



# All the Best !



CA UMANG SHEKHAR

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## CLASSWORK

- Q1. Mr. X has a total income of ₹ 25,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 under the default tax regime under section 115BAC.

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

Tax liability:

|                                             |                      |                    |
|---------------------------------------------|----------------------|--------------------|
| First ₹4,00,000                             | - Nil                |                    |
| Next ₹4,00,001-₹8,00,000                    | - @5% of ₹ 4,00,000  | = ₹20,000          |
| Next ₹8,00,001 - ₹12,00,000                 | - @10% of ₹4,00,000  | = ₹40,000          |
| Next ₹12,00,001-₹16,00,000                  | - @15% of ₹ 4,00,000 | = ₹60,000          |
| Next ₹16,00,001-₹20,00,000                  | -@20% of ₹4,00,000   | = ₹80,000          |
| Next ₹20,00,001-₹24,00,000                  | - @25% of ₹4,00,000  | = ₹1,00,000        |
| Balance i.e., ₹ 25,00,000 minus ₹ 24,00,000 | - @30% of ₹ 1,00,000 | = ₹30,000          |
|                                             |                      | <u>= ₹3,30,000</u> |
| Add; Health and education cess @4%          |                      | <u>= ₹13,200</u>   |
|                                             |                      | <u>= ₹3,43,200</u> |

- Q2. Mr. X has a total income of ₹ 16,00,000, comprising of income from house property and interest on fixed deposits. Compute his tax liability assuming his age is –

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

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

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

Tax liability:

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

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

Tax liability:

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

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

Tax liability:

|                  |       |
|------------------|-------|
| First ₹ 5,00,000 | - Nil |
|------------------|-------|

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

- Q3. Mr. ARP (Non-resident aged 85 years) has a total income of ₹13,00,000 comprising of his salary income and interest on fixed deposit. Compute his tax liability.  
Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of Tax liability

|                                         |                      |           |
|-----------------------------------------|----------------------|-----------|
| First ₹2,50,000                         | - Nil                | Nil       |
| Next ₹2,50,000 – ₹5,00,000              | - @ 5% of ₹2,50,000  | ₹12,500   |
| Next ₹5,00,000 – ₹10,00,000             | - @ 20% of ₹5,00,000 | ₹1,00,000 |
| Balance i.e., ₹13 lakhs minus ₹10 lakhs | - @ 30% of 3,00,000  | ₹90,000   |
|                                         |                      | ₹2,02,500 |
| Add : Health and Education Cess         |                      | 8,100     |
| Total                                   |                      | ₹2,10,600 |

- Q4. Calculate tax payable by Indian Company if Income of company is

- (i) 80,00,000
- (ii) 1,00,00,000
- (iii) 5,00,00,000
- (iv) 10,00,00,000
- (v) 15,00,00,000

Ans. Computation of Tax liability

| Income                | 80,00,000 | 10000000 | 50000000 | 10,00,00,000 | 15,00,00,000 |
|-----------------------|-----------|----------|----------|--------------|--------------|
| Basic Tax             | 2400000   | 3000000  | 15000000 | 30000000     | 45000000     |
| (+) Surcharge         |           |          | 1050000  | 2100000      | 5400000      |
| Basic Tax + Surcharge | 2400000   | 3000000  | 16050000 | 32100000     | 50400000     |
| (+) HEC               | 96000     | 120000   | 642000   | 1284000      | 2016000      |
| Total Tax Payable     | 2496000   | 3120000  | 16692000 | 33384000     | 52416000     |

- Q5. Mr. Raghav aged 26 years and a resident in India, has a total income of 10,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

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

| Particulars                                            | (₹)    |
|--------------------------------------------------------|--------|
| Tax on total income of ₹ 10,50,000                     |        |
| Tax@10% of ₹2,50,000 plus ₹ 20,000                     | 45,000 |
| Less: Rebate u/s 87A (Lower of tax payable or ₹60,000) | 45,000 |
| Tax Liability                                          | Nil    |

- Q6. Mr. Pawan aged 35 years and a resident in India, has a total income of 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.



Ans. Computation of tax liability of Mr. Pawan

| Particulars                                                             | ₹      | (₹) |
|-------------------------------------------------------------------------|--------|-----|
| Step 1: Total Income of ₹12,15,000 - ₹12,00,000                         | 15,000 | (A) |
| Step 2: Tax on total income of ₹12,15,000<br>Tax@15% of ₹15,000+₹60,000 | 62,250 | (B) |
| Step 3: Since B>A, rebate u/s 87A would be B-A<br>[₹62,250-₹15,000]     | 47,250 |     |
|                                                                         | 15,000 |     |
| Add: HEC@4%                                                             | 600    |     |
| Tax Liability                                                           | 15,600 |     |

Q7. Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability if he exercises the option to shift out of the default tax regime.

Ans. Computation of tax liability of Mr. Piyush

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

Q8. Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

|          |                                                                                                         |
|----------|---------------------------------------------------------------------------------------------------------|
| Ans. (A) | Income-tax (including surcharge) computed on total income of ₹ 51,00,000                                |
|          | ₹ 2,50,000 – ₹ 5,00,000@5% ₹ 12,500                                                                     |
|          | ₹ 5,00,001 – ₹ 10,00,000@20% ₹ 1,00,000                                                                 |
|          | ₹ 10,00,001 – ₹ 51,00,000@30% ₹ 12,30,000                                                               |
|          | Total ₹ 13,42,500                                                                                       |
|          | Add: Surcharge@10% ₹ 1,34,250 ₹ 14,76,750                                                               |
| (B)      | Income-tax computed on total income of ₹ 50 lakhs                                                       |
|          | (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000) ₹ 13,12,500                                                 |
| (C)      | Excess tax payable (A)-(B) ₹ 1,64,250                                                                   |
| (D)      | Marginal Relief (₹ 1,64,250 – ₹ 1,00,000, being the amount of income in excess of ₹ 50,00,000) ₹ 64,250 |
| (E)      | Tax liability (A)-(D) ₹ 14,12,500                                                                       |
|          | Add: Health and education cess @4% ₹ 56,500                                                             |
|          | Tax liability (including cess) ₹ 14,69,000                                                              |

