3. [Capital Gains/Section 50C + IFOS (Gift)]

Mr. Raj Kumar sold a house to his friend Mr. Dhuruv on 1st May, 2024 for a consideration of ₹ 25,00,000. The Sub-Registrar refused to register the document for the said value, as according to him, stamp duty 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 building portion). The differential stamp duty was paid, accepting the said value determined.

Assuming that the fair market value is ₹ 32,00,000, what are the tax implications in the hands of Mr. Raj Kumar and Mr. Dhuruv for the assessment year 2025-26? Mr. Raj Kumar had purchased the land on 1st June, 2011 for ₹ 5,19,000 and completed the construction of house on 1st October, 2022 for ₹ 14,00,000.

4. [Capital Gains {Section 50C & Section 49(4)} + IFOS]

Mr. Y submits the following information pertaining to the year ended 31st March, 2025:

- On 30.11.2024, 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 lacs.
- His close friend abroad sent him a cash gift of ₹ 75,000 through his relative for the above occasion.
- Mr. Y sold the above flat on 30.1.2025 for ₹ 3.2 lacs. The Registrar's valuation for stamp duty purposes was ₹ 3.7 lacs. Neither Mr. Y nor the buyer, questioned the value fixed by the Registrar.
- He had purchased some equity shares in X Pvt. Ltd., on 5.2.2007 for ₹ 3.5 lacs. These shares were sold on 15.3.2025 for ₹ 2.8 lacs.

You are requested to calculate the total income of Mr. Y for the assessment year 2025-26.

[Cost Inflation Index for F.Y. 2006-07 – 122, F.Y. 2011-12 – 184, FY 2024-25: 363]

5. [Section 50C + Previous Owner/First Held + Indexation]

Mr. Thomas inherited a house in Jaipur under will of his father in May, 2005. The house was purchased by his father in January, 2000 for ₹ 2,50,000. He invested an amount of ₹ 6,45,000 in construction of one more floor in this house in June, 2007. The house was sold by him **in May, 2024** for ₹ 37,50,000. The valuation adopted by the registration authorities for charge of stamp duty was ₹ 47,25,000 which was not contested by the buyer, but as per assessee's request, the Assessing Officer made a reference to Valuation officer. The value determined by the Valuation officer was ₹ 47,50,000. Brokerage @ 1% of sale consideration was paid by Mr. Thomas to Mr. Sunil. The fair market value of house as on 01.04.2001 was ₹ 2,69,100 and Stamp duty value was ₹ 3,70,000.

You are required to compute the amount of capital gain chargeable to tax for A.Y. 2025-26 with the help of given information and by taking CII for the F.Y. 2005-06 : 117, F.Y. 2007-08: 129 and for F.Y. 2024-25: 363.

6. [Section 45(5)] The house property of Abhinav is compulsorily acquired by the Government for ₹ 10,00,000 vide Notification issued **on 12th March 2022**. Abhinav has purchased the house in 2002-03 for ₹ 2,00,000. The compensation is received on 15th Dec 2024. The compensation is further enhanced by an order of the court on 5th Jan 2025 and a sum of ₹ 2,00,000 is received as enhanced compensation on 25th May 2025. Compute the capital gains and determine the year in which it is taxable.7. [Section 54] S, an owner of 3 houses, sells a residential house property in Chennai for ₹ 12,40,000 **on 23-5-2024**. This house was purchased by him in April 2004 for ₹ 2,80,000. On 30-5-2024, he purchased a flat in Mumbai of ₹ 8,70,000 for the purpose of the residence of his son-in-law. On 1-3-2025, S sells the flat in Mumbai for ₹ 12,10,000. Compute the capital gains arising on the two transactions. Is S eligible for exemption under section 54 in respect of the second sale? S, has an other income of ₹ 10,00,000. Mr. S has shifted out from Default tax regime.8. [Section 54] 'X' give the following information
Residential house property situated of Kolkata

	X ₹
Date of transfer	December 30, 2024
Date of purchase	June 30, 2002
Sale consideration	35,00,000
Cost of acquisition	2,00,000
Expenses on transfer	40,000
Amount deposited in capital gains deposit account scheme on July 20, 2025	21,00,000

To get the exemption under section 54, the following residential house properties are purchased in Chennai by X by withdrawing from the deposit account

Date of purchase	June 20, 2026
Cost of acquisition	15,00,000

Find out the following In the case of X—

- capital gain chargeable to tax for different assessment years;
- X does not want to purchase or construct another property, what is the earliest date when he can withdraw the unutilised amount from the deposit account; and
- is it possible to take back the exemption given under section 54 in a subsequent year.

9. [Section 54, LTCG, Tax Computation] Mr. Pranav, a resident individual had purchased a plot of land at a cost of ₹ 75,000 in June, 2003. He constructed a house for his residence on that land at a cost of ₹ 1,25,000 in August, 2007. He **sold that house in May, 2024** at ₹ 17,53,026 and purchased another residential house in June, 2024 for ₹ 8,00,000. He furnishes other income and investment as follows :

Particulars	₹
Interest on fixed deposit with a bank (Net of TDS ₹ 5,000)	45,000
Investment in PPF	20,000

Cost inflation index for financial year 2003-2004, 2007-08 and 2024-25 are 109, 129 and 363 respectively.

You are required to compute taxable income and tax payable by Mr. Pranav for the AY 2025-26. [Ignore Section 115BAC]

10. **[Section 54B]** X Sells agricultural land situated within the municipal limits of Calcutta for ₹ 50,00,000 **on July 1, 2024**, which was purchased by him on March 1, 2003 for ₹ 4,00,000. On July 15, 2025, he purchases agricultural land in rural area for ₹ 4,30,000 and deposits ₹ 10,80,000 in a deposit account for availing exemption under section 54B. He purchases another agricultural land (situated within the limit of Delhi Municipal Corporation) on June 30, 2026 for ₹ 8,47,000 by withdrawing from the deposit account. Amount left in the deposit account is withdrawn on July 10, 2026. The agricultural land in rural area is transferred on April 1, 2027 for ₹ 4,90,000 and the land in Delhi is transferred on July 17, 2027 for ₹ 8,70,000. **Determine the amount of capital gains.**

11. **[Section 54B & Section 54EC]** X Ltd. sells the following assets -

	Agricultural land	Bonus shares (unlisted)	House prp (let out)
Date of sale	January 31, 2025	November 7, 2024	March 25, 2025
Date of acquisition	May 9, 2003	April 4, 2004	June 6, 2002
	₹	₹	₹
Sale consideration	9,00,000	3,50,000	10,40,000
Purchase consideration	70,000	Nil	1,00,000

The agricultural land is situated in on urban area and used for agricultural purpose since 2003

X Ltd. invests in the following assets on April 2, 2025

1. Bonds of the National Highways Authority of India (redeemable on June 1, 2029): ₹ 7,00,000.
2. Bonds (redeemable on May 10, 2029) of the Rural Electrification Corporation : ₹ 5,00,000
3. Agricultural land: ₹ 75,000.

Find out the capital gain chargeable to tax.

12. **[Depreciable Asset/STCG + LTCG + Indexation]** 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	₹
Building completed in September, 2008 for	10,00,000
Land appurtenant thereto purchased in April, 2002 for	12,00,000
Advance received from a prospective buyer for land in May, 2003, forfeited in favour of assessee, as negotiations failed	50,000
WDV of the building block as on 1.4.2024	8,74,800
Sale value of factory building in May, 2024	8,00,000
Sale value of appurtenant land in May, 2024	42,00,000

The assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2025-26 and the amount to be invested under section 54EC for availing the maximum exemption. Cost inflation indices are as under:

2002-03	105
2003-04	109
2024-25	363

13. **[Section 10(37)]** Mr. X is in possession of agricultural land situated within urban limits, which is used for agricultural purposes during the preceding 3 years by his father. On 4.4.2024, this land is compulsorily acquired by the Central Government of India on a compensation fixed and paid by it for ₹ 10 lakhs. **Advise X as to the tax consequences, assuming that the entire amount is invested in purchase of shares.**
14. **[Section 54, Section 54F & Indexation]** Mr. A owns a residential house, which is self-occupied, and also a plot of land (He has no other house). He sells the house **on May 31, 2024** and the plot **on June 15, 2024** for ₹ 13,00,000 and ₹ 7,00,000 respectively. The house was purchased on January 30, 2004 for ₹ 3,80,000 and the plot on March 30, 2004 for ₹ 2,00,000. A has purchased a new residential house on April 25, 2025 for ₹ 5,00,000 and claims exemption in respect of such house. On 31-1-2026, he transfers the said residential house for ₹ 8,00,000 and purchases a new house on 31-3-2027 for ₹ 11,00,000. **Compute the capital gains for relevant years.**

15. **[Section 54F & Indexation]** X sells (non-listed) shares in a private sector company **on July 10, 2024** for ₹ 8,05,000 (cost of acquisition on June 16, 2004 : ₹ 60,000, expenses on sale : ₹ 5,000). On July 10, 2024, he owns one residential house property. To get the benefit of exemption under section 54F, X deposits on May 30, 2025 ₹ 6,00,000 in Capital Gains Deposit Account Scheme. By withdrawing from the Deposit Account, he purchases a residential house property at Delhi on July 6, 2026 for ₹ 4,80,000. Ascertain -
- The amount of CG chargeable to tax for the AY 2025-26
 - Tax treatment of the unutilized amount,
 - When can be withdraw the unutilized amount and
 - What X has to do to ensure that the exemption under section 54F is never taken back.
16. **[Section 54F & Indexation]** Mr. 'X' furnishes the following data for the previous year ending 31.3.2025:
- Unlisted Equity Shares of AB Ltd., 10,000 in number were **sold on 31.5.2024**, at ₹ 250 for each share.
 - The above shares of 10,000 were acquired by 'X' in the following manner:
 - Received as gift from his father on 1.6.2000 (5,000 shares) the fair market value on 1.4.2001 ₹ 50 per share.
 - Bonus shares received from AB Ltd. on 21.7.2005 (2,000 shares).
 - Purchased on 1.2.2007 at the price of ₹ 125 per share (3,000 shares).
 - Purchased one residential house at ₹ 10 lakhs, on 1.5.2025 from the sale proceeds of shares.
 - 'X' is already owning a residential house, even before the purchase of above house.
- You are required to compute the taxable capital gain. He has no other source of income chargeable to tax. (Cost Inflation Index – Financial year 2005-06: 117; 2006-07: 122; Financial year 2024-25: 363)**
17. **[Slump Sale – Section 50B]** 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 lacs. **The fair market value of the capital assets transferred on 1.4.2024 is ₹ 30 lacs.** Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000.

His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2022 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2025-26.

18. **[Liquidation + Dividend]** Shri Aniket purchased 1,00,000 shares of Nahar Spinning mills Limited (50% of total shares of the company) in 2002-03 for ₹ 8,00,000. The company was liquidated **on 17.12.2024** and on liquidation he received ₹ 20 per share and immovable property whose market value worth ₹ 25,50,000. **On liquidation the company possessed accumulated profits of ₹ 8,00,000. Find out the capital gains in hands of Aniket for the assessment year 2025-26.**
19. **[Liquidation + Dividend]** Ms. Vasumathi purchased 10,000 equity shares of ABC Co. Pvt. Ltd. on 28.2.2005 for ₹ 1,20,000. The company **was wound up on 31.5.2024**. The following is the summarized financial position of the company as on 31.5.2024:

Liabilities	₹	Assets	₹
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		
	48,50,000		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 ₹ 10,00,000 per acre. The agricultural land received above was sold by Ms. Vasumathi on 28.2.2025 for ₹ 15,00,000.

Discuss the tax consequences in the hands of the company and Ms. Vasumathi. The cost inflation indices are: F.Y. 2004-05: 113; F.Y. 2024-25: 363

SOLUTION - SET B

1.

Computation of capital gains chargeable to tax in the hands of Mr. A

Particulars	₹
Sale consideration	12,00,000
Less: Indexed cost of acquisition (Note 2)	2,08,279
Indexed cost of improvement (Note 3)	6,58,559
Long term capital Gain	3,33,162

Note 1:

Indexation benefit is available as capital asset is transferred before 23.07.2024.

Note 2:

Indexed cost of acquisition is determined as under:

Cost to the previous owner i.e. Mr. Rakesh is ₹ 1,05,000
 Fair Market Value on 1st April, 2001 is ₹ 1,50,000
 (SDV as on 01/04/2001 is 170,000 & FMV is lower)

Cost to the previous owner or FMV on 1st April, 2001, whichever is more, is to be taken as cost of acquisition of Mr. A ₹ 1,50,000

Less: Advance money forfeited by Mr. A (as per section 51)

(Note : Advance forfeited by Mr. Rakesh, the previous owner, should, however, not be deducted)

Cost of acquisition ₹ 80,000
₹ 70,000

Indexed cost of acquisition (₹ 70,000 × 363/122) ₹ 2,08,279

122 is the Cost Inflation Index for F.Y. 2006-07, being the first year in which property is held by Mr. A and 363 is the Cost Inflation Index for F.Y. 2024-25, being the year in which the property is sold.

Alternative view: In the case of CIT v. Manjula J. Shah, the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of house **would be ₹ 2,54,100** taking Cost Inflation Index of 100 for the F.Y. 2001-02 since F.M.V. as on 1st April, 2001 is taken as cost of acquisition of Mr. A.

Note: Clause (ix) of Section 56(2) provides that the advance which is forfeited on or after 01/04/2014 would be chargeable to tax under the head "Income from Other sources" and hence, such forfeited amount shall not be reduced from the cost of acquisition of the transferred capital asset. ***In the present case, the advance was forfeited in a previous year prior to P.Y. 2014-15. Therefore, such amount would be deductible from the cost of acquisition while determining the Capital gains on transfer of such asset.***

Note 3:

Indexed cost of Improvement is determined as under:

Expenditure incurred before 1st April, 2001 should not be considered

NIL

Expenditure incurred on or after 1st April, 2001

- During 2005-06 Indexed cost of Improvement [₹ 50,000 × 363/117] ₹ 1,55,128

- During 2008-09 Indexed cost of Improvement [₹ 1,90,000 × 363/137] ₹ 5,03,431

Total indexed cost of improvement ₹ 6,58,559

2. Transfer of immovable property for inadequate consideration will have any tax implication in the hands of transferee under section 56(2)(x) as difference **exceeds higher of ₹ 50,000 or 10% of sales consideration**. Therefore, in the hands of transferee, i.e., Ms. Dayama, Income under the head IOS will be ₹ 1,75,000. Further, for the transferor, Ms. Chhaya, the value adopted for stamp duty purpose will be taken as the deemed sale consideration under section 50C for computation of capital gains.

Particulars	Chhaya (Transferor) ₹	Dayama (Transferee) ₹
Capital gains		
Deemed sale consideration under section 50C	6,00,000	
Less: Cost of acquisition [No indexation since asset is transferred on or after 23.07.2024]	<u>4,00,000</u>	
	2,00,000	
LTCG		
Income from other sources		1,75,000
Difference between stamp duty value and sale consideration of immovable property, taxable under section 56(2)(x)	<u>50,000</u>	<u>2,05,000</u>
Other income (computed)	2,50,000	3,80,000
Total income		

3. **In the hands of the seller, Mr. Raj Kumar**

As per section 50C(1), where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer **if such value exceeds 110% of the actual sales consideration**.

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 consideration received or accruing as a result of transfer.

[Important] In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Particulars	₹
Long 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	<u>10,23,897</u>
Long-term capital gain (A)	11,76,103
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building	10,00,000
Less: Cost of acquisition	<u>14,00,000</u>
Short term capital loss (B)	<u>4,00,000</u>

As per section 70, short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 7,76,103 (i.e., ₹ 11,76,103 – ₹ 4,00,000).

In the hands of the buyer Mr. Dhuruv

As per section 56(2)(x), where an individual or HUF receives from a non-relative, any immovable property for a consideration 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 or 10% of the sales consideration, whichever is higher, 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 (i.e. ₹ 32,00,000 - ₹ 25,00,000) would be charged to tax as income from other sources under section 56(2)(x) in the hands of Mr. Dhuruv.

4.