Q9. Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

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

|     |                                                                                                   |                   |
|-----|---------------------------------------------------------------------------------------------------|-------------------|
| (A) | Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000                        |                   |
|     | ₹4,00,000-₹8,00,000@5%                                                                            | ₹20,000           |
|     | ₹8,00,001-₹12,00,000@10%                                                                          | ₹40,000           |
|     | ₹12,00,001-₹16,00,000@15%                                                                         | ₹60,000           |
|     | ₹16,00,001-₹20,00,000@20%                                                                         | ₹80,000           |
|     | ₹20,00,001-₹24,00,000@25%                                                                         | ₹1,00,000         |
|     | ₹24,00,001-₹1,01,00,000@30%                                                                       | <b>₹23,10,000</b> |
|     | Total                                                                                             | ₹26,10,000        |
|     | Add: Surcharge@15%                                                                                | <b>₹3,91,500</b>  |
|     | Tax liability without marginal relief                                                             | ₹30,01,500        |
| (B) | Income-tax computed on total income of ₹ 1 crore                                                  |                   |
|     | (3,00,000 plus 22,80,000)                                                                         | ₹25,80,000        |
|     | Add: Surcharge@10%                                                                                | ₹2,58,000         |
|     |                                                                                                   | <b>₹28,38,000</b> |
| (C) | Total Income Less 1 crore                                                                         | ₹1,00,000         |
| (D) | Income-tax computed on total income of 1 crore plus the excess of total income over 1 crore (B+C) | ₹29,38,000        |
| (E) | Tax liability: lower of (A) & (D)                                                                 | ₹29,38,000        |
|     | Add: Health and education cess @4%                                                                | <u>₹1,17,520</u>  |
|     | Tax liability (including cess)                                                                    | <b>₹30,55,520</b> |
| (F) | Marginal relief (A-D)                                                                             | <b>₹63,500</b>    |

Q10. Mr. X, a resident, has provided the following particulars of his income for the A.Y. 2025-26.

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

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

- 45 years
- 70 years

Ans.

- Computation of tax liability (age 45 years)  
Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC  
For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.
  - Net agricultural income exceeds ₹ 5,000 p.a., and
  - Non-agricultural income exceeds the basic exemption limit of ₹ 4,00,000.

His tax liability is computed in the following manner:

| Particulars                                     | ₹          | ₹         |
|-------------------------------------------------|------------|-----------|
| Income from salary                              |            | 15,80,000 |
| Income from house property                      |            | 2,50,000  |
| Net agricultural income [₹ 4,80,000-₹ 1,70,000] | 3,10,000   |           |
| Less: Exempt under section 10(1)                | (3,10,000) | -         |
| Gross Total Income                              |            | 18,30,000 |
| Less: Deductions under Chapter VI-A             |            | -         |
| Total Income                                    |            | 18,30,000 |



Step 1 : ₹18,30,000+ ₹3,10,000 = ₹21,40,000

Tax on ₹21,40,000 = ₹2,35,000

(i.e., 5% of ₹4,00,000 plus 10% of ₹ 4,00,000 plus 15% of ₹ 4,00,000 plus 20% of ₹ 4,00,000 plus 25% of ₹1,40,000)

Step 2 : ₹3,10,000+ ₹4,00,000 = ₹7 ,10,000

Tax on 7,10,000 (i.e. 5% of 3,10,000) = ₹15,500

Step 3 : ₹2,35,000- ₹15,500 = ₹ 2,19,500

Step 4 & 5: Total tax payable = ₹ 2,19,500

= ₹2,19,500+4% of ₹2,19,500 = ₹2,28,280.

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

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

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

His tax liability is computed in the following manner:

| Particulars                                     | ₹          | ₹         |
|-------------------------------------------------|------------|-----------|
| Income from salary                              |            | 15,80,000 |
| Income from house property                      |            | 2,50,000  |
| Net agricultural income [₹ 4,80,000-₹ 1,70,000] | 3,10,000   |           |
| Less: Exempt under section 10(1)                | (3,10,000) | -         |
| Gross Total Income                              |            | 18,30,000 |
| Less: Deductions under Chapter VI-A             |            | -         |
| Total Income                                    |            | 18,30,000 |

Step 1 : ₹18,30,000 + ₹ 3,10,000= ₹21,40,000

Tax on ₹ 21,40,000 = ₹ 4,54,500

(i.e., 5% of 2,50,000 plus 20% of ₹5,00,000 plus 30% of ₹ 11,40,000)

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

Tax on ₹ 5,60,000 = ₹ 24,500 (i.e. 5% of ₹ 2,50,000 plus 20% of ₹60,000)

Step 3 : ₹ 4,54,500- ₹ 24,500= ₹ 4,30,000

Step 4 & 5: Total tax payable = ₹4 ,30,000

= ₹ 4 ,30,000+4% of ₹4,30,000

= ₹4,47,200.

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

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

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

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

His tax liability is computed in the following manner:

Step 1 : ₹ 18,30,000+ ₹ 3 ,10,000= ₹ 21,40,000

Tax on ₹21,40,000 (i.e., 5% of ₹2,00,000 plus 20% of  
₹ 5,00,000 plus 30% of ₹ 11,40,000) = ₹ 4,52,000

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

(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3 : ₹ 4 ,52,000- ₹32,000= ₹4,20,000

Step 4 & 5: Total tax payable = ₹4,20,000 + 4% of ₹4,20,000  
= ₹4,36,800.



Q11. Mr. Sumit, a resident Indian, earns income of ₹15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and ₹20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2026-27. What would be his business income, assuming he has no other business?

Ans. Since Mr. Sumit is a resident, his global income would be taxable in India. Income of 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown outside India. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.  
Business income = 35% of ₹ 15 lakhs + ₹ 20 lakhs = ₹ 25.25 lakhs

Q12. Mr. Raja, a resident Indian, earns income of ₹10 lakhs from sale of coffee grown and cured in India during the A.Y.2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

Ans. In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.  
Business income of Mr. Raja = 25% of ₹10 lakhs = ₹2.5 lakhs  
Business income of Mr. Shyam = 40% of ₹20 lakhs = ₹8 lakhs

Q13. Compute Tax payable in following cases?

| Assessee               | Mr A     | Mr X     | Mr S           | Mr D     | HUF      | Company  |
|------------------------|----------|----------|----------------|----------|----------|----------|
| Age                    | 40 years | 67 years | 80 years       | 55 years | -        | -        |
| Residential Status     | Resident | Resident | Non – Resident | Resident | Resident | Resident |
| Agriculture Income     | 5 lakhs  | 10 lakhs | 12 lakhs       | 6 lakhs  | 12 lakhs | 15 lakhs |
| Non-Agriculture Income | 5 lakhs  | 6 lakhs  | 8 lakhs        | 3 lakhs  | 4 lakhs  | 10 lakhs |

Compute tax payable assuming assessee opt out of default scheme under Section 115BAC.

Ans. Computation of tax liability

|                              | Mr A      | Mr X      | Mr S      | Mr D     | HUF       | Company     |
|------------------------------|-----------|-----------|-----------|----------|-----------|-------------|
| <u>Step 1</u>                |           |           |           |          |           | Scheme      |
| Agriculture Income           | 5,00,000  | 10,00,000 | 12,00,000 | 6,00,000 | 12,00,000 | of Partial  |
| Add : Non agri income        | 5,00,000  | 6,00,000  | 8,00,000  | 3,00,000 | 4,00,000  | Integration |
|                              |           |           |           |          |           | is not      |
| Total                        | 10,00,000 | 16,00,000 | 20,00,000 | 9,00,000 | 16,00,000 | applicable  |
| Basic Tax                    | 1,12,500  | 2,90,000  | 4,12,500  | 92,500   | 2,92,500  |             |
| <u>Step 2</u>                |           |           |           |          |           |             |
| Agriculture Income           | 5,00,000  | 10,00,000 | 12,00,000 | 6,00,000 | 12,00,000 | Basic Tax = |
| Add : Basic Exemption Limit  | 2,50,000  | 3,00,000  | 2,50,000  | 2,50,000 | 2,50,000  | 3,00,000    |
| Total                        | 7,50,000  | 13,00,000 | 14,50,000 | 8,50,000 | 14,50,000 | HEC =       |
| Basic Tax                    | 62,500    | 2,00,000  | 2,47,500  | 82,500   | 2,47,500  | 12,000      |
| <u>Step 3</u>                |           |           |           |          |           |             |
| Final Basic Tax Payable(1-2) | 50,000    | 90,000    | 1,65,000  | 10,000   | 45,000    | Total Tax = |
| (-) Rebate                   | (12,500)  | Nil       | Nil       | (10,000) | Nil       | 3,12,000    |
| (+) HEC                      | 1500      | 3,600     | 6,600     | Nil      | 1,800     |             |
| Total Tax Payable            | 39,000    | 93,600    | 1,71,600  | Nil      | 46,800    |             |



- Q14. Examine with reasons, based on the provisions of the Act, as to chargeability of the following receipts to tax:
- (i) Rent of ₹ 60,000 charged from tenants occupying houses constructed on the land situated in India and used for agricultural purposes. The tenants, working in the nearby industrial area, occupy these houses for their own residential purposes.
  - (ii) Income of ₹ 75,000 derived by Anand Nursery from the sale of seedlings grown without carrying out all the basic operations on land. (ICAI)

- Ans. (i) As per section 10(1), agricultural income is exempt from tax. The meaning and scope of agricultural income is defined in section 2(1A). According to section 2(1A), any income derived from any building from the use of such building for any purpose (including letting for residential purposes or for the purpose of any business or profession) other than agriculture shall not be agricultural income. Therefore, the rent of ₹ 60,000 from letting out of houses constructed on agricultural land for residential purposes of industrial workers shall not be treated as agricultural income by virtue of section 2(1A). Hence, such income would be chargeable to tax.
- (ii) section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income, whether or not the basic operations were carried out on land. Accordingly, the income of ₹ 75,000 derived by Anand Nursery from the sale of seedlings grown without carrying out all the basic operations on land shall be treated as agricultural income and exempt from tax under section 10(1).

- Q15. Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lakhs, and the cost of cultivation of such sugarcane is ₹ 5 lakhs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lakhs and the market value of the same is ₹ 22 lakhs. After incurring ₹ 1.5 lakhs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lakhs. Compute B's business income and agricultural income.

- Ans. Computation of Business Income and Agriculture Income of Mr. B

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

Q16. 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.

| S. No. | Particulars                                                                                                            | ₹        |
|--------|------------------------------------------------------------------------------------------------------------------------|----------|
| (i)    | Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling                                 | 3,00,000 |
| (ii)   | Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.                                                     | 1,00,000 |
| (iii)  | Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai. | 2,50,000 |
| (iv)   | Income from sale of tea grown and manufactured in Shimla.                                                              | 4,00,000 |
| (v)    | Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.   | 80,000   |

You are required to compute the business income and agricultural income of Miss Vivitha. (ICAI)

Ans.

Computation of business income and agricultural income of Ms. Vivitha

| Sr No | Source of Income                                                                    | Gross    | Business Income |          | Agriculture Income |
|-------|-------------------------------------------------------------------------------------|----------|-----------------|----------|--------------------|
|       |                                                                                     |          | %               | ₹        |                    |
| (i)   | Sale of centrifuged latex from rubber plants grown in India.                        | 3,00,000 | 35%             | 1,05,000 | 1,95,000           |
| (ii)  | Sale of coffee grown and cured in India.                                            | 1,00,000 | 25%             | 25,000   | 75,000             |
| (iii) | Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below) | 2,50,000 | 100%            | 2,50,000 | Nil                |
| (iv)  | Sale of tea grown and manufactured in India                                         | 4,00,000 | 40%             | 1,60,000 | 2,40,000           |
| (v)   | Saplings and seedlings grown in nursery in India (See Note 2 below)                 | 80,000   |                 | Nil      | 80,000             |
| Total |                                                                                     |          |                 | 5,40,000 | 5,90,000           |

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
- Section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land.