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

Particulars	₹	₹	₹
Capital Gains			
Short term capital gains (on sale of flat)			
(i) Sale consideration	3,20,000		
(ii) Stamp duty valuation	<u>3,70,000</u>		
Consideration for the purpose of capital gains as per section 50C (stamp duty value, since it is higher than sale consideration)		3,70,000	
Less: Cost of acquisition [As per section 49(4), cost to be taken into consideration for 56(2)(x) will be the cost of acquisition]		<u>3,40,000</u>	30,000
Long term capital Gain on sale of equity shares of X Pvt. Ltd			
Sale consideration		2,80,000	
Less: Cost of acquisition		<u>3,50,000</u>	
[No indexation as date of transfer is 15.03.2025]			
Long term capital loss to be carried forward (See Note 1 below)		70,000	
Income from other sources:			
Gift from friends by way of immovable property on 30.11.2024 [See Note 3 below].			3,40,000
Gift received from a close friend (unrelated person) [See Note 2 below]			<u>75,000</u>
Total income			<u>4,45,000</u>

Notes:

- In the given problem, unlisted shares of X Pvt. Ltd. have been held for more than **24 months** and hence, constitute a long term capital asset. The loss arising from sale of such shares is, therefore, a long-term capital loss. As per section 70, long term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss cannot be set-off against short-term capital gains. However, such long-term capital loss can be carried forward for next 8 AYs.
- 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 [Section 56(2)(x)].
- Receipt of immovable property without consideration would attract the provisions of section 56(2)(x).

5.

Computation of Long term Capital Gain for A.Y. 2025-26

Particulars	₹	₹
Sale consideration as per section 50C (Note-1)		47,25,000
Less: Expenses incurred on transfer being brokerage @ 1% of sale consideration of ₹ 37.50 lacs		<u>37,500</u>
Net Sales Consideration		46,87,500
Less: Indexed cost of acquisition (Note-2) (₹ 2,69,100 × 363/117)	8,34,900	
Indexed cost of improvement (₹ 6,45,000 × 363/129)	<u>18,15,000</u>	
Long term capital gain		<u>20,37,600</u>

Notes:

- As per section 50C, where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the valuation by the stamp valuation authority, such value adopted or assessed by the stamp valuation authority shall be deemed to be the full value of consideration **if value exceeds 110% of the sales consideration**. Where a reference is made to the valuation officer, and the value ascertained by the valuation officer exceeds the value adopted by the stamp valuation authority, the value adopted by the stamp valuation authority shall be taken as the full value of consideration.

Sale consideration	₹ 37,50,000
Valuation made by registration authority for stamp duty	₹ 47,25,000
Valuation made by the valuation officer on a reference	₹ 47,50,000

Applying the provisions of section 50C to the present case, ₹ 47,25,000, being, the value adopted by the registration authority for stamp duty, shall be taken as the sale consideration for the purpose of charge of capital gain.

2. The house was inherited by Mr. Thomas under the will of his father and therefore, the cost incurred by the previous owner shall be taken as the cost. Fair market value as on 01.04.2001, accordingly, shall be adopted as the cost of acquisition of the house property. **Here, FMV as on 01.04.2001 does not exceeds SDV of the same.** However, indexation benefit will be given from the year in which Mr. Thomas first held the asset i.e. P.Y. 2005-06

Alternative view: In the case of CIT v. Manjula J. Shah, the Bombay High Court held that the indexed cost of acquisition in case of gifted asset can be computed with reference to the year in which the previous owner first held the asset. As per this view, the indexation cost of acquisition of house **would be ₹ 9,76,833.**

6. The compulsory acquisition of Mr. Abhinav's house property took place in the financial year 2021-22. Accordingly, the year of transfer is the financial year 2021-22. However, by virtue of specific provisions of section 45(5), the capital gains so computed shall be charged to tax in the year in which the compensation or part thereof is first received i.e. in the financial year 2024-25 or assessment year 2025-26.

Computation of long term capital gain for the assessment year 2025-26

Full value of consideration	10,00,000
Less: Indexed cost of acquisition (2,00,000 x 317 ÷ 105)	6,03,810
Long term capital gains	3,96,190

Taxability of enhanced compensation: LTCG due to enhanced compensation = ₹ 2,00,000, which will be chargeable to tax in the previous year 2025-26 (Assessment year 2026-27).

7. Computation of capital gains of Mr. S for the AY 2025-26 (amounts in ₹)

Sale proceeds of the property located in Chennai	12,40,000
Less: Indexed Cost of Acquisition (₹ 2,80,000 x 363 ÷ 113)	8,99,469
Long Term Capital Gain (1)	3,40,531

Sales Consideration from the flat	12,10,000
Less : Cost of Acquisition	8,70,000
Short Term Capital Gain (2)	3,40,000

Total Capital Gains (1 + 2) **680,531**

Note : In this case, after transfer of residential house, Mr. S has purchased a new flat during the previous year 2024-25 and sold the same in the previous year 2024-25 itself. If Mr. S claims exemption in respect of the flat while computing long-term capital gains, then, on sale of the flat, the cost of the flat will be reduced by the amount of exemption claimed. This will have the effect of decreasing the amount of long-term capital gains and increasing the amount of short-term capital gains. While long-term capital gains are taxable @ 20%; short-term capital gains are taxable as per normal rates (highest slab being 30% due to other income of ₹ 10,00,000).

Therefore, in order to avoid higher tax liability, Mr. S should not claim exemption in respect of the flat.

Further, no exemption is available in respect of sale of new house, as the same is a short-term capital asset.

8.

Assessment year 2025-26	₹
Sale consideration (being stamp duty value)	35,00,000
Less: Expenses on transfer	40,000
Cost of acquisition	2,00,000
Balance	32,60,000
Less: Exemption under section 54 [amount deposited in capital gain deposit account scheme, i.e., ₹ 21,00,000 or amount of capital gain, i.e., ₹ 32,60,000, whichever is lower]	21,00,000
Long -term capital gains chargeable to tax for the assessment year 2025-26	11,60,000
Assessment Year 2028-29	
Amount deposited in capital gains deposit account scheme	21,00,000
Less: Amount utilized by purchasing a new residential property at Chennai	15,00,000
Unutilized amount	6,00,000

Notes:

1. In this case, X can purchase a new residential property, by withdrawing from the deposit account, up to December 29, 2026 or he can complete construction of a residential property up to December 29, 2027. If he does not want to purchase or complete construction of another property, he can withdraw the unutilized amount of ₹ 6,00,000 in the deposit account at any time after December 29, 2027.
2. ₹ 6,00,000 would be taxable as long-term capital gains of the previous year 2027-28, i.e., assessment year 2028-29.
3. The new residential property purchased at Chennai should not be transferred before 3 years from the date of its purchase (in other words, the new residential property should not be transferred up to June 19, 2029). If the new residential property is transferred **before June 20, 2029**, then the exemption given under section 54 (i.e., ₹ 21,00,000 minus ₹ 6,00,000) would be taken back.

9. Computation of taxable income and tax payable by Mr. Pranav for the A.Y. 2025-26

	Particulars	₹	₹
1.	Income from Capital Gains		
	Full value of consideration		17,53,026
	Less : Indexed cost of acquisition of land (₹ 75,000 × 363/109)		2,49,771
	Indexed cost of construction of house (₹ 1,25,000 × 363/129)		3,51,744
	LTCG before deduction		11,51,511
	Less : Deduction under section 54 - Cost of new residential house		8,00,000
	Long term capital gains		3,51,511
	Income from other sources		
2.	Interest on Bank deposit (Net)		
	Add : Tax deducted at source	45,000	50,000
	Gross total income	<u>5,000</u>	<u>4,01,511</u>
	Less: Deduction under section 80C:		
	Investment in PPF		20,000
	Taxable income		3,81,511
			3,81,510
	Components of Total income		
	Special income - Long-term Capital gains		
	Normal Income (₹ 50,000 – ₹ 20,000)	3,51,510	
		<u>30,000</u>	
		3,81,510	
	Tax on normal income of ₹ 30,000		Nil
	Tax on LTCG		
	[LTCG - (Maximum amount not chargeable to tax - Normal Income)] @ 20% under section 112 = {₹ 3,51,510 – (2,50,000 – 30,000)} x 20%		26,302
	Less: Rebate under section 87A		<u>12,500</u>
	Tax before cess		<u>13,802</u>
	Add: Health & Education cess@4%		<u>552</u>
	Total Tax		14,354
	Less: TDS		<u>5,000</u>
	Net Tax Payable		9,354
			9,350

10. Assessment Year 2025-26

Sale proceeds	50,00,000
Less: Indexed cost acquisition [₹ 4,00,000 × 363 ÷ 105]	13,82,857
Balance	36,17,143
Less: Exemption under section 54B	
Cost of agricultural land purchased on July 15, 2025	4,30,000
Amount deposited in the deposit account	<u>10,80,000</u>
Long-term capital gains	21,07,143

Assessment year 2027-28 (i.e., relevant to the previous year in which 2 years from the date of sale of agricultural land expires)

	₹
Amount deposited in the deposit account	10,80,000
Less : Amount utilized in purchasing agricultural land up to June 30, 2026	8,47,000
Long-term capital gains	2,33,000

Assessment year 2028-29 (i.e., relevant to the previous year 2027-28 in which the new assets are transferred before the expiry of 3 years)

	Agricultural land in rural area ₹	Agricultural land in urban area ₹
Sale proceeds	4,90,000	8,70,000
Less : Cost of acquisition offer deduction of the amount of exemption under section 54B as the new assets are transferred within 3 years [i.e., ₹ 4,30,000-₹ 4,30,000, ₹ 8,47,000 - ₹ 8,47,000]	Nil	Nil
Short-term capital gain	Not taxable*	8,70,000

*As the agricultural land is situated in rural area, it is not a "capital asset" and, consequently, capital gain arising on its transfer is not chargeable to tax.

11.

	Land ₹	Bonus shares ₹	House property ₹
Sale consideration (a)	9,00,000	3,50,000	10,40,000
Cost of acquisition (b)	70,000	Nil	1,00,000
Long-term capital gain [before any exemption] (c)	8,30,000	3,50,000	9,40,000
Less : Exemption under section 54EC	8,30,000	NIL	3,70,000
Income under the head "Capital gains"	Nil	3,50,000	5,70,000

12.

Computation of taxable capital gain of Mr. Malik for AY 2025-26

Particulars	₹	₹
Factory building		
Sale price of building	8,00,000	
Less: WDV as on 1.4.2024	<u>8,74,800</u>	
Short-term capital loss on sale of building		(-) 74,800
Land appurtenant to the above building		
Sale value of land	42,00,000	
Less: Indexed cost of acquisition (₹ 11,50,000 × 363/105)	<u>39,75,714</u>	
Long-term capital gains on sale of land		<u>2,24,286</u>
Chargeable long term capital gain		1,49,486

Investment under section 54EC: In this case, both land and building have been held for more than 24 months and hence, are long-term capital assets. Exemption under section 54EC is available if the capital gains arising from transfer of a long-term capital asset are invested in specified long-term specified assets within 6 months from the date of transfer. As per section 54EC, the amount to be invested for availing the maximum exemption is the net amount of capital gain arising from transfer of long-term capital asset, which is ₹ 1,49,486 in this case.

Notes:-

- 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. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited i.e. ₹ 12,00,000 – ₹ 50,000 = ₹ 11,50,000. It may be noted that in cases 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.
- Factory building on which depreciation has been claimed, is a depreciable asset. Profit / loss arising on sale is deemed to be short-term capital gain/loss as per section 50, and no indexation benefit is available.

3. Land is not a depreciable asset, hence section 50 will not apply. Being a long-term capital asset (held for more than 24 months), indexation benefit is available.
4. As per section 74, short term capital loss can be set-off against any income under the head "Capital gains", long term or short-term. Therefore, in this case, short-term capital loss of ₹ 74,800 can be set-off against long-term capital gain
13. Section 10(37) exempts the capital gains arising to an individual or a Hindu Undivided Family from transfer of agricultural land by way of compulsory acquisition, or a transfer, the consideration for which is determined or approved by the RBI or the Central Government. Such exemption is available where the compensation or the enhanced compensation or consideration, as the case may be, is received on or after 1st April, 2004 and the land has been used for agricultural purposes during the preceding two years by such individual or a parent of his or by such Hindu undivided family. Since all the above conditions are fulfilled in this case, X is entitled to exemption under section 10(37) of the entire capital gains arising on sale of agricultural land.
14. A can claim exemption u/s 54 in respect of capital gains on sale of residential house and exemption u/s 54F in respect of capital gains on sale of plot. Since the exemption u/s 54 is available in on investment of capital gains, therefore, first of all, exemption u/s 54 will be claimed. Thereafter, exemption u/s 54F, which is available on investment of net consideration, shall be claimed. The exemption u/s 54F will be available only in respect of balance cost of new house i.e. **Original cost of new house - Exemption u/s 54.**

Computation of Capital Gains for AY 2025-26 (amounts in ₹)

	Residential house	Plot
Full Value of consideration	13,00,000	7,00,000
Less: Indexed cost [(3,80,000 × 363 ÷ 109); (2,00,000 × 363 ÷ 109)]	12,65,505	6,66,055
Long term capital gains	34,495	33,945
Less: Exemption u/s 54	34,495	
Exemption u/s 54F i.e.		
Capital gain – ₹ 33,945 x (Cost of new house – Exemption u/s 54) i.e. {5,00,000 – 34,495}		
Net consideration of plot = 700000		22,574
Taxable capital gains	NIL	11,371

Computation of capital gains on sale of residential house for assessment year 2026-27 (amounts in ₹)

Sale price of the residential house (acquired on 25-4-2025)	8,00,000
Less: Cost of Acquisition (5,00,000 - exemption claimed u/s 54 - ₹ 34,495)	4,65,505
Short-term capital gains for assessment year 2026-27	3,34,495

Long-term capital gains (Exemption claimed u/s 54F shall be chargeable as long-term capital gains of the year in which the house is transferred i.e. assessment year 2026-27) 22,574

Note: No exemption will be available in respect of second new house acquired on 31-3-2027. Exemption u/s 54 or 54F cannot be claimed because the house transferred on 31-1-2026 is a short-term capital asset.

15.

Assessment year 2025-26

Sale consideration	₹ 8,05,000
Less :	
Expenses	5,000
Indexed cost of acquisition [₹ 60,000 x 363/113]	1,92,743
Balance	6,07,257
Less : Exemption under section 54F [₹ 6,00,000, being the amount deposited in Deposit Account x ₹ 6,07,257 being the amount of capital gain / ₹ 8,00,000 being net sale consideration)	4,55,443
Long-term capital gain	1,51,814

Notes:

1. In this case, X has not fully utilised the deposit account for acquiring the residential house property. Out of ₹ 6 lakh deposited in the deposit account, ₹ 4.80 lakh is utilised for purchasing the house. Tax treatment of ₹ 1.20 lakh (being the unutilised amount) will be as follows —

Unutilised amount (a)	₹ 1,20,000
Net sale consideration (b)	8,00,000
Original capital gain (c)	6,07,257
Notional long-term capital gain [i.e., (a)/(b) x (c)]	91,089
Effective exemption under section 54F [i.e., ₹ 4,55,443 - ₹ 91,089]	3,64,354

₹ 91,089 will be chargeable to tax as long-term capital gain after the expiry of 3 years from date of transfer of shares (i.e., July 9, 2027). Consequently, it will be taxable for the assessment year 2028-29.

2. The unutilised amount of ₹ 1.20 lakh can be withdrawn by X at any time after July 9, 2027.
3. If X sells the new house at Delhi before July 6, 2029, then ₹ 3,64,354 (exemption under section 54F) will be taken as long-term capital gains of the year in which the house is sold.
4. If X purchases any other residential house before July 10, 2026 or constructs any other residential house before July 10, 2027, then ₹ 3,64,354 (exemption under section 54F) will be deemed as long-term capital gains of the year in which another house is purchased or constructed.

16. **Computation of taxable capital gain of Mr. 'X' for A.Y. 2025-26**

Particulars	₹	₹
Sale consideration received on sale of 10,000 shares @ ₹ 250 each		25,00,000
Less: Indexed cost of acquisition		
(a) 5,000 shares received as gift from father on 1.6.2000 Indexed cost 5,000 x ₹ 50 x 363/100	9,07,500	
(b) 2,000 bonus shares received from AB Ltd Bonus shares are acquired on 21.7.2005 i.e after 01.04.2001. Hence, the cost is Nil.	Nil	
(c) 3000 shares purchased on 1.2.2007 @ ₹ 125 per share. The indexed cost is 3000 x 125 x 363/122	11,15,779	20,23,279
Long term capital gain		4,76,721
Less : Exemption under section 54F (See Note below) ₹ 4,76,721 x ₹ 10,00,000 / ₹ 25,00,000		1,90,688
Taxable long term capital gain		2,86,033

Note: Exemption under section 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 long-term capital asset.