Q17. Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2026 are given below: of tenzingh as a senior citizen / super senior citizen

| Particulars                                | ₹         |
|--------------------------------------------|-----------|
| WDV of car as on 1.4.2025                  | 3,00,000  |
| WDV of machinery as on 1.4.2025 (15% rate) | 15,00,000 |
| Expenses incurred for growing coffee       | 3,10,000  |
| Expenditure for curing coffee              | 3,00,000  |
| Sale value of cured coffee                 | 22,00,000 |

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities. Show the WDV of the assets as on 1.4.2026.

Ans. Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

| Particulars                                                               | ₹        | ₹        | ₹         |
|---------------------------------------------------------------------------|----------|----------|-----------|
| Sale value of cured coffee                                                |          |          | 22,00,000 |
| Less: Expenses for growing coffee                                         | 3,10,000 |          |           |
| Car expenses (80% of ₹ 50,000)                                            | 40,000   |          |           |
| Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]    | 36,000   |          |           |
| Total cost of agricultural operations                                     |          | 3,86,000 |           |
| Expenditure for coffee curing operations                                  | 3,00,000 |          |           |
| Add: Depreciation on Machinery (15% of 15,00,000) [See Computation below] | 2,25,000 |          |           |
| Total cost of the curing operations                                       |          | 5,25,000 |           |
| Total cost of composite operations                                        |          |          | 9,11,000  |
| Total profits from composite activities                                   |          |          | 12,89,000 |
| Business income (25% of above)                                            |          |          | 3,22,250  |
| Agricultural income (75% of above)                                        |          |          | 9,66,750  |

#### Computation of value of depreciable assets as on 31.3.2026

| Particulars                              | ₹      | ₹         | ₹         |
|------------------------------------------|--------|-----------|-----------|
| Car                                      |        |           |           |
| Opening value as on 1.4.2025             |        | 3,00,000  |           |
| Depreciation thereon at 15%              | 45,000 |           |           |
| Less: Disallowance @20% for personal use | 9,000  |           |           |
| Depreciation actually allowed            |        | 36,000    |           |
| WDV as on 1.4.2026                       |        |           | 2,64,000  |
| Machinery                                |        |           |           |
| Opening value as on 1.4.2025             |        | 15,00,000 |           |
| Less: Depreciation @ 15%                 |        | 2,25,000  |           |
| WDV as on 1.4.2026                       |        |           | 12,75,000 |

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Q18. Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for ₹ 30 lakhs. The cost of growing rubber plants is ₹ 10 lakhs and that of manufacturing latex is ₹ 8 lakhs. Compute his total income.

Ans. The total income of Mr. C comprises of agricultural income and business income.  
 Total profits from the sale of latex= ₹ 30 lakhs – ₹ 10 lakhs – ₹ 8 lakhs= ₹ 12 lakhs.  
 Agricultural income = 65% of ₹ 12 lakhs = ₹ 7.8 lakhs  
 Business income = 35% of ₹ 12 lakhs = ₹ 4.2 lakhs

## HOMEWORK

**Q1.** The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights?

**Ans.** Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights.

**Q2.** What is the difference between an Association of Persons and Body of Individuals?

**Ans.** In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly. Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co- executors or co-trustees are assessable as a BOI as their title and interest are indivisible. The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI. In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

**Q3.** Mr. ARP has a total income of Rs. 12,00,000 comprising of his salary income and interest on fixed deposit. Compute his tax liability.

Assume the assessee opts out of the default scheme under Section 115BAC? (ICAI - Module)

**Ans.** Computation of Tax liability

|                                               |                         |              |
|-----------------------------------------------|-------------------------|--------------|
| First Rs. 2,50,000                            | - Nil                   | Nil          |
| Next Rs. 2,50,000 – Rs. 5,00,000              | - @ 5% of Rs. 2,50,000  | Rs. 12,500   |
| Next Rs. 5,00,000 – Rs. 10,00,000             | - @ 20% of Rs. 5,00,000 | Rs. 1,00,000 |
| Balance i.e., Rs. 12 lakhs minus Rs. 10 lakhs | - @ 30% of 2,00,000     | Rs. 60,000   |
|                                               |                         | Rs. 1,72,500 |
| Add : Health and Education Cess               |                         | 6,900        |
| Total                                         |                         | Rs 1,79,400  |

**Q4.** Mr. Amit (aged 85 years) has a total income of Rs. 12,00,000 comprising of his salary income and interest on fixed deposit. Compute his tax liability.

Assume the assessee opts out of the default scheme under Section 115BAC?

**Ans.** Computation of Tax liability

|                                               |                         |              |
|-----------------------------------------------|-------------------------|--------------|
| First Rs. 5,00,000                            | - Nil                   | Nil          |
| Next Rs. 5,00,000 – Rs. 10,00,000             | - @ 20% of Rs. 5,00,000 | Rs. 1,00,000 |
| Balance i.e., Rs. 12 lakhs minus Rs. 10 lakhs | - @ 30% of 2,00,000     | Rs. 60,000   |
|                                               |                         | Rs. 1,60,000 |
| Add : Health and Education Cess               |                         | 6,400        |
| Total                                         |                         | Rs 1,66,400  |

Q5. Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

Ans. Computation of tax liability of Mr. D under default tax regime

|                                                              |               |
|--------------------------------------------------------------|---------------|
| Income-tax (including surcharge) computed on total income of | ₹ 5,01,00,000 |
| ₹4,00,000-₹8,00,000@5%                                       | ₹ 20,000      |
| ₹8,00,001 - ₹12,00,000@10%                                   | ₹ 40,000      |
| ₹12,00,001-₹16,00,000@15%                                    | ₹ 60,000      |
| ₹16,00,001-₹20,00,000@20%                                    | ₹ 80,000      |
| ₹20,00,001-₹24,00,000@25%                                    | ₹ 1,00,000    |
| ₹24,00,001-₹5,01,00,000@30%                                  | ₹1,43,10,000  |
| Total                                                        | ₹1,46,10,000  |
| Add: Surcharge@25%                                           | ₹36,52,500    |
|                                                              | ₹1,82,62,500  |
| Add: Health and education cess @4%                           | ₹ 7,30,500    |
| Tax liability                                                | ₹ 1,89,93,000 |