In this case, the assessee has fulfilled the two conditions mentioned above. Therefore, he is entitled to exemption under section 54F.

17. **Computation of capital gains on slump sale of Unit 1**

Particulars	₹
Sale value [FMV as on 01.04.2024 being higher]	30,00,000
Less: Expenses on sale	28,000
Net sale consideration	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	₹	₹
Building (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	37,500	
Bank Loan	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	<u>12,500</u>
WDV as on 1.4.2023	37,500
Less: Depreciation for Financial Year 2023-24	<u>9,375</u>
WDV as on 1.4.2024	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. **The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 9 lakh (₹ 12 lakh – ₹ 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.**

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.

18. Computation of capital gains in case of Shri Aniket for the Assessment Year 2025-26

	₹
Amount received on liquidation (₹ 20 x 1,00,000 + ₹ 25,50,000)	45,50,000
Less: Amount taxable as deemed dividend i.e. share in accumulated profits (50% of 8,00,000)	<u>4,00,000</u>
Full value of consideration	41,50,000
Less: cost of acquisition	<u>8,00,000</u>
Long term capital Gain	<u>33,50,000</u>

19. In the hands of the company

As per section 46(1), distribution of capital assets amongst the shareholders on liquidation of the company is not regarded as "transfer" in the hands of the company. Consequently, there will be no capital gains in the hands of the company.

In the hands of Ms. Vasumathi (shareholder) Section 46(2) provides that such capital gains would be chargeable in the hands of the shareholder.

Particulars	₹
Ms. Vasumathi holds 1/6th of the shareholding of the company	
Market value of agricultural land received (1 acre @ ₹ 10 Lakhs)	10,00,000
Cash at bank [1/6th of (₹ 6,50,000 – ₹ 3,00,000)]	<u>58,333</u>
	10,58,333
Less: Deemed dividend under section 2(22)(c) - 1/6th of (₹ 40,00,000 - ₹ 50,000)	<u>6,58,333</u>
Consideration for computing Capital Gain	4,00,000
Less: Indexed cost of acquisition of Shares (₹ 1,20,000 x 363/ 113)	<u>3,85,487</u>
Long term capital gains	<u>30,442</u>

Notes:

1. Where the capital asset became the property of the assessee on the distribution of the capital assets of a company on its liquidation and the assessee has been assessed to capital gains in respect of that asset under section 46, the cost of acquisition means the fair market value of the asset on the date of distribution. Hence, the short-term capital gains in the hands of Ms. Vasumathi (shareholder) at the time of sale of urban agricultural land should be computed as follows:

Particulars	₹
Sale consideration	15,00,000
Less: Fair market value of the agricultural land on the date of distribution	<u>10,00,000</u>
Short term capital gain	<u>5,00,000</u>

2. Dividend under section 2(22)(c) amounting to ₹ 6,58,333 will be **taxable in the hands of shareholder under the head "income from other sources"**.
3. The tax liability ascertained at ₹ 3,00,000 has to be reduced from bank balance while computing full value of consideration under section 46(2). ₹ 50,000, being the difference between ₹ 3,00,000 and ₹ 2,50,000, has to be reduced from General Reserve for calculating deemed dividend under section 2(22)(c).
4. TDS compliance u/s 194 is required by company.

SURAJ AGRAWAL TAX CLASS

8527230445

YOUTUBE CHANNEL "CA SURAJ AGRAWAL – SATC"



CAPITAL GAINS - SECTION 112A – PRACTICALS

Assessment Year 2025-26

1. During the P.Y. 2024-25, Mr. Aakash has ₹ 80 lakhs of short-term capital gains taxable u/s 111A, ₹ 70 lakhs of long-term capital gains taxable u/s 112A and business income of ₹ 90 lakhs. Which of the following statements is correct?
 - (a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 2.40 crore, since the total income exceeds ₹ 2 crore.
 - (b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 2.40 Crore**
 - (c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore, since such income exceeds ₹ 1 crore but is less than ₹ 2 crore; in respect of business income of ₹ 90 lakhs, surcharge is leviable@25% on income-tax, since the total income exceeds ₹ 2 crore.
 - (d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore, since such income exceeds ₹ 1 crore but is less than ₹ 2 crore; in respect of business income of ₹ 90 lakhs, surcharge is leviable@10% on income-tax, since such income exceeds ₹ 50 lakhs but is less than ₹ 1 crore.
2. Calculate the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) **for the A.Y. 2025-26**, in the following cases:
 - (i) Mr. Ravi purchased 500 shares in Tapti Ltd. on 15.11.2016 at a cost of ₹ 1,200 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹ 2,300. Ravi sold all the shares of Tapti Ltd. **on 15.5.2024** for ₹ 3,000.
 - (ii) Mr. Giri purchased 700 shares in Narmada Ltd. on 3.12.2016 at a cost of ₹ 3,100 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹ 4,500. Mr. Giri sold all the shares of Narmada Ltd. **on 24.4.2024** for ₹ 4,200.
 - (iii) Mr. Mani purchased 300 shares in Cauvery Ltd. on 12.1.2017 at a cost of ₹ 2,500 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹ 1,800. Mr. Mani sold all the shares of Cauvery Ltd. **on 15.7.2024** for ₹ 3,200.
 - (iv) Mr. Sathy purchased 600 shares in Mahanadi Ltd. on 25.1.2017 at a cost of ₹ 1,900 per share. The Fair Market Value (FMV) of the share as on 31.1.2018 is ₹ 2,400. Mr. Sathy sold all the shares of Mahanadi Ltd. **on 31.1.2025** for ₹ 1,700.

Solution:

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

- (i) cost of acquisition of such asset, i.e., actual cost; and
- (ii) lower of
 - (a) the fair market value of such asset; and
 - (b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

In the four independent cases given in the question, the shares are long-term capital asset, since they are held for a period of more than 12 months preceding the date of its transfer. **Accordingly, long-term capital gain/loss on transfer of STT paid listed equity shares would be determined as follows:**

- (i) **In the case of Mr. Ravi, the cost of acquisition of equity share of Tapti Ltd. would be ₹ 2,300, being higher of actual cost i.e., ₹ 1,200 and ₹ 2,300 (being the lower of FMV of ₹ 2,300 as on 31.1.2018 and actual sale consideration of ₹ 3,000).**

Thus, the long-term capital gain would be ₹ 3,50,000 i.e., (₹ 3,000 – ₹ 2,300) x 500 shares.

- (ii) **In the case of Mr. Giri, the cost of acquisition of equity shares of Narmada Ltd. would be ₹ 4,200, being higher of actual cost i.e., ₹ 3,100 and ₹ 4,200 (being the lower of FMV of ₹ 4,500 as on 31.1.2018 and actual sale consideration of ₹ 4,200). Thus, the long-term capital gains would be Nil (₹ 4,200 – ₹ 4,200) x 700 shares.**

- (iii) **In the case of Mr. Mani, the cost of acquisition of equity shares of Cauvery Ltd. would be ₹ 2,500, being higher of actual cost i.e., ₹ 2,500 and ₹ 1,800 (being the lower of FMV of ₹ 1,800 as on 31.1.2018 and actual sale consideration of ₹ 3,200). Accordingly, the long-term capital gains would be ₹ 2,10,000 i.e., [(₹ 3,200 – ₹ 2,500) x 300].**

- (iv) **In the case of Mr. Sathy, the cost of acquisition of equity shares of Mahanadi Ltd. would be ₹ 1,900, being higher of actual cost i.e., ₹ 1,900 and ₹ 1,700 (being the lower of FMV of ₹ 2,400 as on 31.1.2018 and actual sale consideration of ₹ 1,700). The long-term capital loss would be ₹ 1,20,000 (₹ 1,700 – ₹ 1,900) x 600 shares.**

- 3. Compute the long-term capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) for the A.Y. 2025-26, in the four independent cases given below:**

Particular	Name of Co.	No. of shares	Date of acquisition	COA/Share	Date of transfer	Sale price/Share	FMV as on 31.1.2018/Share
Mr. Ganesh	A Ltd.	1,000	28.12.2016	₹ 1,000	1.5.2024	₹ 2,500	₹ 2,000
Mr. Rajesh	B Ltd.	2,000	30.11.2016	₹ 3,000	1.6.2024	₹ 5,000	₹ 6,500
Mr. Sridhar	C Ltd.	3,000	1.1.2017	₹ 2,000	1.7.2024	₹ 3,000	₹ 1,500
Mr. Vaibhav	D Ltd.	4,000	15.1.2017	₹ 4,000	1.8.2024	₹ 2,500	₹ 6,000

Solution:

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented mutual fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

(i) **cost of acquisition of such asset; and**

(ii) **lower of**

(a) the fair market value of such asset; and

(b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

In the four independent cases given in the question, the shares are long-term capital asset, since they are held for a period of more than 12 months preceding the date of its transfer. Accordingly, long-term capital gain/loss on transfer of STT paid listed equity shares would be determined as follows:

Person	Particulars	LTCG/LTCL (in ₹)
Mr. Ganesh	In this case, the cost of acquisition of equity share of A Ltd. would be ₹ 2,000, being higher of actual cost i.e., ₹ 1,000 and ₹ 2,000 (being the lower of FMV of ₹ 2,000 as on 31.1.2018 and actual sale consideration of ₹2,500). Thus, the long-term capital gain would be (₹2,500 – ₹2,000) x 1,000 shares.	5,00,000
Mr. Rajesh	In this case, the cost of acquisition of equity shares of B Ltd. would be ₹ 5,000, being higher of actual cost i.e., ₹ 3,000 and ₹ 5,000 (being the lower of FMV of ₹ 6,500 as on 31.1.2018 and actual sale consideration of ₹5,000).	Nil
Mr. Sridhar	In this case, the cost of acquisition of equity shares of C Ltd. would be ₹ 2,000, being higher of actual cost i.e., ₹ 2,000 and ₹ 1,500 (being the lower of FMV of ₹ 1,500 as on 31.1.2018 and actual sale consideration of ₹3,000). Accordingly, the long-term capital gains would be (₹ 3,000 – ₹2,000) x 3,000	30,00,000
Mr. Vaibhav	In this case, the cost of acquisition of equity shares of D Ltd. would be ₹ 4,000, being higher of actual cost i.e., ₹ 4,000 and ₹ 2,500 (being the lower of FMV of ₹ 6,000 as on 31.1.2018 and actual sale consideration of ₹2,500). The long-term capital loss would be ₹ 60,00,000 (₹ 2,500 – ₹4,000) x 4,000 shares.	(60,00,000)

4. IMPORTANT: Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2024-25:

(i) **Sold 10000 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 05-04-2016 @ ₹100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹300 per share; Average price - ₹290 per share; Lowest price - ₹280 per share

(ii) **Sold 1000 units of B Mutual Fund on 20-04-2024 @ ₹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.

(iii) **Sold 100 shares of C Ltd. on 25-04-2024 @ ₹200 per share**

C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹50 per share.

Cost Inflation Index for various financial years are as under:

2001-02	-	100
2016-17	-	264
2017-18	-	272
2023-24	-	363

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax (Ignore Section 115BAC) on such gains for A.Y. 2025-26 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (Ignore surcharge and cess).

Solution:

Computation of amount chargeable to tax under the head "Capital Gains" in the hands of Mr. Rajan

	Particulars	₹
(i)	<u>Sale of 10,000 shares of A Ltd. on 5.4.2024 @ 650 per share</u>	
	Sales consideration (10,000 x ₹650)	65,00,000
	Less: Cost of acquisition Higher of:	₹
	➤ Actual cost (10,000 x ₹100)	10,00,000
	➤ Lower of:	30,00,000
	✓ ₹30,00,000 (₹300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.01.2018); and	
	✓ ₹65,00,000, being full value of consideration on transfer	
	Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale].	35,00,000

(ii)	Sale of 1,000 units of B Mutual Fund on 20.4.2024 @ ₹50 per unit Sale consideration (1,000 x ₹50) Less: Cost of acquisition - Higher of - ➤ Actual cost (1,000 x ₹10) ➤ Lower of: ✓ ₹55,000 (₹55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and ✓ ₹50,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	50,000 <u>50,000</u> 50,000 Nil
(iii)	Sale of 100 shares of C Ltd. on 25.4.2024 @ 200 per share Sale consideration (100 x ₹200) Less: Indexed Cost of acquisition [100 x ₹50 (being FMV on 1.4.2001) x 363/100] Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]	20,000 <u>18,150</u> <u>1,850</u>

Computation of tax on such capital gains for A.Y. 2025-26

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹33,75,000 [LTCG of ₹35,00,000 (-) ₹1,25,000] arising on sale of shares of A Ltd.	3,37,500
Tax under section 112 @ 20% on long-term capital gains of ₹1,850 arising on sale of unlisted shares of C Ltd.	<u>370</u>
Total tax payable (cess ignored as per question)	<u>3,37,870</u>

5. Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y. 2025-26 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y. 2024-25 in respect of these assessee:

- (i) Mr. Prasun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹400 per share. He sold all the shares of A Ltd. on 31.5.2024 for ₹1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows-

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units each of equity oriented funds, Fund A and Fund B on 1.2.2017 at a cost of ₹550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 and units of Fund B were listed on 1.2.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2024 for ₹900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units as on 31.1.2018 are given hereunder:

Particulars	Fund A	Fund B
	Amount in ₹	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)	800 (on 1.2.2018)
Average Trading Price	700 (on 31.1.2018)	750 (on 1.2.2018)
Lowest Trading Price	650 (on 31.1.2018)	700 (on 1.2.2018)
Net Asset Value on 31.1.2018	800	950

Solution:

(i) For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 **shall be the higher of**

(i) cost of acquisition of such asset, i.e., actual cost; and

(ii) **lower of**

(a) the fair market value of such asset as on 31.1.2018; and

(b) the full value of consideration received or accruing as a result of the transfer of the capital asset.

The fair market value of listed equity shares as on 31.1.2018 **is the highest price quoted on the recognized stock exchange as on that date.**

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Prasun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018.

The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be **₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares.**

The long-term capital gain of ₹ 25,000 (i.e., the amount **in excess of ₹ 1,25,000**) would be subject to tax@10% under section 112A, without benefit of indexation.

(ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, **it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).**

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date) and the FMV of units of Fund B **as on 31.1.2018 would be ₹ 950 (being the net asset value as on 31.1.2018, since the units of Fund B are unlisted on that date).**

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). **Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 $(₹ 900 - ₹ 750) \times 200$ units.**

The cost of acquisition of a unit of Fund B would be ₹ 900, being higher of actual cost i.e., ₹ 550 and ₹ 900 (being the lower of FMV of ₹ 950 as on 31.1.2018 (net asset value) and actual sale consideration of ₹ 900). **Thus, the long-term capital gains on sale of units of Fund B would be Nil $(₹ 900 - ₹ 900) \times 200$ units.**

Since the long-term capital gains on sale of units is ₹ 30,000, which is **less than ₹ 1,25,000**, the said sum is not chargeable to tax under section 112A.

THANK YOU!!

DEDUCTIONS FROM GROSS TOTAL INCOME

[Section 80C to Section 80U]

Assessment Year 2025-26 [Previous Year 2024-25]

Amended by the Finance (No. 2) Act, 2024

Page 9.8, 9.20, 9.28, 9.29 & 9.31 are amended



GENERAL FEATURES RELATING TO DEDUCTIONS UNDER CHAPTER VI-A:

1. Deductions to be made [Section 80A]

The **Total Income** of an assessee is to be computed after making deductions permissible under sections 80C to 80U. But,

$$\text{Aggregate Amount of Deductions} \leq \text{Gross Total Income}$$

2. No deduction u/s 10AA & u/s 80-IA to 80-RRB, if not claimed in the return of income

Where the assessee ***fails to make a claim in his return of income*** for any deduction u/s 10AA or under any provision of sections 80-IA to 80-RRB, no deduction shall be allowed to him thereunder.

Further, Benefit of deduction from 80-IA to 80RRB & section 10AA will not be available if return is not filed within due date of Section 139(1).

3. No deduction from certain Incomes: Examples (not an exhaustive list)

(a) Long Term Capital Gains referred u/s 112 or u/s 112A, and Short Term Capital gains referred u/s 111A.

(b) Winnings from lotteries, races, etc. as referred to in Section 115BB.

(c) Winnings from online games as referred in Section 115BBJ.

4. If Individual/HUF pays concessional rates of tax under default tax regime under section 115BAC:

No Deduction under chapter VIA is available except

- Employer's contribution towards NPS under Section 80CCD(2)
- Central Government's contribution to Agnipath Scheme u/s 80CCH(2)
- Deduction under section 80JJAA
- Deduction under Section 80LA (IFSC Units)

At CMA-Inter level; Section 80-IAC, Section 80JJA, Section 80LA & Section 80M ~~Section 80P & Section 80PA~~ are also covered in the scope of syllabus as per ICMAI study material.

Amendment: Section 80CCD, Section 80G, Section 80-IAC & Section 80LA are **amended**.

For Section 80GGA, 80GGB & 80GGC – Refer PGBP [DT Volume II]

Deduction in respect of investment in specified assets [Section 80C]

[Available only if the individual/HUF exercises the option of shifting out of the default tax regime provided under section 115BAC]

Applicability: Individual or HUF

Maximum Qualifying Amount: ₹ 150,000

The following are the investments/contributions eligible for deduction –

<u>Name of the investment / payment</u>	<u>Payment made by the</u>	
	Individual	HUF
<u>Subscription to NSC</u> (including Interest Accrued thereon) Note: Interest will first added as Income u/h IOS)	Self	Any member
<u>Tuition Fees (only)</u> paid at the time of Admission or otherwise to any university/college/educational institution <u>in India</u> for <u>full time education</u> .	Maximum up to two children	NA
Contribution to Unit-Linked Insurance Plan (ULIP) of UTI Contribution to Unit-Linked Insurance Plan (ULIP) of LIC / Mutual Fund	Self, Spouse & Child	Any member
Contribution to Units of Mutual Funds or UTI	Self	Any member
Contribution to Notified Annuity Plan of LIC or other approved insurer.	Self	Any member
Life Insurance Premium on Life Policy or Endowment Policy <u>Maximum Amount of Deduction:</u> 10% of Sum Assured in case of policy issued on or after April 1, 2012 [15% of sum assured in case of policy issued on or after April 1, 2013 on life of any person with disability (u/s 80U) or any person suffering from specified disease (u/s 80DDB)] 20% of Sum Assured in case of policies issued before April 1, 2012.	Self, Spouse & child	Any member
<u>Contribution towards</u> - Statutory Provident Fund/Recognized Provident Fund - PPF – Minimum: ₹ 500 & Maximum: ₹ 150,000 - Approved Superannuation Fund (ASF)	Self Self, Spouse & Child Self	NA Any member NA

Contribution to Notified Pension Fund of Mutual fund or UTI	Self	NA
Term Deposit of 5 year or more with a scheduled bank;	Self	N A
Subscription to 5 year Time Deposit in an a/c under the Post Office;	Self	Any member
Subscription to an account under the Senior Citizens Saving Scheme;	Self	Any member
Subscription to notified NABARD Bonds	Self	Any member
Any sum paid to any scheme of-		
▪ PSU/PSC engaged in providing Long Term finance for construction of residential houses in India	Self	Any member
▪ Housing board for the purpose of planning, development or improvement	Self	Any Member
Any payment towards the cost of purchase/construction of a residential property where loan is taken from ▪ Govt., bank, co-operative bank, LIC, NHB ▪ Assessee's employer where such employer is public Co./public sector Co./university/co-operative society Note: Income from such property should be chargeable to tax under the head House Property. - Payment through installment under Self financing scheme is also covered. STAMP DUTY & REGISTRATION FEE PAID IS ALSO ELIGIBLE	Self	Any Member
Amount invested in		
▪ Approved debentures/ equity shares in a public Co. engaged in infrastructure facility; or	Self	Any Member
▪ Units of MF proceeds of which are utilized for the developing, maintaining, etc., of a new infrastructure facility.	Self	Any Member
Amount deposited in Sukanya Samriddhi Account Scheme (No Deduction to HUF)	Girl Child or Girl Child for whom Individual is a Legal Guardian.	

Contribution to additional account under NPS
(No Deduction to HUF)

There are two types of NPS account i.e., Tier I and Tier II, to which an individual can contribute.

*Section 80CCD provides deduction in respect of contribution to individual pension account [Tier I account] under the NPS [referred to in section 20(2)(a) of the Pension Fund Regulatory and Development Authority Act, 2013 (PFRDA)] **whereas deduction under section 80C is allowable in respect of contribution by Central Government employee to additional account [Tier II account] of NPS [referred to in section 20(3) of the PFRDA], which does not qualify for deduction under section 80CCD.***

*Thus, Tier II account is the additional account under NPS, contribution to which would qualify for deduction under section 80C **only in the hands of a Central Government employee.***

Contribution by a Central Government employee to additional account under NPS (specified account) referred to in section 80CCD for a fixed period of not less than 3 years and which is in accordance with the scheme notified by the Central Government for this purpose qualifies for deduction under section 80C.

*It may be noted that **only the contribution to the additional account under NPS** will qualify for deduction under section 80C.*

Note: Child may be Dependent/Independent/Male/Female/Minor/Major/Married/Unmarried.

Amount paid on Life Insurance Policies – Exempt [Section 10(10D)]

As per section 10(10D), any sum received on maturity of life insurance policy (including bonus) is not chargeable to tax. **However, exemption is NOT available in respect of:**

- a) Any Sum received under Section 80DD
- b) Any Sum received under a Keyman Insurance Policy

The following table summarizes the exemption available under section 10(10D) *vis-a-vis* the date of issue of such policies and the corresponding condition to be satisfied for exemption-

	Policy	Exemption u/s 10(10D)
1	In respect of policies issued before 1.4.2003	Any sum received under a LIP including the sum allocated by way of bonus is exempt.
2	In respect of policies issued between 1.4.2003 and 31.3.2012	Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would NOT be available if the premium payable for any of the years during the term of the policy exceeds 20% of “actual capital sum assured”.
3	In respect of policies issued on or after 1.4.2012 but before 1.4.2013	Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would NOT be available if the premium payable for any of the years during the term of the policy exceeds 10% of actual capital sum assured.
4	In respect of policies issued on or after 1.4.2013	<u>Where the insurance is on the life of a person with disability or severe disability as referred to in Section 80U or a person suffering from disease or ailment as specified under Section 80DDB</u> Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would NOT be available if the premium payable for any of the years during the term of the policy exceeds 15% of “actual capital sum assured”. <u>Where the insurance is on the life of any person, other than mentioned in (a) above</u> Any sum received under a LIP including the sum allocated by way of bonus is exempt. However, exemption would NOT be available if the premium payable for any of the years during the term of the policy exceeds 10% of “actual capital sum assured”.
5	<u>In respect of policies issued on or after 1.4.2023</u>	<i>Any sum received under a LIP including the sum allocated by way of bonus is exempt.</i> <i>However, exemption would NOT be available if the premium payable for any of the years during the term of the policy exceeds 10% or 15%, as the case may be, of “actual capital sum assured.”</i> <u>Further, exemption would also NOT be available if the amount of premium payable exceeds ₹ 5,00,000 for any of the previous years during the term of such policy (Other than ULIP).</u> <i>In a case where premium is payable by a person for more than one LIP (other than ULIP) and the aggregate of premium payable on such policies exceed ₹ 5,00,000 for <u>any of the previous years during the term of any such policy(ies)</u>, exemption would be available in respect of any of those LIPs (other than ULIP), <u>at the option of the assessee</u>, whose aggregate premium payable does not exceed ₹ 5,00,000 for any of the previous years during their term.</i>
	<u>Any sum is received on the death of a person is exempt irrespective of the annual premium payable on the policy. The condition of payment of premium of 10% or 15% or 20% or ₹ 5,00,000 would NOT be applicable.</u>	

Sum received, including the amount allocated by way of bonus, under a LIP other than under a ULIP and Keyman insurance policy, which is not exempt u/s 10(10D) [Section 56(2)(xiii)]

Where any sum is received, including the amount allocated by way of bonus, at any time during a previous year, under a life insurance policy, other than the sum,

(a) received under a Unit Linked Insurance Policy;

(b) received under a Keyman Insurance Policy,

which is not exempt under section 10(10D), the sum so received as exceeds the aggregate of the premium paid, during the term of such life insurance policy, and not claimed as deduction under any other provision of this Act, computed in such manner as may be prescribed, would be chargeable to tax under the head "Income from other sources".

Section 10(10D) – No Exemption to ULIP

- A.** Nothing contained in **this clause** (i.e. clause 10D of Section 10) shall apply with respect to any unit linked insurance policy, **issued on or after the 1st day of February, 2021**, if the amount of premium payable for any of the previous year during the term of such policy **exceeds ₹250,000**.
- B.** **Further**, if the premium is payable, by a person, for **more than one unit linked insurance policies**, issued on or after the 1st day of February, 2021, the provisions of this clause shall apply **only with respect to those unit linked insurance policies**, where the aggregate amount of premium does not **exceeds ₹250,000** in any of the previous year during the term of **any of those policies**:
- C.** **Exemptions shall continue to apply to any sum received on the death of a person.**

IMPORTANT NOTE:

If the exemption under section 10(10D) is NOT available to units of ULIP (due to monetary limit of ₹ 250,000), income would be taxable under section 45(1B) under the head "Capital Gain" and tax liability may be calculated as per Section 111A or 112A [Refer CG Class Notes].

Contribution to certain pension funds [Section 80CCC]

- 1) Applicability: **ANY INDIVIDUAL** Maximum Limit: ₹ 150,000
- 2) Amount paid or deposited for **any annuity plan** of LIC/ Any other Insurer for **receiving Pension from the Pension Fund**,
- 3) **Taxable as Income on Withdrawal:**
 - ✓ Where any amount standing to the credit of the assessee in a PENSION FUND in respect of which a deduction has been allowed,
 - ✓ together with interest or bonus accrued or credited to the assessee's account is **received by the assessee or his nominee**
 - ✓ on **account of the surrender** of the annuity plan in any previous year or as **pension received from the annuity plan**,
 - ✓ such amount will be **deemed to be the income of the assessee or the nominee** in that previous year in which such withdrawal is made or pension is received.

Deduction in respect of contribution to NPS [Sec 80CCD]

[NATIONAL PENSION SCHEME OR ATAL PENSION YOJNA]

- 1) Applicability: **ANY INDIVIDUAL [Employed or Self Employed]**
- 2) **Nature of Payment:** Employee's Contribution (including Self employed) as well as Employer Contributions to National Pension Scheme [NPS] **including pension scheme notified by CG.**
- 3) **Quantum of Deduction:**

(A) In Case of Employment:

- a. Contribution made by the employee or 10% of Salary whichever is lower [80CCD(1)] &
- b. Contribution made by the employer or 10% of Salary [14% of salary if employee is paying tax under default tax regime i.e. section 115BAC OR in case of contribution made by the Central or State Government (under both the regime)] whichever is lower [80CCD(2)]

[Amendment by the Finance (No. 2) Act, 2024]

(B) In Case of Self Employment: Contribution made or 20% of GTI, whichever is less [80CCD(1)]

- 4) The **entire employer's contribution would be included in the Salary** of the employee. However, deduction under section 80CCD would be restricted to 10% of salary (14% - **CG/SG Employee**).
- 5) "**Salary**" includes **Dearness Allowance**, if the terms of employment so provide, but excludes all other allowances and perquisites **[Basic Salary + DA (R)]**
- 6) **80CCD(1B) –** An Individual is eligible for **additional deduction of upto ₹ 50,000** in respect of the whole of the amount paid or deposited under NPS, **whether or not any deduction is allowed under section 80CCD(1).**
- 7) However, amount received by nominee on the death of the assessee shall not be taxable.
- 8) However, **amount received on maturity will not be taxable if the same is used for purchasing an annuity plan in the same previous year. Pension received from such annuity plan will be taxable to assessee/nominee**
- 9) **Any payment from NPS to assessee on closure of account/scheme as referred in Section 80CCD, to the extent of 60% amount payable is Exempt. [Sec 10(12A)]**
- 10) **Any payment from NPS to an Employee on partial withdrawal made out of his account, to the extent it does not exceed 25% of the amount of contributions made by him is Exempt. [Section 10(12B)]**

Limit on deductions under sections 80C, 80CCC & 80CCD [Section 80CCE]

This section restricts the aggregate amount of deduction under section 80C, 80CCC and 80CCD (1) to ₹ 1,50,000 lakh.

Consequently, deduction to assessee in relation to employer's contribution to pension scheme shall be available over and above ₹ 1,50,000 lakh limit.

Further, Assessee's contribution to CG Pension fund as per section 80CCD(1B) is also not covered in limit specified in Section 80CCE.

Deduction in respect of contribution to Agnipath Scheme [Section 80CCH]

Agnipath scheme: Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces.

Agniveer Corpus Fund: The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.

Features of the Agnipath Scheme: Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund'. The Government will also pay to the subscriber interest as approved from time to time on the contributions standing in his account.

Deduction: Section 80CCH provides deduction in respect of contribution made in the Agniveer Corpus Fund by the individual enrolled in the Agnipath Scheme and the Central Government.

Quantum of deduction:

- (a) Section 80CCH(1) provides a deduction for the amount paid or deposited by an assessee, being an individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after 1.11.2022, in his account in the Agniveer Corpus Fund.
- (b) Under section 80CCH(2), the whole amount of contribution made by the Central Government to the said account of an assessee in the Agniveer Corpus Fund, **is allowed as a deduction in computation of the total income of the assessee.**
- (c) **The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee. However, deduction under section 80CCH(2) would be available for the same.**

Exam Point:

- A. Deduction u/s 80CCH(1) would be available to an individual only if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC.
- B. Deduction u/s 80CCH(2) would be available to an individual irrespective of the regime under which he pays tax.
- C. Exemption on payment from Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee [Section 10(12C)]

Any payment from the Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt from tax.

Deduction in respect of Health insurance premium [Section 80D]

1. Applicability: **INDIVIDUAL** or **HUF**

2. **Nature of payment:**

(a) Premium towards **Mediclaim Health Insurance Policy** taken

a. **In case of an Individual:** In the name of Individual, Spouse, Parents and **dependent** children

b. **In case of HUF:** In the name of any Member

(b) In case of **Senior Citizen**, Medical expenditure incurred **if no payment is made for health insurance premium. (HUF – Any Member being Senior Citizen)**

(c) Contribution to Central Government Health Scheme [CGHS] **or other health scheme as notified by CG** is also eligible for deduction if it is taken in the name of Individual, Spouse or Dependent Children.

(d) Any payment made by an individual on account of preventive health check up of self, spouse, dependent children or parent(s) during the PY [maximum amount – 5,000 within overall limit]

3. Maximum Amount of Deduction:

<u>Particulars</u>	<u>Individual</u>		<u>HUF</u>
Premium/Contribution for	Individual, Spouse & Dependent Children	Parents (Whether dependent or not)	Any Member
Deduction being lower of	a. Premium Paid, or b. ₹ 25,000 p.a.	a. Premium Paid, or b. ₹ 25,000 p.a.	a. Premium Paid, or b. ₹ 25,000 p.a.
Additional Deduction for Senior Citizen [The person who is insured]	₹ 25,000	₹ 25,000	₹ 25,000

4. Senior Citizen means **an Individual + Resident in India + the age of 60 years or more**

5. Payment shall be made

a. **by any mode, including cash, in respect of any sum paid on account of preventive health check up (maximum limit – ₹ 5,000);**

b. **by any mode, other than cash, in all other cases.**

6. [2 Marks] In case of single premium health insurance policies having cover of more than one year, Deduction under section 80D shall be allowed on proportionate basis for the number of previous years for which health insurance cover is in force, subject to the specified monetary limit. [Refer Class Example]

Example:

Mr. Arjun (42 years old) furnishes the following particulars in respect of the following payments:

S. No.	Particulars	Amount (₹)
1.	Premium paid for insuring the health of -	
	➤ Self	10,000
	➤ spouse	8,000
	➤ dependent son	4,000
	➤ mother	18,000
2.	Paid for Preventive Health Check up of	
	➤ himself	2,000
	➤ spouse	1,500
	➤ mother	4,000
3.	Incurred medical expenditure of ₹ 25,000 and ₹ 15,000 for his mother, aged 61 years and father, aged 65 years. Both mother and father are resident in India.	