Computation of tax liability of Mr. D under optional tax regime

|                                                                                                                               |               |
|-------------------------------------------------------------------------------------------------------------------------------|---------------|
| (A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000                                                |               |
| ₹ 3,00,000 – ₹ 5,00,000@5%                                                                                                    | ₹ 10,000      |
| ₹ 5,00,001 – ₹ 10,00,000@20%                                                                                                  | ₹ 1,00,000    |
| ₹ 10,00,001 – ₹ 5,01,00,000@30%                                                                                               | ₹ 1,47,30,000 |
| Total                                                                                                                         | ₹ 1,48,40,000 |
| Add: Surcharge @ 37%                                                                                                          | ₹ 54,90,800   |
|                                                                                                                               | ₹ 2,03,30,800 |
| (B) Income-tax computed on total income of ₹ 5 crore<br>[(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000)<br>plus surcharge@25%] | ₹ 1,85,12,500 |
| (C) Excess tax payable (A)-(B)                                                                                                | ₹ 18,18,300   |
| (D) Marginal Relief (₹ 18,18,300 – ₹ 1,00,000, being the amount<br>of income in excess of ₹ 5,00,00,000)                      | ₹ 17,18,300   |
| (E) Tax liability (A) - (D)                                                                                                   | ₹ 1,86,12,500 |
| Add: Health and education cess @4%                                                                                            | ₹ 7,44,500    |
| Tax liability (including cess)                                                                                                | ₹ 1,93,57,000 |

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

Q6. Who is an “Assessee”? Explain

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

In addition, the term includes –

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

Q7. State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.

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

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

Q8. Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

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

Q9. What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law..

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

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

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



- Q10. Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹51,25,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.
- Ans.

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

|     |                                                                                               |                             |
|-----|-----------------------------------------------------------------------------------------------|-----------------------------|
| (A) | Tax payable including surcharge on total income of 51,25,000                                  |                             |
|     | ₹4,00,000-₹8,00,000 @5%                                                                       | ₹ 20,000                    |
|     | ₹8,00,001- ₹12,00,000 @10%                                                                    | ₹40,000                     |
|     | ₹12,00,001-₹16,00,000 @15%                                                                    | ₹60,000                     |
|     | ₹16,00,001-₹20,00,000 @20%                                                                    | ₹80,000                     |
|     | ₹20,00,001-₹24,00,000 @25%                                                                    | ₹1,00,000                   |
|     | ₹24,00,001-₹51,25,000 @30%                                                                    | <u>₹8,17,500</u>            |
|     | Total                                                                                         | ₹11,17,500                  |
|     | Add: Surcharge @ 10%                                                                          | <u>₹1,11,750</u> ₹12,29,250 |
| (B) | Tax Payable on total income of ₹ 50 lakhs                                                     |                             |
|     | (₹ 3,00,000 plus ₹ 7,80,000)                                                                  | ₹ 10,80,000                 |
| (C) | Total Income Less ₹ 50 lakhs                                                                  |                             |
|     |                                                                                               | ₹ 1,25,000                  |
| (D) | Tax payable on total income of ₹50 lakhs plus the excess of total income over ₹50 lakhs (B+C) |                             |
|     |                                                                                               | ₹12,05,000                  |
| (E) | Tax payable: lower of (A) and (D)                                                             |                             |
|     |                                                                                               | ₹ 12,05,000                 |
|     | Add: Health and education cess @4%                                                            | <u>₹ 48,200</u>             |
|     | Tax liability                                                                                 | <u>₹ 12,53,200</u>          |
| (F) | Marginal Relief (A - D)                                                                       |                             |
|     |                                                                                               | ₹ 24,250                    |



- Q1. Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.
- Q2. Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.
- Q3. Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for the A.Y.2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.
- Q4. Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹6,50,00,000, comprising long term capital gain taxable under section 112 of ₹55,00,000, short term capital gain taxable under section 111A of ₹65,00,000 and other income of ₹5,30,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.
- Q5. Mr. Sharma aged 62 years and a resident in India, has a total income of ₹2,30,00,000, comprising long term capital gain taxable under section 112 of ₹52,00,000, short term capital gain taxable under section 111A of ₹64,00,000 and other income of ₹1,14,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.
- Q6. Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:
- Rent received for letting out agricultural land for a movie shooting.
  - Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.
- Q7. Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.
- Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
  - Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai.
  - Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income tax since paddy as grown on land is not fit for sale in its original form