Compute the deduction available to Mr. Arjun under section 80D for the A.Y. 2025-26

Solution:**Computation of deduction under section 80D for the A.Y. 2025-26**

S. No.	Particulars	Amount (₹)	Amount (₹)
1.	In respect of premium paid for insuring the health of -		
	➤ Self	10,000	
	➤ spouse	8,000	
	➤ dependant son	4,000	
		22,000	
	Paid for Preventive Health Check up of		
	➤ self	2,000	
	➤ spouse	1,500	
		3,500	
	Restricted to [₹ 25,000 – ₹ 22,000, since maximum deduction is ₹ 25,000]	3,000	
	Aggregate of deduction (I+II) under (1) restricted to		25,000
2.	(i) In respect of payment towards health insurance premium for his mother	18,000	
	(ii) In respect of preventive health check up of his mother [₹ 4,000, restricted to ₹ 2,000, (₹ 5,000 – ₹ 3,000), since maximum deduction for preventive health check up under section 80D is ₹ 5,000]	2,000	
	(iii) Medical expenditure for father would only be eligible for deduction [See Note below]	15,000	
		35,000	
	Amount of deduction under (2) restricted to		35,000
	Total deduction under section 80D [(1) + (2)]		60,000

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

Deduction in respect of maintenance including medical treatment of a dependent disabled [Section 80DD]

1) Applicability: **Resident INDIVIDUAL OR RESIDENT HUF.**

2) Assessee must have a Dependent Disabled Relative:

Situation	Relative Includes
In case of Individual	<u>Spouse, Children, Parents, Brothers & Sisters</u> of the Individual
In case of HUF	Any Member
1. Dependents means who is wholly or mainly dependent on the assessee and <u>has not claimed any deduction under section 80U</u> in the computation of his income. 2. Disability includes Blindness, Low Vision, Hearing impairment, mental illness etc.	

3) **Nature of Expenditure on Such Relative:** Assessee has

- a) paid any amount for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability, or
- b) any amount paid or deposited **under a scheme of LIC or any other insurer** for the maintenance of a dependant, being a person with disability, qualifies for deduction.

Condition:

Scheme should provides for payment of annuity or lump sum amount for the benefit of a dependant, being a person with disability,-

- i. *in the event of the death of the individual or the member of the HUF in whose name subscription to the scheme has been made; or*
- ii. *on attaining the age of 60 years or more by such individual or the member of the HUF, and the payment or deposit to such scheme has been discontinued;"*

Note: Amount received by the dependant, being a person with disability, before his death, by way of annuity or lump sum is not taxable.

4) **Quantum of Deduction:**

Relative suffering with Disability	₹ 75,000
Relative suffering with Severe Disability [80% or more]	₹ 125,000
<u>Tax Point: Deduction shall be irrespective of actual expenditure incurred.</u>	

5) **CERTIFICATE:** The assessee shall have to furnish a copy of the certificate issued by the medical authority in respect of the assessment year for which the deduction is claimed. Where the condition of **disability requires reassessment, a fresh certificate** is required.

6) Where the Assessee has deposited any amount in annuity plan of LIC or UTI etc for the benefit of disabled person and such person predeceases
 – than any amount received from such annuity plan **shall be deemed to be income of the assessee of the previous year in which such amount is received by the assessee.**

Deduction in the case of a Person with Disability [Section 80U]

- 1) **ELIGIBLE ASSESSEE:** Applicable to a **RESIDENT INDIVIDUAL**, who, at any time during the previous year, is certified by the medical authority to be a person **with disability** (Blindness, Low Vision, Hearing impairment etc.).
- 2) **FIXED DEDUCTION:** In case of

Person with Disability	-	₹ 75,000
Person with severe disability	-	₹ 1,25,000

[Irrespective of any expenditure]
- 3) **Individuals also include** persons **suffering from autism, cerebral palsy and multiple disabilities.**
- 4) **CERTIFICATE:** The assessee **shall have to furnish a copy of the certificate** issued by the medical authority in respect of the assessment year for which the deduction is claimed. Where the condition of **disability requires reassessment, a fresh certificate** is required.

Deduction in respect of medical treatment etc. [Section 80DDB]

1) **Applicability:** RESIDENT INDIVIDUAL & RESIDENT HUF

2) **Nature of Expenditure:**

The assessee **has actually paid** any amount for the medical treatment of such disease or ailment as may be specified in the rules made in this behalf by the Board [**Specified Disease – Rule 11DD**] for

Situation	Relative Includes
In case of Individual	<u>Himself/Herself or for dependent relative being Spouse, Children, Parents, Brothers & Sisters</u> of that Individual
In case of HUF	Any Member
Dependents means who is wholly or mainly dependent on the assessee for his support and maintenance	

3) **Quantum of Deduction:** Lower of the Two:

(a) Amount actually paid or

(b) ₹ 40,000 / In case of Senior Citizen – ₹ 100,000

4) Senior Citizen means **an Individual + Resident in India + the age of 60 years or more**

5) **Certificate:** No such deduction shall be allowed unless the assessee furnishes a **certificate** from specialist ~~working in a Government hospital~~

6) The **final deduction under this section** shall be **reduced by the amount received, if any, under insurance from an insurer, or reimbursed by an employer**, for the medical treatment of the assessee or the dependent. [Amount derived as above Less Insurance claim received]

Question: Find the amount of deduction u/s 80DDB for the following cases:

Name of the Assessee	P	Q	R	S	T
Residential status of the assessee	Ordinarily resident	Not ordinarily resident	Non Resident	Resident but not Indian Citizen	Resident
Expenditure incurred for medical treatment (specified disease) of dependent brother	₹ 6000	₹ 80000	₹ 100000	₹ 72000	₹ 80000
Age of Brother	28	62	62	64	52
Residential status of dependent	Resident	Non resident	Resident	Resident	Resident
Medical Insurance claim received.	-	-	-	-	₹ 8000

Solution:

Amount of deduction available u/s 80DDB shall be as under:

Particulars	P	Q	R	s	T
Deduction u/s 80DDB	6000	40000 ¹	-- ²	72000 ³	32000 ⁴

Notes

- As the brother is non-resident, therefore, senior citizen benefit is not available.
- As the assessee himself is a non-resident, hence no deduction u/s 80DDB is available.
- As the brother is resident having age of 64 years, hence he is a senior citizen. However, actual expenditure incurred by the assessee is less than ₹ 100,000, therefore deduction shall be restricted to actual expenditure incurred.
- As the medical insurance claim is received, hence the amount of deduction (i.e. ₹ 40,000) shall be reduced by the amount of claim received.

Interest on loan taken for higher education [Section 80E]

- 1) **Applicability:** Individual
- 2) **Nature of Payment:**
He has paid **any interest** on loan taken by him from any **Financial Institution or Approved Charitable Institution**.
- 3) **Purpose of Loan:**
The loan must have been taken for the purpose of pursuing his/her own **higher education** or for **higher education** of his or her relative. Relative means:
 - (a) Spouse or
 - (b) Children (Dependent or Independent) or
 - (c) the student for whom the individual is the legal guardian.
- 4) **Quantum of Deduction:** Amount of Interest paid during the PY
- 5) **Maximum Permissible Period:** **8 Assessment Years**
Deduction is available for 8 Assessment years starting from the AY in which the assessee starts paying the interest on loan OR until the interest is paid by the assessee in full, whichever is earlier.
- 6) **"Higher Education"** means any course of study (including vocational studies) pursued after passing the Senior Secondary Examination or its equivalent.

Deduction in respect of interest on loan taken for residential house property [Sec. 80EE] w.e.f. AY 2017-18

- **Conditions - The following conditions should be satisfied in order to claim deduction under section 80EE -**
 1. The assessee is **an Individual**. He may be resident or non-resident.
 2. He has taken a loan.
 3. Loan is taken for acquisition of residential house property.
 4. Loan is taken from **Financial Institution** (includes Banks/Housing finance Companies).
 5. **Loan has been sanctioned during April 1, 2016 and March 31, 2017.**
 6. The amount of loan sanctioned for residential house property **does not exceed ₹ 35 lakh.**
 7. The value of residential house property **does not exceed ₹ 50 lakh.**
 8. The assessee does **not own any residential house property** on the date of sanction of loan.
- **Amount of Deduction:**
Deduction will be available in respect of interest payable on the above loan or ₹ 50,000, whichever is less.
- **Double deduction not possible** - If deduction is claimed under section 80EE, no deduction will be allowed in respect of such income under any other provision of the Act for the same or any other assessment year.

NO DEDUCTION FROM AY 18-19 IN RESPECT ON NEW LOAN

[If loan is sanctioned in PY 16-17 & above conditions are satisfied then assessee is eligible for deduction **in PY 16-17** or other succeeding years.]

Deduction in respect of interest payable on loan taken for acquisition of residential house property [Section 80EEA]

Eligible assessee: An individual who has taken a loan for acquisition of residential house property from any financial institution. **Interest payable** on such loan would qualify for deduction under this section.

Conditions: The conditions to be satisfied for availing this deduction are as follows –

- 1) **the loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2022;**
- 2) **the stamp duty value of residential house property does not exceed 45 lakh rupees;**
- 3) **the assessee does not own any residential house property on the date of sanction of loan.**
- 4) **The individual is not eligible to claim deduction under section 80EE.**

Period of benefit: The benefit of deduction under this section would be available till the repayment of loan continues.

Quantum of deduction: The maximum deduction allowable is ₹ 1,50,000.

The deduction of upto ₹ 1,50,000 under section 80EEA is over and above the deduction available under section 24(b) in respect of interest payable on loan borrowed for acquisition of a residential house property.

No deduction under any other provision:

The interest allowed as deduction under section 80EEA will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.

Meaning of “Financial Institution”

- A **banking company** to which the Banking Regulation Act, 1949 applies; or
- Any **bank or banking institution** referred to in section 51 of the Banking Regulation Act, 1949; or
- **A housing finance company.**
A public company formed or registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes.

Deduction in respect of interest payable on loan taken for purchase of electric vehicle [Section 80EEB]

Eligible Assessee:

An **Individual** who has taken a loan for purchase of an electric vehicle from any financial institution, Interest payable on such loan would qualify for deduction under this section.

Conditions:

- The assessee should be an individual.
- Loan should be taken for purchase of an electric vehicle
- **Loan has been sanctioned by the financial institution during the period beginning on the 1st day of April, 2019 and ending on the 31st day of March, 2023.**

Period of benefit: The benefit of deduction under this section would be available till the repayment of loan continues.

Quantum of deduction: Interest payable, subject to a maximum of ₹ 1,50,000.

No deduction under any other provision:

The interest allowed as deduction under section 80EEB will not be allowed as deduction under any other provision of the Act for the same or any other assessment year.

Financial institution

- A **banking company** to which the Banking Regulation Act, 1949 applies;
- Any **bank or banking institution** referred to in section 51 of the Banking Regulation Act, 1949;
- Any **deposit taking NBFC**; or
- A **systemically important non-deposit taking NBFC** i.e., a NBFC which is not accepting or holding public deposits and having total assets of not less than ₹ 500 crore as per the last audited balance sheet and is registered with the RBI.

Electric Vehicle

A vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle. The vehicle should have electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.

Example:

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	31.3.2022	1.4.2022	1.4.2022	1.5.2023
Date of disbursement of loan	1.5.2022	1.5.2022	1.5.2022	1.6.2023
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:**Mr. A**

Interest deduction for A.Y. 2025-26

Deduction allowable while computing income under the head "Income from house property"

Deduction u/s 24(b) ₹ 3,87,000

[₹ 43,00,000 × 9% (1 Year)]

Restricted to ₹ 2,00,000

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

Deduction allowable while computing income under the head "Income from house property"

Deduction u/s 24(b) ₹ 4,05,000

Restricted to ₹ 2,00,000

[₹ 45,00,000 × 9%]

[Loan was taken in last PY – hence 12 months here]

Deduction under Chapter VI-A

Deduction u/s 80EEA is **not permissible** since:

- i. loan is taken from NBFC
- ii. stamp duty value exceeds ₹ 45 lakh.

Deduction under section 80EEA **would not be permissible** due to either violation listed above.

Mr. C**Deduction under Chapter VI-A**

Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle ₹ 20 lakhs x 10% (**12 months**, as loan was taken in last year) = ₹ **2,00,000** restricted to ₹ 1,50,000, being the maximum permissible deduction.

Mr. D**Deduction under Chapter VI-A**

Deduction u/s 80EEB is **not permissible** since loan was sanctioned **after 31/03/2023**

Donation [Section 80G]

Applicability: All assessee

Nature: Donation in Kind is **not eligible**.No deduction shall be allowed u/s 80G in respect of donation exceeding ₹ 2,000 if paid in cash.**D. No ceiling limit for amount of donation and deduction of such donation**

(1) Deduction = 100% of donation	(2) Deduction = 50% of donation
1. The National Defence Fund 2. Prime Minister's National Relief Fund 3. The National Foundation for Communal Harmony 4. Approved University or educational institution of national eminence 5. Maharashtra Chief Minister's Earthquake Relief Fund 6. Gujarat Relief Fund for earthquake victims 7. Zila Saksharta Samiti 8. National Blood Transfusion Council 9. Any State Government Fund set up to provide medical relief to the poor 10. The National illness Assistance Fund 11. The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund 12. National Sports Development Fund [Amended by the Finance (No. 2) Act, 2024] 13. National Cultural Fund 14. Fund for Technology Development and Application 15. National Trust for welfare of persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities 16. The National Children's Fund 17. National Fund for Control of Drug Abuse 18. Swachh Bharat Kosh 19. Clean Ganga Fund [Point 18 & 19: Donation does not qualify for deduction if it is a Part of CSR Expenses] 20. Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM Cares Fund)	~~1. The Jawaharlal Nehru Memorial Fund~~ ~~2. Indira Gandhi Memorial Trust~~ ~~3. Rajiv Gandhi Foundation~~ 4. Prime Minister's Drought Relief Fund [No deduction for above 3 funds from AY 2024-25]

E. Deduction of some donation is subject to QUALIFYING AMOUNT [In aggregate]

3) 100% deduction shall be allowed subject to the qualifying amount if the donation are made – - To Govt., or any approved association / institution for promoting family planning; <u>By company to the Indian Olympic Association</u> or Notified association / institution <u>in India</u> for the development of Infrastructure for sports & games or the sponsorship for sports & games <u>in India</u>.	4) 50% deduction shall be allowed subject to the qualifying amount if the donation are made- - To Govt., or local authority, for charitable purpose except for promoting family planning; - To Approved Charitable Institution u/s. 80G (Refer note below). - To any authority or corporation for the benefit of minority community. - For renovation or for repair of any temple, mosque, Gurudwara, church, or other place notified to be of historic / archeological / artistic importance or as a place of public worship of renown; - To housing development authority constituted in India.

QUALIFYING AMOUNT: It means **10% of Adjusted GTI** or the Donations given [in Aggregate] whichever is less.

Adjusted GTI means:

Gross Total Income – LTCG – STCG u/s 111A – All deduction of Chapter VIA except 80G – Few Sections related to Non-Residents/Foreign Companies

WORKING FORMAT:

Donation to -	Qualifying Sum	% Eligible	Deduction
(A) Donation without any qualifying limit:			
1. PMNRF		100%	
2. Zila Saksharta Samiti		100%	
3. Prime Minister's Drought Relief Fund		50%	

(B) Donation subject to qualifying limit of total donation of 10% of Adjusted GTI:

1. Government for the promotion of family planning.		100%	
2. An approved charitable institution (the qualifying amount = 10% of Adj. GTI - Donation for family planning, which is eligible for 100% deduction)		50%	
Qualifying amount under (B) = 10% of Adj. GTI			
Total Deduction u/s 80G			

Note: The claim of the assessee for deduction in respect of any donation made to an institution or fund in the return of income for any assessment year filed by him, will be allowed on the basis of information relating to said donation **furnished by the institution or fund to the prescribed income-tax authority or person authorized by such authority**, subject to verification as per the risk management strategy formulated by the CBDT from time to time.

Deduction in respect of Rent paid [Section 80GG]

- 1) **Applicability:** In respect of RENT paid by an Individual.
- 2) **The following conditions have to be satisfied for claiming deduction under section 80GG:**
 - a) **No House Rent Allowances [HRA] or No Rent Free Accommodation [RFA]:** The assessee should not be receiving any HRA exempt u/s 10(13A) and also should not be provided with RFA.
 - b) **No House at Place of Employment:**
The **Individual or his spouse or his minor child or an HUF of which he is a member** should not own any accommodation at the place where he ordinarily resides or perform duties of his office or employment or carries on his business or profession.
 - c) **No Claim for the benefit of Self-occupied House Property:**
Assessee should not treat any residential house situated at other places as Self-occupied Property u/s 23 i.e. **Annual Value = NIL.**
 - d) **Rent:** The assessee must be paying rent for the Residential Accommodation occupied by him for the purposes of **his own residence.**
 - e) **Proof of Rent Payment is required to file.**
- 3) **Quantum of deduction:** **Least of the following**
 - a) **Actual rent paid minus 10% of the Adjusted GTI, or**
 - b) **25% of the Adjusted GTI, or**
 - c) **₹ 5,000 p.m.**

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<u>Adjusted GTI means</u>	Gross Total Income Less: LTCG u/s 112 or 112A Less: STCG u/s 111A Less: Deduction u/s 80C to 80U <u>except</u> 80GG	XXX (XXX) (XXX) (XXX)

Question:

Rohit, a Doctor in Delhi, furnishes following particulars relevant to PY 2024-25

(a) Income from Profession	1,26,000
(b) Short-Term Capital Gains on sale of Shares (listed & STT Paid)	20,000
(c) Long-Term Capital Gains on sale of Land	25,000
(d) Interest on Government securities (Gross)	14,000
(e) Repayment of loan (Principal Only) taken from a Bank for higher studies	15,000
(f) Payment made for Mediclaim Policy on his health and the health of his wife	6,000
(g) Rent paid for a house in Delhi	25,000

Determine his Total Income for the AY 2025-26 if Rohit has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)-

Solution:

Assessee: Rohit .

Previous Year: 2024-25 Assessment Year: 2025-26

Computation of Total Income

Particulars	₹	₹
Profits and Gains of Business or Profession: Profession of Medicine		1,26,000
Capital Gains: Short-term	20,000	
Long-term	25,000	45,000
Income from Other Sources: Interest on Government Securities		14,000
Gross Total Income		1,85,000
Less: Deduction under Chapter VI-A		
80D - Medical Insurance Premium	6,000	
80E - Repayment of Education Loan (Repayment of Principal not eligible)	Nil	
80GG - Deduction for Rent Paid (See W.N. 2)	11,600	(17,600)
Total Income		1,67,400

Computation of Deduction u/s 80GG:

1. Computation of Adjusted Total Income:

Particulars	₹	₹
Gross Total Income		1,85,000
Less: Long-Term Capital Gain	25,000	
Short-Term Capital Gain on Sale of Shares	20,000	
Deduction u/s 80C to 80U	6,000	(51,000)
Adjusted Total Income		1,34,000

2. Deduction u/s 80GG

Particulars	₹
(a) Rent paid Less 10% Adjusted Total Income = ₹ 25,000 Less 10% of ₹ 1,34,000	11,600
(b) 25% of Adjusted Total Income = ₹ 1,34,000 x 25%	33,500
(c) ₹ 5,000 p.m. x 12 Months	60,000
Permissible Deduction = Least of the above	11,600

Note: STCG on sale of shares assumed to be covered u/s 111A.

DEDUCTION IN RESPECT OF ROYALTY INCOME ON BOOKS [Sec 80QQB]**1. ELIGIBLE ASSESSEE:**

Resident individual being an author who's GTI includes INCOME in the nature of

(a) **Lump sum consideration** for his interests in the copyright of any book being a work of literary, artistic, scientific nature **or**

(b) **Royalty or copyright fees** in respect of such book.

2. **Books** shall **not include** brochures, guides, journal, diaries, commentaries, magazines, newspapers, pamphlets, textbooks for schools / tracts & other publications of similar nature.

3. DEDUCTION: LOWER OF

a) 100% of such lump sum income [15% of the value of books in case of Royalty]
(Less: Related Expenses)

OR

b) ₹ 3,00,000

RESIDENT INDIVIDUAL BEING AUTHORS (Royalty Income)

**DEDUCTION IN RESPECT OF ROYALTY INCOME ON PATENTS
[Sec 80RRB]****1. ELIGIBLE ASSESSEE:**

RESIDENT Individual whose GTI includes Royalty Income from Patent.

2. The deduction shall not be available on

- a. any capital sum received for sale of patent, which is chargeable u/h Capital Gains
- b. any consideration for sale of product manufactured with the use of the patented article

3. DEDUCTION: lower of

a. 100% of such income; or

b. ₹ 3,00,000

RESIDENT INDIVIDUAL BEING PATENTEE (Royalty Income)

COMMON FOR 80QQB/80RRB BOTH

If income earned from foreign sources: Deduction is allowed to the extent the income is brought into India in Convertible Foreign Exchange **within 6 months from end of Previous Year** or such extended period as allowed by RBI / competent authority.

Claim in Return of Income: Mandatory for deduction

Deduction in respect of interest on deposits in saving accounts to the extent of ₹ 10,000 [Section 80TTA]

1. **Applicability:** Individual or HUF
(Other than senior citizen covered u/s 80TTB)
2. **Maximum Qualifying Amount of deduction under section 80TTA:** ₹ 10,000
3. GTI includes interest on deposits (not being time deposit) in a **Saving Bank Account** with
 - a) Banks,
 - b) Co-operative society into Banking Business or
 - c) Post Office.
4. However, where **such income is derived by Firm/AOPs/BOIs**, no deduction shall be allowed to any partner/member as the case may be.

Deduction in respect of interest on deposits to the extent of ₹ 50,000 [Section 80TTB]

1. **Applicability:** Senior Citizen
2. **Maximum Qualifying Amount of deduction under section 80TTB:** ₹ 50,000
3. GTI includes interest on deposits with
 - a) Banks,
 - b) Co-operative society into Banking Business or
 - c) Post Office.
4. However, where **such income is derived by Firm/AOPs/BOIs**, no deduction shall be allowed to any partner/member as the case may be.

Note: Senior citizen who is eligible for deduction u/s 80TTB will not be able to claim deduction u/s 80TTA.

**Deduction in respect of employment of new Workmen/Employees
[Section 80JJAA]**

1. Where the GTI of **an assessee** (any person) to whom **section 44AB applies**, includes any profits and gains derived from business, a deduction of an amount equal to **30% of additional employee cost** incurred in the course of such business in the previous year shall be allowed, **for 3 assessment years** including the assessment year relevant to the previous year in which such employment is provided.
2. **No deduction under sub-section (1) shall be allowed:**
 - (a) **if the business is formed by splitting up, or the reconstruction, of an existing business:**

Provided that nothing contained in this clause shall apply in respect of a business which is formed as a result of re-establishment, reconstruction or revival by the assessee of the business in the circumstances and within the period specified in **Section 33B**;
 - (b) **if the business is acquired by the assessee by way of transfer from any other person or as a result of any business reorganisation;**
 - (c) **unless the assessee furnishes the report [Form No. 10DA] of the Chartered accountant, before the specified date (i.e. date 1 month prior to the due date of furnishing return under Section 139) referred to in section 44AB i.e. 30th Sept of the AY.**

NOTE:

- A. "Additional Employee Cost" means** total emoluments paid or payable to **additional employees employed** during the previous year:

Provided that in the case of an existing business, the additional employee cost shall be NIL, if-

- (a) there is **no increase in the number of employees** from the total number of employees employed **as on the last day** of the preceding year;
- (b) emoluments are paid **otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through any other prescribed electronic mode;**

The prescribed electronic modes notified are 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 as other electronic modes of payment.

Provided further that in the **first year of a new business**, emoluments paid or payable to employees employed during that previous year **shall be deemed to be the additional employee cost**;

- B. "Additional Employee" means** an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, **but does not include,-**
- (a) an employee whose total emoluments are **more than ₹ 25,000 per month**; or
 - (b) an employee for whom the **entire contribution is paid by the Government** under the Employees' Pension Scheme; or
 - (c) an employee employed for a period of **less than 240 days** during the previous year (150 days in case of Apparel, footwear or leather products); or
 - (d) an employee who **does not participate in the recognised provident fund**;

where an employee is employed during the previous year for a period of less than two hundred and forty days or one hundred and fifty days, as the case may be, but is employed for a period of two hundred and forty days or one hundred and fifty days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly.

- C. "Emoluments" means any sum paid or payable to an employee in lieu of his employment by whatever name called, but does not include-
- (a) any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and
 - (b) any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.
- D. It is not necessary that the employee should qualify as a "workman" under the Industrial Disputes Act, 1947 for the employer to avail benefit under section 80JJAA.

Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste [Sec 80JJA]

- 1) **Applicability:** ALL ASSESSEES
- 2) **Conditions:** The deduction is allowable where the assessee is engaged in business of collecting and processing or treating of bio-degradable waste for:
 - a) Generating Power, or
 - b) Producing bio-fertilizers, bio-pesticides or other biological agents, or
 - c) Producing bio-gas, or
 - d) Making pellets or briquettes for fuel or organic manure.
- 3) **Quantum & Period of Deduction:** **[100% for 5 AYs]**
100% of the profits derived from such business for a period of **5 consecutive previous year** in which the business commences.
- 4) **No deduction shall be allowed if the deduction has not been claimed in the ROI.**

100%
for 5 AYs

Section 80PA - Deduction in respect of certain income of Producer Companies

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1. Where the **gross total income of an assessee, being a Producer Company having a total turnover of less than ₹ 100 crores** in any previous year, includes any profits and gains derived from eligible business, there shall, in accordance with and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to 100% of the profits and gains attributable to such business for the previous year relevant to an **assessment year commencing on or after the 1st day of April, 2019, but before the 1st day of April, 2025.**
2. In a case where the assessee is also entitled to deduction under any other provision of this Chapter, the deduction under this section shall be allowed with reference to the income, if any, as referred to in this section included in the gross total income as reduced by the deductions under such other provision of this Chapter.
3. **[3 Marks] "Eligible business" means—**
 - a) the marketing of agricultural produce grown by the members; or
 - b) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for the purpose of supplying them to the members; or
 - c) the processing of the agricultural produce of the members;

Deduction in respect of certain income of Offshore Banking Units and International Financial Services Centre [Section 80LA]

A. Eligible assessee:

This section is applicable to the following assessees -

- a. a scheduled bank having an Offshore Banking Unit in a SEZ; or
- b. any bank, incorporated by or under the laws of a country outside India, and having an Offshore Banking Unit in a SEZ; or
- c. a Unit of an International Financial Services Centre (IFSC).

B. Eligible income qualifying for deduction:

The deduction will be allowed on account of the following income included in the gross total income of such assessees –

- a. income from an Offshore Banking Unit in a SEZ; or
- b. income from the business referred to in section 6(1) of the Banking Regulation Act, 1949, with -
 1. an undertaking located in a SEZ or
 2. any other undertaking which develops, develops and operates or develops, operates and maintains a SEZ; or
- c. income from any Unit of the IFSC from its business for which it has been approved for setting up in such a Centre in a SEZ.
- d. ***income arising from the transfer of an asset, being an aircraft (including helicopter & engine) or a ship including ocean vessel & engine, which was leased by a IFSC unit to a person, subject to the condition that the unit has commenced operation on or before the 31st day of March, 2025 2024. [Amended by Finance Act 2024]***



C. Quantum and period of deduction:

S. No.	Eligible assessee	Quantum and period of deduction	Relevant previous year from which deduction is allowed
(a)	a scheduled bank having an Offshore Banking Unit in a SEZ	100% of such income for 10 consecutive AYs	Beginning with the assessment year relevant to the previous year in which:
(b)	any bank, incorporated by or under the laws of a country outside India, and having an Offshore Banking Unit in a SEZ		1. the permission under section 23(1)(a) of the Banking Regulation Act, 1949 was obtained; or
(c)	Unit of an International Financial Services Centre (IFSC)	100% of such income for any 10 consecutive AYs at the option of the assessee, out of 15 years.	2. the permission or registration under the SEBI Act, 1992 was obtained; or 3. the permission or registration under any other relevant law was obtained (For IFSC units - under the International Financial Services Centre Authority Act, 2019 was obtained)

D. Conditions:

The following conditions have to be fulfilled for claiming deduction under this section-

- a. The report of a Chartered Accountant in the prescribed form certifying that the deduction has been correctly claimed in accordance with the provisions of this section, **should be submitted along with the return of income.**
- b. A copy of the permission obtained under section 23(1)(a) of the Banking Regulation Act, 1949 **or copy of the permission or registration obtained under the International Financial Services Centre Authority Act, 2019** should also be furnished along with the return of income.

SECTION 80M - Deduction in respect of certain inter-corporate dividends

1. *Where the gross total income of a domestic company in any previous year includes any income by way of dividends from any other domestic company or a foreign company or a business trust, there shall, in accordance with and subject to the provisions of this section, be allowed in computing the total income of such domestic company, a deduction of an amount equal to so much of the amount of income by way of dividends received from such other domestic company or foreign company or business trust as does not exceed the amount of dividend distributed by it on or before the due date.*
2. *Where any deduction, in respect of the amount of dividend distributed by the domestic company, has been allowed under sub-section (1) in any previous year, no deduction shall be allowed in respect of such amount in any other previous year.*

Explanation: *For the purposes of this section, the expression "due date" means the date one month prior to the date for furnishing the return of income under section 139(1).*

Tax incentives for eligible start-ups [Section 80-IAC]

➤ **Objective:**

In order to provide an incentive to start-ups and aid their growth in the early phase of their business.

➤ **Quantum of deduction:**

Accordingly, a deduction of 100% of the profits and gains derived by an eligible start-up from an eligible business is allowed **for any 3 consecutive assessment years out of 10 years** beginning from the year in which the eligible start up is incorporated.

➤ **Eligible Startup means a company or a LLP engaged in eligible business which fulfils the following conditions, namely:—**

- i. it is incorporated **on or after the 1st day of April, 2016 but before the 1st day of April, 2025 2024; [Amended by Finance Act 2024]** 
- ii. the **total turnover** of its business **does not exceed ₹ 100 crores** in any of the previous year **relevant to the Assessment year for which deduction is claimed under section 80-IAC**; and
- iii. it holds a certificate of **eligible business** from the **Inter-Ministerial Board of Certification** as notified in the Official Gazette by the Central Government

➤ **"Eligible Business" means a business engaged in innovation, development or improvement of products or processes or services, or a scalable business model with a high potential of employment generation or wealth creation;**

➤ **Conditions to be fulfilled:**

This incentive is available to an eligible start-up which fulfils the following conditions:

i. **It is not formed by splitting up, or the reconstruction, of a business already in existence.**

However, this condition shall not apply in respect of a start-up which is formed as a result of the re-establishment, reconstruction or revival by the assessee of the business of any such undertaking as referred to in **Section 33B**, in the circumstances and within the period specified in that section;

ii. **It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.**

- (a) 20% old machinery is permitted
- (b) Second-hand imported machinery is treated as new:

iii. **Eligible business to be considered as the only source of income:**

For the purpose of computing deduction under this section, the profits and gains of the eligible business shall be computed as if such eligible business were the only source of income of the assessee during the relevant previous years.

iv. Audit of Accounts:

The deduction shall be allowed only if the accounts of the start-up for the relevant previous year 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 before the specified date referred to in section 44AB.***

v. Transfer of goods/services between eligible business and other business of the assessee:

Where any goods or services held for the purposes of the eligible business are transferred to any other business carried on by the assessee, or vice versa, and if the consideration for such transfer does not correspond with the market value of the goods or services, then, the profits and gains of the eligible business shall be computed as if the transfer was made at market value. However, if, in the opinion of the Assessing Officer, such computation presents exceptional difficulties, the Assessing Officer may compute the profits on such reasonable basis as he may deem fit.

vi. Deduction not to exceed profits of eligible business:

The deduction claimed and allowed under this section shall not exceed the profits and gains of the eligible business.