|     |                                                                                                  |                                |
|-----|--------------------------------------------------------------------------------------------------|--------------------------------|
|     | <b>Solution 1:</b>                                                                               |                                |
| (A) | Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000                       |                                |
|     | ₹ 2,50,000 – ₹ 5,00,000 @ 5%                                                                     | ₹ 12,500                       |
|     | ₹ 5,00,001 – ₹ 10,00,000 @ 20%                                                                   | ₹ 1,00,000                     |
|     | ₹ 10,00,001 – ₹ 2,01,00,000@30%                                                                  | <u>₹ 57,30,000</u>             |
|     | Total                                                                                            | ₹ 58,42,500                    |
|     | Add: Surcharge@25%                                                                               | <u>₹ 14,60,625</u> ₹ 73,03,125 |
| (B) | Income-tax computed on total income of ₹ 2 crore                                                 |                                |
|     | [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000) plus surcharge@15%]                                 | <u>₹ 66,84,375</u>             |
| (C) | Excess tax payable (A)-(B)                                                                       | ₹ 6,18,750                     |
| (D) | Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount of income in excess of ₹ 2,00,00,000) | <u>₹ 5,18,750</u>              |
| (E) | Tax liability (A) - (D)                                                                          | ₹ 67,84,375                    |
|     | Add: Health and education cess@4%                                                                | <u>₹ 2,71,375</u>              |
|     | Tax liability (including cess)                                                                   | <u>₹ 70,55,750</u>             |
|     | <b>Solution 2:</b>                                                                               |                                |
|     | Computation of tax liability of Mr. Kashyap under default tax regime                             |                                |
| (A) | Tax payable including surcharge on total income of ₹ 51,75,000                                   |                                |
|     | ₹ 4,00,001 – ₹ 8,00,000 @5%                                                                      | ₹ 20,000                       |
|     | ₹ 8,00,001 – ₹ 12,00,000 @10%                                                                    | ₹ 40,000                       |
|     | ₹ 12,00,001 – ₹ 16,00,000 @15%                                                                   | ₹ 60,000                       |
|     | ₹ 16,00,001 – ₹ 20,00,000 @20%                                                                   | ₹ 80,000                       |
|     | ₹ 20,00,001 – ₹ 24,00,000 @20%                                                                   | ₹ 1,00,000                     |
|     | ₹ 24,00,001 – ₹ 51,75,000 @25%                                                                   | <u>₹ 8,32,000</u>              |
|     | Total                                                                                            | ₹ 11,32,500                    |
|     | Add: Surcharge@10%                                                                               | <u>₹ 1,13,250</u> ₹ 12,45,750  |
| (B) | Tax Payable on total income of ₹ 50 lakhs (₹ 3,00,000 plus ₹ 7,80,000)                           | ₹ 10,80,000                    |
| (C) | Excess tax payable (A)-(B)                                                                       | ₹ 1,65,750                     |
| (D) | Marginal Relief (₹ 1,65,750 – ₹ 1,75,000, being the amount of income in excess of ₹ 50,00,000)   | Nil                            |
| (E) | Tax payable (A)-(D)                                                                              | ₹ 12,45,750                    |
|     | Add: Health and education cess @4%                                                               | <u>₹ 49,800</u>                |
|     | Tax liability                                                                                    | <u>₹ 12,95,580</u>             |
|     | <b>Solution 3:</b>                                                                               |                                |
| (A) | Income-tax (including surcharge) computed on total income of ₹ 1,02,00,000                       |                                |
|     | ₹ 4,00,001 – ₹ 8,00,000 @5%                                                                      | ₹ 20,000                       |
|     | ₹ 8,00,001 – ₹ 12,00,000 @10%                                                                    | ₹ 40,000                       |
|     | ₹ 12,00,001 – ₹ 16,00,000 @15%                                                                   | ₹ 60,000                       |
|     | ₹ 16,00,001 – ₹ 20,00,000 @20%                                                                   | ₹ 80,000                       |
|     | ₹ 20,00,001 – ₹ 24,00,000 @20%                                                                   | ₹ 1,00,000                     |
|     | ₹ 24,00,001 – ₹ 1,02,00,000 @30%                                                                 | <u>₹ 23,40,000</u>             |
|     | Total                                                                                            | ₹ 26,40,000                    |
|     | Add: Surcharge @ 15%                                                                             | ₹ 3,96,000      ₹ 30,36,000    |
| (B) | Income-tax computed on total income of ₹ 1 crore                                                 |                                |
|     | [(₹3,00,000 plus ₹ 22,80,000) plus surcharge@10%]                                                | <u>₹ 28,38,000</u>             |

|                                                                                                      |                    |
|------------------------------------------------------------------------------------------------------|--------------------|
| (C) Excess tax payable (A)-(B)                                                                       | ₹ 1,98,000         |
| (D) Marginal Relief (₹ 1,98,000 – ₹ 2,00,000, being the amount of income in excess of ₹ 1,00,00,000) | <u>Nil</u>         |
| (E) Tax liability (A)-(D)                                                                            | ₹ 30,36,000        |
| Add: Health and education cess @4%                                                                   | <u>₹ 1,21,440</u>  |
| Tax liability (including cess)                                                                       | <u>₹ 31,57,440</u> |

**Solution 4:**

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

| Particulars                                | ₹                  |
|--------------------------------------------|--------------------|
| <u>Tax on total income of ₹6,50,00,000</u> |                    |
| Tax@12.50% of ₹ 55,00,000                  | 6,87,500           |
| Tax@20% of ₹ 65,00,000                     | 13,00,000          |
| Tax on other income of ₹5,30,00,000        |                    |
| ₹4,00,000-₹8,00,000 @5%                    | 20,000             |
| ₹8,00,000-₹12,00,000 @10%                  | 40,000             |
| ₹12,00,000-₹16,00,000 @15%                 | 60,000             |
| ₹16,00,000-₹20,00,000 @20%                 | 80,000             |
| ₹20,00,000 - ₹24,00,000 @25%               | 1,00,000           |
| ₹24,00,000-₹5,30,00,000 @30%               | 1,51,80,000        |
|                                            | <u>1,74,67,500</u> |
| Add: Surcharge @15% on 19,87,500           | 2,98,125           |
| @25% on ₹1,54,80,000                       | 38,70,000          |
|                                            | <u>41,68,125</u>   |
|                                            | 2,16,35,625        |
| Add: Health and education cess @4%         | 8,65,425           |
| Tax Liability                              | <u>2,25,01,050</u> |

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

| Particulars                                            | ₹                  |
|--------------------------------------------------------|--------------------|
| <u>Tax on total income of ₹ 6,50,00,000</u>            | 6,87,500           |
| Tax@12.50% of ₹55,00,000                               | 13,00,000          |
| Tax@20% of ₹65,00,000                                  |                    |
| Tax on other income of ₹ 5,30,00,000                   |                    |
| ₹2,50,000-₹5,00,000 @5%                                | 12,500             |
| ₹5,00,000-₹10,00,000 @20%                              | 1,00,000           |
| ₹10,00,000-₹5,30,00,000 @30%                           | 1,56,00,000        |
|                                                        | <u>1,57,12,500</u> |
| Add: Surcharge @15% on ₹19,87,500 @37% on ₹1,57,12,500 | 2,98,125           |
|                                                        | <u>58,13,625</u>   |
|                                                        | 61,11,750          |
|                                                        | <u>2,38,11,750</u> |
| Add: Health and education cess @4%                     | 9,52,470           |
| Tax Liability                                          | <u>2,47,64,220</u> |

**Solution 5:**

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

| Particulars                         |           | ₹                |
|-------------------------------------|-----------|------------------|
| Tax on total income of ₹2,30,00,000 |           |                  |
| Tax@12.5% of ₹52,00,000             |           | 6,50,000         |
| Tax@20% of ₹ 64,00,000              |           | 12,80,000        |
| Tax on other income of ₹1,14,00,000 |           |                  |
| ₹4,00,000-₹8,00,000 @5%             | 20,000    |                  |
| ₹8,00,000-₹12,00,000 @10%           | 40,000    |                  |
| ₹12,00,000-₹16,00,000 @15%          | 60,000    |                  |
| ₹16,00,000-₹20,00,000 @20%          | 80,000    |                  |
| ₹20,00,000-₹24,00,000 @25%          | 1,00,000  |                  |
| ₹24,00,000-₹1,14,00,000 @30%        | 27,00,000 | 30,00,000        |
|                                     |           | 49,30,000        |
| Add: Surcharge @15%                 |           | 7,39,500         |
|                                     |           | 56,69,500        |
| Add: Health and education cess @4%  |           | 2,26,780         |
| Tax Liability                       |           | <b>58,96,280</b> |

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

| Particulars                         |           | ₹                |
|-------------------------------------|-----------|------------------|
| Tax on total income of ₹2,30,00,000 |           |                  |
| Tax@12.5% of ₹52,00,000             |           | 6,50,000         |
| Tax@20% of ₹64,00,000               |           | 12,80,000        |
| Tax on other income of ₹1,14,00,000 |           |                  |
| ₹3,00,000-₹5,00,000 @5%             | 10,000    |                  |
| ₹5,00,000-₹10,00,000 @20%           | 1,00,000  |                  |
| ₹10,00,000 - ₹1,14,00,000 @30%      | 31,20,000 | 32,30,000        |
|                                     |           | 51,60,000        |
| Add: Surcharge @15%                 |           | 7,74,000         |
|                                     |           | 59,34,000        |
| Add: Health and education cess @4%  |           | 2,37,360         |
| Tax Liability                       |           | <b>61,71,360</b> |

**Solution 6:****(1) Rent received for letting out agricultural land for a movie shooting:**

As per section 2(1A), "agricultural income" means, inter alia,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does not constitute agricultural income.

**(2) Income from sale of seedlings in a nursery:**

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

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

**Solution 7:**

- (i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.  
Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.
- (ii) Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per section 9(1)(vi)(b), since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.
- (iii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market.  
Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.



## CLASSWORK

- Q1. Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2025. From the following details for the P.Y. 2025-26, determine the residential status of Mr. Anand for A.Y. 2026-27, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2025-26) is 400 days:

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

- Ans. In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2025-26 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more. The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1). Therefore, the period commencing from 6th June, 2025 and ending on 9th December, 2025, 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. 2025-26 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2025-26 is less than 182 days, he is a non-resident for A.Y. 2026-27.

- Q2. Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years.
- Find out his residential status for the assessment year 2026-27.
  - Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
  - What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2025-26?

- Ans. (a) Determination of Residential Status of Mr. Brett Lee

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

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

|         |          |
|---------|----------|
| 2024-25 | 100 days |
| 2023-24 | 100 days |
| 2022-23 | 100 days |
| 2021-22 | 100 days |
| Total   | 400 days |

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2025-26 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the A.Y. 2026-27.

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

|         |          |
|---------|----------|
| 2024-25 | 100 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 |
| Total   | 700 days |

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the A.Y. 2026-27 (See Note below).

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

An individual, not being an Indian citizen, will be “ordinarily Resident” in India in any previous year, if such person, inter alia,:

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

Mr. Brett Lee does not satisfy second additional condition, therefore he is a not-ordinarily resident.

- (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.2025-26, since his stay in India is 120 days in the P.Y.2025-26 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.2025-26, since his stay in India is less than 182 days in the P.Y.2025-26.

- Q3. Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2021-22. During the financial years 2021-22, 2022-23, 2023-24, 2024-25 and 2025-26, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the A.Y. 2026-27.

- Ans. During the P.Y. 2025-26, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2025-26, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).  
Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the P.Y. 2025-26.

- Q4. Mr. Ram, an Indian citizen, left India on 22.09.2025 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the assessment year 2026-27.

- Ans. 1. Mr. Ram is Indian citizen leaving India for the purpose of employment outside india. Therefore basic condition (b) is not applicable.  
2. He is resident only if he stays in India for 182days or more