Further, where deduction is claimed and allowed under this section for any assessment year, no deduction in respect of such profits will be allowed under any other section under this chapter.

vii. Assessing Officer empowered to make adjustment in case any transaction produces excessive profits to eligible business:

The Assessing Officer is empowered to make an adjustment while computing the profit and gains of the eligible business on the basis of the reasonable profit that can be derived from the transaction, in case the transaction between the assessee carrying on the eligible business under section 80-IAC and any other person is so arranged that the transaction produces excessive profits to the eligible business.

However, if the arrangement involves a specified domestic transaction referred to in section 92BA, the amount of profits from such transaction shall be determined having regard to the arm's length price.

viii. Central Government empowered to deny deduction to any class of start-up:

The section empowers the Central Government to declare any class of start-up as not being entitled to deduction under this section.

Example:

VERY IMP: A (P) Ltd. was incorporated on 1.4.2021 and it holds a certificate of eligible business from the notified IMBC (Inter-Ministerial Board of Certification). It is engaged in innovation of new products.

Its total turnover and profits and gains from such business for the P.Y. 2021-22 to P.Y. 2030-31 are as follows:

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	(₹ in crores)									
Total turnover	65.42	68.36	70.21	72.72	74.95	73.52	74.68	72.51	68.42	66.52
Profits/Losses	(5.52)	(4.37)	(2.52)	18.13	19.87	17.59	19.42	18.56	16.52	15.53

Is A (P) Ltd. eligible for any tax benefit under the provisions of the Income-tax Act, 1961 for A.Y. 2025-26? If yes, what is the benefit available?

Solution:

A (P) Ltd. is an eligible start-up, since –

- (1) it is a company engaged in eligible business of innovation of new products.
- (2) it is incorporated during the period 1.4.2016 **to 31.3.2025.**
- (3) its total turnover **does not exceed ₹ 100 crores** in the relevant previous years for which deduction can be claimed.
- (4) it holds a certificate of eligible business from the notified IMBC

Therefore, A (P) Ltd., being an eligible start-up, is eligible for deduction under section 80-IAC of 100% of the profits and gains derived by it from an eligible business **for any three consecutive assessment years out of ten years** beginning from the year in which the eligible start up is incorporated i.e., P.Y. 2021-22.

In the first, second year and third year i.e., P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24, A (P) Ltd. has incurred a loss. In the current previous year i.e., P.Y. 2024-25, A (P) Ltd. has earned profits from eligible business and can hence, claim 100% of its profits as deduction for any three consecutive years under section 80-IAC from the P.Y. 2024-25 to P.Y. 2030-31.

However, for P.Y. 2024-25, the profits eligible for deduction would be the profits after set-off of brought forward losses of P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24. On account of set-off of brought forward losses from current year profit, the profits eligible for deduction under section 80-IAC would be lower than the profits eligible for deduction in the said section in the succeeding assessment years.

Thus, it would be beneficial for A (P) Ltd. to opt for deduction under section 80-IAC for three consecutive assessment years beginning from A.Y. 2026-27 to A.Y. 2028-29.



“PRACTICAL QUESTIONS – SET A”

1. Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (a) 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.
- (b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an individual assessee from claiming deduction under section 80QQB.

Solution:

- (a) **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.
- (b) **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 [assuming the assessee exercises the option of shifting out of the default tax regime].

2. 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	5,00,000	51,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped Son (section 80U disability)	4,00,000	80,000

What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

Solution:

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	Deduction u/s 80C for A.Y. 2025-26 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	5,00,000	51,000	51,000	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				1,25,000	

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

3. An individual assessee, resident in India, has made the following deposit/ payment during the previous year 2024-25:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2015) (Assured value ₹ 2,00,000)	25,000

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 ₹ 2,00,000, as the policy is taken after 31.3.2012)	20,000
Total	1,70,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

4. **[Amended]** 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:

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]

Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD:

- (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). 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 up to ₹ 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).

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.

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]** 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)..

5. Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his handicapped 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 dependent disabled person. Grandfather does not come within the definition of dependent.

6. What will be the deduction if Mr. X had made this deposit for his dependent father?

Solution:

Since the expense was incurred for a dependent 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.

7. 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 F.Y. 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	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

8. 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).
- 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 less than the maximum permissible limit of ₹ 5,000.

9. 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 mediclaime policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2025-26.

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	
restricted to	28,000	25,000
(iii) Mediclaime 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	
restricted to	53,000	50,000
		75,000

10. 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 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.

11. **[Important]** 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

12. **[Amended]** 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:

- Premium paid to insure the life of her major daughter (policy taken on 1.4.2017) (Assured value ₹ 1,80,000) – ₹ 20,000.
- Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- Donation to a public charitable institution registered under 80G ₹ 50,000 by way of cheque.
- LIC Pension Fund – ₹ 60,000
- Donation to National Children's Fund - ₹ 25,000 by way of cheque
- Donation to Jawaharlal Nehru Memorial Fund - ₹ 25,000 by way of cheque
- Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- 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	
Total (Section 80C)	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to Deduction under section 80D	1,78,000	1,50,000
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		75,000
Total income		5,25,000

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)	Jawaharlal Nehru Memorial Fund	25,000	Not Eligible now	NIL
(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
				75,000

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.

13. 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	25,500
(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.

1. 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.

2. 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

14. Mr. A, a resident individual aged about 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account.

What is the total income of Mr. A for the A.Y. 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**

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

Note: Though the value of eligible deductions is ₹ 1,80,000, however, deduction under Chapter VI-A cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings of lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A
 = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 under section 80TTB.

15. 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 15.07.2018 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- (ii) Life insurance premium of ₹ 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 2,50,000 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 08.09.2017 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	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
➤ major son	25,000		
➤ self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	45,000	
Under section 80D (See Note 2)			
Premium paid for ₹ 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	91,000
Total Income			4,73,500

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 ₹ 25,000 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 ₹ 2,50,000. 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 ₹ 15,000 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.

16. Examine the following statements with regard to the provisions of the Income-tax 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).

Solution:

- (a) **The statement is correct.** The deduction under section 80E 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.

- (b) **The statement is correct.** Under section 80C, 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).

- (c) **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.

- (d) **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).

- (e) **The statement is not correct.** Section 80CCD 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.

- (f) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

17. 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 handicapped dependent.
- (ii) Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of handicapped dependent.
- (iii) Rajan has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of handicapped dependent.

Solution:

- (i) The deduction of ₹ 75,000 under section 80DD is allowed in full, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependent with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of handicapped dependent. The assessee is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed in full, irrespective of the amount deposited with LIC. In the case of dependent 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 handicapped dependent 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 dependent is a person with severe disability the quantum of deduction is ₹ 1,25,000.

18. **[Important]** For the Assessment year 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 [date of transfer - 1.5.2024] 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.

Solution:

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime u/s 115BAC

Particulars	₹	₹
Gross total income including 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		NIL
Total income		8,18,240
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 20%		49,000
Balance total income ₹ 5,73,240		13,662
Tax before cess		62,662
Add: Health and Education cess @4%		2,506
Total tax liability		65,168 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 including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
GTI excluding LTCG		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		1,779
Tax before cess		50,779
Add: Health and Education cess @4%		2,031
Total tax liability		52,810

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Notes:

(1) Computation of deduction under section 80G:

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

- (2) 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.
- (3) 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.
- (4) Mr. Chaturvedi, being a senior citizen is eligible for basic exemption of ₹ 3,00,000.

19. Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2024-25, furnishes you the following information:

- Stamp duty paid on acquisition of residential house (self-occupied) - ₹ 50,000.
- Five year post office time deposit - ₹ 20,000.
- Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction under section 80G at the applicable rate.
- Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the Assessment year 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. Rajmohan for the A.Y. 2025-26

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
TOTAL	70,000	
Under section 80E		
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.

20. Compute the eligible deduction under Chapter VI-A for the A.Y. 2025-26 of Ms. Roma, 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:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01-01-2012 and sum assured is ₹ 3,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Solution:

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2024-25

Particulars	₹	₹
Deduction under section 80C		
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	
Total	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		1,50,000
<u>Deduction under section 80D</u>		
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

21. **[Important]** Mr. Aakash received 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 date. 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:	₹
Royalty ₹ 2,88,000 x 15/18 = ₹ 2,40,000	
Restricted to Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	<u>1,90,000</u>

“PRACTICAL QUESTIONS – SET B”

In all questions, assume 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 under the normal provisions of the Act.

- 1) From the following particulars in respect of Adarsh, an author of books, find out the deduction allowable to him under section 80C for the AY 2025-26 (amounts in ₹):

Life insurance premium (on his own life)	22000
Sum assured on the above policy	300000
Contribution to unrecognised provident fund	1000
Contribution to public provident fund	25000
Subscription to National Savings Certificates VIII issue	8000
Accrued interest for one year completed National Savings Certificates VIII issue	8000
Life insurance premium on his mother's life policy	5000
Repayment of bank loan borrowed for the construction of the house	21000

- 2) Mr. A, aged about 66 years, has earned a lottery income of ₹ 1,20,000 (gross) during the PY 2024-25. He also has a business income of ₹ 30,000. He invested an amount of ₹ 10,000 in Public Provident Fund account and ₹ 24,000 in National Saving Certificates. **What is the total taxable income of Mr. A for the AY 2025-26?**

- 3) X (age: 26 years), a resident individual, has income of ₹ 6,95,000 [i.e., ₹ 4,10,000 from a business in Delhi and ₹ 2,85,000 from a property in Bombay) during the previous year 2024-25. **Find out his net income for the assessment year 2025-26 taking into consideration the following payments —**

	₹
1. Life insurance premium on own-life paid by X in cash on March 31, 2025 (sum assured ₹ 4,00,000)	33,334
2. Contribution towards pension fund of LIC	11,000
3. Mediclaim insurance premium on the life of dependent father (age : 67 years and last foreign travel : during 2011-12) paid by cheque on April 20, 2024	19,000
4. Medical treatment of dependent brother (being a person with disability)	5,000
5. Deposit with LIC for the maintenance of the dependent brother (being a person with disability)	20,000

- 4) A submits the following information regarding his income for the previous year 2024-25

	₹
1. Salary Income (computed)	1,90,000
2. Rent received from property in Delhi (per month)	4,000
3. Winning from lottery (Gross)	15,000

He makes the following deposits / payments during the year

1. Contribution towards PPF	10,000
2. Premium paid in cash on Mediclaim policy of his dependant father	8,000

He has a son being a person with disability, dependent on him, for whom he incurs expenses of his medical treatment and rehabilitation. He also deposits a sum of ₹ 25,000 for the benefit of his son under a scheme framed by the UTI for such a purpose.

Compute his total income for the assessment year 2025-26.

5) The Gross Total Income of A for the Previous Year 2024-25 as computed is ₹ 2,50,000 which includes ₹ 1,65,000 Long-Term Capital Gain and ₹ 10,000 on account of Short-Term Capital Gain. Besides the above he provides you the following information –

- (a) He has deposited ₹ 12,000 to effect a contract for annuity plan of L.I.C.
- (b) He paid the following premium to the New India Assurance Co. Ltd for Mediclaim scheme for himself & his relatives.
- | | |
|--------------------------------------|---------|
| (i) his own health | ₹ 1,000 |
| (ii) for health of spouse | 600 |
| (iii) Major son not dependent on him | 800 |
| (iv) Mother dependent on him | 1,200 |
| (v) Brother dependent on him | 1,100 |
- (c) One of his brothers is totally blind and dependent on him for medical treatment and rehabilitation. A spends on his blind brother. ₹ 10,000
- (d) He has also deposited ₹ 25,000 in a Scheme framed by UTI for maintenance of his handicapped dependent brother.

Compute his Total Income for the Assessment Year 2025-26.

6) X, suffers from disability duly certified by a specialist. X is employed as personal assistant to the Managing Director in a private company on a monthly salary of ₹ 12,000. Besides, X submits the following particulars of income for the year ending 31.3.2025:

Interest from Indian companies	₹ 5,000
Dividend from UTI	₹ 3,000
Interest from bank FD	₹ 5,000

Determine the taxable income for the assessment year 2025-26.

7) X is a Personal Secretary of a Managing director in a Public sector undertaking. X suffers from severe physical disability, Monthly salary drawn is ₹ 12,000/-. Further, interest is earned on Fixed deposits with banks ₹ 15,000/-, from private companies ₹ 7,000/-. You are required to compute the taxable income of X for A.Y. 2025-26.

8) **Compute the total income of Mr. Sonu (blind from birth) for the AY 2025-26, after taking into account the following information:**

(1) Salary from a publishing house for working as an artist (no allowances received)	1,36,000p.a.
(2) Income from sale of books	3,25,000
(3) Winnings from lottery	60,000
(4) Dividend from a foreign company	10,000
(5) Fixed deposit with scheduled Bank in accordance with notified scheme	10,000
(6) Payment of rent of self-occupied house	50,000
(7) Donation to PM's National Relief Fund	4,000

It was found during the year that he is suffering from cancer. Sonu spent ₹ 30,000 for treatment of cancer, out of which ₹ 10,000 were reimbursed by his employer.

9) X (35 years) is a resident individual. During the PY 2024-25, he incurs the following expenditure—

	Actual Amount expenditure ₹	re-imbursed by insurance company ₹	Amount re-imbursed by employer of X ₹
Medical treatment (specified disease) of X in a Government hospital	30,000	Nil	28,000
Medical treatment (specified disease) of Mrs. X in a hospital recognised by Chief Commissioner	14,000	3,000	6,000

Salary of X is ₹ 4,50,000 p.a. In the two cases, disease is specified in the rules made by the Board. **Find out the net income of X for the AY 2025-26.**

10) X (34 years), a resident ind, submits the following particulars of his income for the PY 2024-25:

Business income	83,000
Interest on debentures	49,000
Long-term capital gains on transfer of gold	4,10,000
Short-term capital gain on sale of shares taxable under section 111A	20,000
Other short-term capital gain	10,000
Contribution towards public provident fund	40,000
Payment of medical insurance premium on own life	3,000
Donation to the National Trust for welfare of persons with Autism	4,000
Donation to the fund set up by the Gujarat Government for providing relief to victims of earthquake in Gujarat	3,000
Donation to Rajiv Gandhi Foundation	1,000
Donation to the Prime Minister's Drought Relief Fund	5,000
Donation to approved public charitable institution	11,000
Donation to a poor boy for higher education	5,000
Donation of clothes to an approved institution	12,000
Donation to a charitable institution for construction of a rest house only for a particular religious community	8,000

Determine the net income of X for the AY 2025-26.

11) X, an Indian citizen, gives the following particulars of his income and expenditure of the previous year 2024-25:

Business income	11,05,500
Winnings from lottery	1,04,500
Contribution towards public provident fund	70,000
Donation to the Prime Minister's National Relief Fund	51,000
Donation to the Government of India for promotion of family planning	33,000
Donation to a public charitable institute (being an approved institution for section 80G)	1,12,000

Determine the net income of X for the AY 2025-26.

12) Mr. Brown supplies you the following information for the year ended 31.3.2025.

	₹
Interest on bank deposits (Time)	59,000
Dividend on shares of foreign companies received abroad	50,000
Interest from deposits in Indian Companies (gross)	30,000
Income from horse races in India	17,500

Mr. Brown is a non-resident. He has donated a sum of ₹ 15,000 to Municipal Corporation of Delhi for family planning. He has paid ₹ 2,000 by cheque to New India Assurance Company for mediclaim for himself. He has also spent ₹ 6,000 on medical treatment of his minor son who is physically handicapped.

Compute total income of Mr. Brown for the assessment year 2025-26.

13) Compute the total income of Mr. Kamal for the assessment year 2025-26 (All Amounts in ₹) :

Salary received (per annum)	2,55,000
Rent received from let out property	1,20,000
Long term capital gains	2,40,000
Short term capital loss	80,000
Agricultural income from Nepal	1,00,000

He has made the following payments :

Donation to Scientific research association	50,000
Repayment of loan taken for his higher education (Interest included ₹ 80,000)	1,24,000
Donation to National Children's Fund	5,000
Donation to approved charitable institution	16,000
Donation Prime Minister's National Relief Fund	8,000
Payment by cheque to General Insurance Corporation for insuring health of his dependant father, being a senior citizen	15,000
Expenses on medical treatment of his dependant disabled mother (severe disability)	3,000

- 14)** X, a Qualified Accountant, derives ₹ 1,63,000 as taxable professional income. Income of X from other sources is ₹ 32,000. He pays Mediciam insurance premium ₹ 2,000 for insuring the health of his non - dependent parents; ₹ 3,000 for self and spouse and ₹ 2,000 for his brother. He incurs ₹ 12,000 expenditure on medical treatment of his dependent mentally retarded (severe disability) sister in approved hospital duly certified. He pays rent of ₹ 2,500 per month. **Calculate his TI for AY 2025-26 after claiming deductions u/c VI-A.**

- 15)** Anand is a retired Government Officer aged 65 years, who derived the following income in respect of FY 2024-25. He resides in Cochin:

	₹
Pension p.a.	130,000
Interest from bank deposits (time)	102,000

He has paid ₹ 20,000 as premium to effect insurance on his health. He pays a rent of ₹ 3,000 per month in respect of furnished accommodation. **What is his eligibility for deduction under section 80GG? What are the conditions to be satisfied by him to qualify for the deduction?**

- 16)** For the previous year 2024-25, the business income of X (age: 29 years) is ₹ 10,23,000. During the year, he pays the following by cheque to get tax benefit—

Insured person	Mediciam insurance premium ₹	Life insurance premium ₹
Taxpayer, spouse and children—		
X	22,000	15,000*
Mrs. X (not dependent upon X) [sum assured is ₹ 160,000]	4,500	20,000
Son (not dependent upon X)	800	2,000*
Daughter (dependent upon X)	2,500	700*
Parents of the taxpayer—		
Father (age: 67 years, resident in India, not dependent upon X)	1,000	1,200*
Mother (age: 59 years, dependent upon X)	36,000	6,000*
Others—		
Grand parents (dependent upon X)	500	2,000*
Father of Mrs. X (dependent upon X)	800	7,000*
Brother (dependent upon X)	900	4,500*

*Less than 10 percent of sum assured.

Besides, X pays ₹ 16,000 towards pension fund of LIC. Find out the net income of 'X' for **AY 2025-26**.

“SOLUTIONs – SET B”

Solution 1:

Computation of deduction allowable to Adarsh under section 80C

Life insurance premium on his own life (fully allowed as premium is less than 10% of sum assured)	22000
Contribution to PPF	25000
Subscription to National Savings Certificates VIII issue	8000
Accrued interest for one year completed NSC VIII issue - It is reinvested, hence, eligible	8000
Repayment of bank loan borrowed for the construction of the house	21000
Total	84000

Note: Life insurance premium on mother's life policy is not eligible for deduction u/s 80C.

Solution 2:

Computation of total taxable income of Mr. A for AY 2025-26

Particulars	₹	₹
Profits and gains from business or profession		30,000
Income from other sources - lottery income		<u>1,20,000</u>
Gross Total Income		1,50,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C - Deposit in Public Provident Fund	10,000	
- Investment in National Saving Certificate	<u>24,000</u>	
	34,000	
Restricted to		<u>30,000</u>
Total Income		<u>1,20,000</u>

Note: Though the value of eligible investments is ₹ 34,000, however, deductions under chapter VIA cannot exceed the Gross Total Income exclusive of Long Term Capital Gain, Short Term Capital Gain covered under section 111A, winnings of lotteries etc of the assessee. Therefore maximum permissible deduction under section 80C = ₹ 1,50,000 – ₹ 1,20,000 = ₹ 30,000.

Solution 3:

	₹
Property income	2,85,000
Business income	<u>4,10,000</u>
Gross total income	6,95,000
Less : Deductions under sections 80C to 80U	
Under section 80C [payment of life insurance]	33,334
Under section 80CCC [contribution towards pension fund of LIC]	11,000
Under section 80D [mediclaim insurance premium on the health of dependent father]	19,000
Under section 80DD [the amount of deduction is ₹ 75,000 irrespective of the amount incurred or deposited under Option 1 and/or Option 2]	<u>75,000</u>
Net Income (Rounded off)	<u>5,56,670</u>

Solution 4:

Income from salary		1,90,000
Income from house property		
Rent received ₹ 4,000 x 12	48,000	
Less: 30% as standard deduction	<u>14,400</u>	33,600
Income from Other sources		
Winnings from lotteries		<u>15,000</u>
Gross Total Income		2,38,600
Less: Deductions u/s 80C to 80U		
i. Sec 80C	10,000	
ii. Sec 80D(as payment is made in cash)	Nil	
iii. Sec 80DD	<u>75,000</u>	85,000
Total income		<u>1,53,600</u>

Solution 5:**Computation of Total Income**

Particulars	₹	₹
Gross Total Income (including LTCG of ₹ 1,65,000)		2,50,000
Less: Deduction Under Chapter VIA		
U/s 80C – Annuity Plan of LIC	12,000	
U/s 80D - Medical Insurance Premium paid (₹ 1,000 + ₹ 600 + ₹ 1,200)	2,800	
U/s 80DD - Medical Expenditure on Dependent	1,25,000	
Total	1,39,800	
Deduction restricted to ₹ 85,000 [Gross Total Income of ₹ 2,50,000 Less LTCG of ₹ 1,65,000] since (a) LTCG is not eligible for Chapter VI-A deduction, and (b) Deductions cannot exceed Gross Total Income exclusive of LTCG]		(85,000)
Total Income		1,65,000

Notes:**1. Mediclaim Premium:**

- (a) Premium paid on Major Son not dependent on the assessee is not eligible for deduction.
- (b) Premium paid on dependent brother is not eligible for deduction.
- (c) It is assumed that the premium is not paid in cash.

2. Certificate: It is assumed that Mr. A has obtained the certificate from the Medical Authority and the same is furnished/ along with the Return of Income.

Solution 6:**Computation of taxable income for the AY 2025-26**

	₹	₹
I. Income from Salary: (12000 x 12 – 50,000)		94,000
II. Income from other sources:		
- Interest from Companies	5,000	
- UTI Income	3,000	
- Interest from Bank FD	5,000	13,000
Gross Total Income		107,000
Less : Deduction under Chapter VI-A:		
- Sec. 80U		75,000
Taxable Income		32,000

Solution 7:

GTI = (12,000 x 12 - 50,000) + 15,000 + 7,000 = ₹ 1,16,000

Deduction = 80U = ₹ 125000 maximum 116000.

Solution 8:**Computation of Net Income of Sonu for the Assessment Year 2025-26 (amounts in ₹)**

Income from Salary (1,36,000 - 50,000)		86,000
Business Income (sale of books)		3,25,000
Income from Other Sources:		
Winnings from lottery	60,000	
Dividend from a foreign company	10,000	70,000
Gross Total Income		4,81,000
Less: Deductions under Chapter VIA		
Under section 80C (FD with Bank in accordance with notified scheme)	10,000	
Under section 80DDB (Medical treatment of cancer) (₹ 30,000 - ₹ 10,000)	20,000	
Under section 80G (100% of ₹ 4,000)	4,000	
Under section 80GG (See Note)	17,800	
Under section 80U	1,25,000	1,76,800
Total Income		3,04,200

Note: Deduction under section 80GG shall be the least of the following -

- a) 5,000 x 12 60,000
- b) Rent paid - 10% of Adj. GTI = 50,000 - 10% of (4,81,000 - 10,000 - 20,000 - 4,000 - 1,25,000) = 50,000 - 10% of 3,22,000 = 17,800
- c) 25% of Adj. GTI i.e. 3,22,000 80,500

Solution 9:

	₹
Salary	4,50,000
Perquisite in respect of medical treatment of X and his spouse	Nil
Gross salary	4,50,000
Less : Standard deduction u/s 16(ia)	50,000
Salary	4,00,000
Any other income	Nil
Gross total income	4,00,000
Less : Deduction under section 80DDB	3,000
Net income	3,97,000

Note - The amount deductible is as follows—

1. actual expenditure (i.e., ₹ 30,000 + ₹ 14,000); or
2. ₹ 40,000 (₹ 100,000 in the case of senior citizen), whichever is less.

₹ 40,000 is deductible if nothing is recovered from the insurance company or employer. From the amount deductible (i.e., ₹ 40,000 in this case), the amount received from insurance company as well as employer shall be deducted. Therefore, ₹ 40,000 - ₹ 3,000 - ₹ 28,000 - ₹ 6,000, i.e., ₹ 3,000 is deductible.

Solution 10:

Business Income	83,000
Long-term capital gains	4,10,000
Short-term capital gain under section 111A	20,000
Other short-term capital gain	10,000
Interest on debentures	49,000
Gross total income	5,72,000
Less: Deductions under sections 80C to 80U	
Under section 80C in respect of public provident fund	40,000
Under section 80D in respect of medical insurance premium	3,000
Under section 80G in respect of donations [see Note 1]	14,450
Net income	5,14,550

Note 1 - computation of deduction under section 80G in respect of donations**Step 1 - Gross qualifying amount:**

Donation to the National Trust for welfare of persons with Autism	4,000
Donation to the fund set up by the Gujarat Government for providing relief to victims of earthquake in Gujarat	3,000
Donation to Rajiv Gandhi Foundation (not eligible)	NIL
Donation to the Prime Minister's Drought Relief Fund	5,000
Donation to public charitable institutions	11,000
Amount given to a poor student (*not eligible as the donee is not a public charitable institution)	—*
Clothes to an institution (*donation in kind is not eligible)	—*
Amount for construction of rest house (*not eligible as amount will be utilised for the benefit of a particular community)	—*
Gross qualifying amount	24,000

Step 2 - Net qualifying amount

Donation to the National Trust for welfare of persons with Autism (*without any maximum limit)	4,000*
Donation to the fund set up by the Gujarat Government for providing relief to victims of earthquake in Gujarat (*without any maximum limit)	3,000*
Donation to Rajiv Gandhi Foundation	NIL
Donation to the Prime Minister's Drought Relief Fund (*without any maximum limit)	5,000*
Donation to the public charitable institutions:	
It is :	
a. ₹ 11,000 (being amount of donation); or	
b. ₹ 9,900 (being 10% of adjusted gross total income calculated under Note 2), whichever is lower.	
₹ 9,900 is, therefore, eligible for net qualifying amount	9,900
Net qualifying amount	22,900

Step 3 - Amount deductible:

50% of ₹ 14,900 (NIL+5,000+9,900) + 100% of ₹ 7,000	14,450

Note 2 - adjusted gross total income is calculated as under:

Gross total income	5,72,000
Less: Long-term capital gains	4,10,000
Less: Short-term capital gain under section 111A	20,000
Less: Amount of deduction under sections 80C to 80U except section 80G	43,000
Adjusted gross total income	<u>99,000</u>

Solution 11:

Business income	11,05,500
Income from other sources	<u>1,04,500</u>
Gross total income	<u>12,10,000</u>
Less: Deductions	
Under section 80C	70,000
Under section 80G [see Note 1]	1,24,500
Net income	<u>10,15,500</u>

Notes: Computation of Deduction under Section 80G

Step 1 - Gross qualifying amount

Donation to the Prime Minister's National Relief Fund	51,000
Donation for family planning	33,000
Donation to the public charitable institute	<u>1,12,000</u>
Gross qualifying amount	<u>1,96,000</u>

Step 2 - Net qualifying amount

Donation to the Prime Minister's National Relief Fund (*no maximum limit is prescribed)	51,000*

Donation for family planning and to public charitable institute, amount to be included in net qualifying amount, is the lower of:

- a) ₹ 1,45,000 (being amount of donation); or
b) ₹ 1,14,000 (being 10% of adjusted gross total income computed under Note 2),
₹ 1,14,000, being the least, is to be included.

As amount of ₹ 1,14,000 represents aggregate amount of net qualifying donation in respect of donation for family planning and to public charitable institute, separate amount in respect of these will be as follows:

Donation to the Government for promoting family planning	33,000
Donation to the public charitable institute (i.e., ₹1,14,000 - ₹ 33,000)	81,000
Net qualifying amount	<u>1,65,000</u>

Step 3 -Amount deductible

100% of amount qualified in respect of donation to the Prime Minister's National Relief Fund and the Government for family planning	33,000
50% of remaining portion	<u>40,500</u>
Amount deductible under section 80G	<u>1,24,500</u>

2. Adjusted Gross Total Income is calculated as under:

Gross total income	12,10,000
Less: Amount of deductions under sections 80C to 80U (except section 80G)	70,000
Adjusted gross total income	<u>11,40,000</u>

Solution 12:-

Income from other sources

Interest on bank deposits	59,000
Interest on deposits	30,000
Horse race	<u>17,500</u>
Gross Total income	<u>1,06,500</u>

Less : Deduction

U/s. 80D	2,000	
U/s. 80DD	Nil (as non resident)	
U/s. 80G [100%]	<u>10,450</u> [10% of (1,06,500- 2,000)]	<u>12,450</u>
Total Income		<u>94,050</u>

Solution 13: Computation of Total Income of Shri Kamal for the Assessment Year 2025-26

	₹	₹
Salary received (2,55,000 – 50,000)		205000
Income from House Property (₹ 1,20,000 - 30% of ₹ 1,20,000)		84000
Capital Gains:		
Long term capital gains	240000	
Short term capital loss	80000	160000
Income from Other Sources (Agricultural income from Nepal)		100000
Gross Total Income		549000
Less : Deductions under Chapter VIA		
(a) 80D for payment to GIC	15000	
(b) 80DD (medical treatment of disabled mother)	125000	
(c) 80E (interest on loan taken for higher education)	80000	
(d) 80GGA (Donation to scientific research association)	50000	
(e) 80G (See Note)	18950	288950
Total Income		260050

Note: Deduction u/s 80G = 100% of 5,000 + 100% of 8,000 + {50% of lower of - (a) 16,000 or (b) 10% of (5,49,000 - 1,60,000 - 15,000 - 1,25,000 - 80,000 - 50,000)} = 5,000 + 8,000 + 50% of 11,900 = ₹ 18,950.

Solution 14: Computation of Total Income

Particulars	₹	₹
Professional income		1,63,000
Income from other sources		32,000
Gross total income		1,95,000
Less : Deductions under Chapter VI-A		
1. Mediclaim Insurance - 80D - (₹ 3,000 + ₹ 2,000)	5,000	
2. Expenditure for dependant mentally retarded sister - 80DD	1,25,000	
3. Rent paid - 80GG - least of the following is eligible for deduction		
i. Excess of Rent paid over 10% of Adjusted GTI (₹ 30,000- ₹ 6,500) = ₹ 23,500		
ii. 25% of Adjusted GTI = ₹ 16,250		
iii. Ceiling limit ₹ 5,000 p.m. = ₹ 60,000	16,250	1,46,250
Total income ₹		48,750

Note:

- i) Mediclaim insurance for insuring health of X's brother does not qualify for deduction u/s 80D.
- ii) Mediclaim insurance for non - dependent parents shall qualify for deduction u/s. 80D
- iii) Deduction u/s. 80DD is a flat amount of ₹ 1,25,000 irrespective of the actual expenditure incurred (for persons with severe disability).

iv) Total income for the purpose of Sec 80GG

Gross Total Income	1,95,000
Less: Deduction u/s 80D & 80DD	1,30,000
Adjusted GTI	65,000

Solution 15: Deduction u/s 16(ia) – 50,000; 80D – 20,000, 80TTB – 50,000, 80GG – ₹ 24,800.

Solution 16:

	₹
Business income	10,23,000
Any other income	Nil
Gross total income	10,23,000
Less: Deductions under sections 80C to 80U	
Under section 80C [see Note]	33,700
Under section 80CCC (being payment towards pension fund of LIC)	16,000
Under section 80D [see Note]	51,000
Net income	9,22,300

Note - Computation of deduction under sections 80C and 80D-

Insured person	Life insurance for the purpose of section 80C ₹	Mediclaim insurance for the purpose of section 80D ₹
Taxpayer, spouse and dependent children - X	15,000	22,000
Mrs. X [limited to 10% sum assured]	16,000*	4,500
Son (not dependent upon X)	2,000	—
Dependent daughter	700	2,500
Total		29,000
Amount deductible under section 80D (maximum: ₹ 25,000, extra deduction of ₹ 5,000 is not available as X, Mrs. X and dependent children are not senior citizens) (a)		25,000
Parents of X -		
Father (not dependent)	—	1,000
Dependent mother	—	36,000
Grand parent, father-in-law, dependent brother	—	—
Total		37,000
Amount deductible under section 80D (maximum: ₹ 25,000, extra deduction of ₹ 1,000 is available as father of X is resident in India and senior citizen) (b)		26,000
Amount deductible under sections 80C and 80D [*(a) + (b)]	33,700	51,000*