|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|      | 3. In the given case Mr Ram is in India for 175 days only. Thereafter, he left India for employment purposes.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|      | 4. Since he does not satisfy Basic condition (a) during the Previous year, he is a non-resident.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Q5.  | Mr. Munna, an Indian citizen, having total income (excluding foreign source income) of Rs 38,00,000. He is not liable to pay tax in any of the country during the year. Mr Munna doesnt satisfy basic condition (a) & (b). Determine his residential status for the A.Y. 2026-27.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Ans. | Mr Munna is not liable to pay tax in any country & his income (excluding foreign source income) is exceeding 15 lakhs therefore as per section 6 he is RBNOR.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Q6.  | Mr. Kaleen Bhaiya, an Indian citizen, having total income (excluding foreign source income) of Rs 38,00,000. He is liable to pay tax outside India during the year. He came to India on 7th June 2025 and left on 19th November 2025. His stay during PY 21-22 to 24-25 in India is for 466 days. Determine his residential status for the A.Y. 2026-27.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Ans. | <p>1. As per section 6 if Indian citizen is coming to India for visit and his total income (excluding foreign source income ) is &gt; 15 lakhs then he will be resident if he stays for</p> <p>A) 182 days during the RPY</p> <p>OR</p> <p>B) i) <math>\geq 120</math> days in RPY</p> <p>+</p> <p>ii) <math>\geq 365</math> days in preceding 4 PY</p> <p>2. If person satisfies basic condition a) then additional conditions needs to be checked to determine whether he is R&amp;OR or RBNOR &amp; if basic condition b) is satisfied then he is directly RBNOR</p> <p>3. Mr Kaleen Bhaiya is Indian citizen who is visiting India for 166 days (24+31+31+30+31+19) during the PY.</p> <p>4. His stay in Preceding 4 years exceeds 365 days</p> <p>5. His Income (excluding foreign source income) is &gt; 15 Lakhs</p> <p>6. He satisfies basic condition b) therefore he is RBNOR</p>                                                                                                                                            |
| Q7.  | The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2025-26 after 15 years. He comes to India on 1.4.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr. E and the HUF for A.Y. 2026-27.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Ans. | <p>(a) During the P.Y. 2025-26, 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.</p> <p>Therefore, the residential status of Mr. E for the P.Y. 2025-26 is resident but not ordinarily resident.</p> <p>(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. 2025-26.</p> <p>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.</p> |

- Q8. Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:
- Salary payable by Central Government to Mr. John, a citizen of India of ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.
  - Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
  - Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
  - Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
  - 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.

Ans.

Taxability of receipts

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

- Q9. Ram provides following details of income, calculate the income which is liable to be taxed in India for the A.Y.2026- 27 assuming that –
- He is an ordinarily resident
  - He is an not an ordinarily resident

c) He is a not resident

| Particulars                                                            | Amount   |
|------------------------------------------------------------------------|----------|
| Salary received in India from a former employer of UK (Computed)       | 1,40,000 |
| Income from tea business in Nepal being controlled from India          | 10,000   |
| Interest on company deposit in Canada (1/3rd received in India)        | 30,000   |
| Profit from a business in Mumbai controlled from UK                    | 1,00,000 |
| Profit for the year 2002-03 from a business in Tokyo remitted to India | 2,00,000 |
| Income from a property in India but received in USA                    | 45,000   |
| Income from a property in London but received in Delhi                 | 1,50,000 |
| Income from a property in London but received in Canada                | 2,50,000 |
| Income from a business in Jambia but controlled from Turkey            | 10,000   |

Ans. Calculation of income liable to be taxed in India of Ram

| Particular                                                      | ROR      | RNOR     | NR       |
|-----------------------------------------------------------------|----------|----------|----------|
| Salary received in India from a former employer of UK           | 1,40,000 | 1,40,000 | 1,40,000 |
| Income from tea business in Nepal being controlled from India   | 10,000   | 10,000   | NIL      |
| Interest on company deposit in Canada - 1/3rd received in India | 10,000   | 10,000   | 10,000   |
| - 2/3rd received outside India                                  | 20,000   | NIL      | NIL      |
| Profit from a business in Mumbai controlled from UK             | 1,00,000 | 1,00,000 | 1,00,000 |
| Past Profit from a business in Tokyo remitted to India          | NIL      | NIL      | NIL      |
| Income from a property in India but received in USA             | 45,000   | 45,000   | 45,000   |
| Income from a property in London but received in Delhi          | 1,50,000 | 1,50,000 | 1,50,000 |
| Income from a property in London but received in Canada         | 2,50,000 | NIL      | NIL      |
| Income from a business in Jambia but controlled from Turkey     | 10,000   | NIL      | NIL      |
| Income liable to tax in India                                   | 7,35,000 | 4,55,000 | 4,45,000 |

Q10. Compute the Gross 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. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

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

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

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

| Particulars                                                                                                     | ROR      | RNOR     | NR       |
|-----------------------------------------------------------------------------------------------------------------|----------|----------|----------|
| Interest on UK Development Bonds, 50% of interest received in India                                             | 10,000   | 5,000    | 5,000    |
| Income from a business in Chennai (50% is received in India)                                                    | 20,000   | 20,000   | 20,000   |
| Short term capital gains on sale of shares of an Indian company, received in London                             | 20,000   | 20,000   | 20,000   |
| Dividend from British company received in London                                                                | 5,000    | -        | -        |
| Long term Capital gains on sale of plant at Germany, 50% of gains are received in India                         | 40,000   | 20,000   | 20,000   |
| Income earned from business in Germany which is controlled in Delhi, out of which ₹ 40,000 is received in India | 70,000   | 70,000   | 40,000   |
| Profits from a business in Delhi but managed entirely from London                                               | 15,000   | 15,000   | 15,000   |
| Income from house property in London deposited in a Bank at London, later on remitted to India                  | 50,000   | -        | -        |
| Interest on debentures in an Indian company, received in London                                                 | 12,000   | 12,000   | 12,000   |
| Fees for technical services rendered in India but received in London                                            | 8,000    | 8,000    | 8,000    |
| Profits from a business in Mumbai, managed from London                                                          | 26,000   | 26,000   | 26,000   |
| Income from property situated in Nepal and received there                                                       | 16,000   | -        | -        |
| Past foreign untaxed income brought to India during the previous year                                           | -        | -        | -        |
| Income from agricultural land in Nepal, received there & then brought to India                                  | 18,000   | -        | -        |
| Income from profession in Kenya which was set up in India, received there but spent in India                    | 5,000    | 5,000    | -        |
| Gift received on the occasion of his wedding [not taxable]                                                      | -        | -        | -        |
| Interest on savings bank deposit in State Bank of India                                                         | 12,000   | 12,000   | 12,000   |
| Income from a business in Russia, controlled in Russia                                                          | 20,000   | -        | -        |
| Dividend from Reliance Petroleum Limited, an Indian Company                                                     | 5,000    | 5,000    | 5,000    |
| Agricultural income from a land in Rajasthan [Exempt u/s 10(1)]                                                 | -        | -        | -        |
| Gross Total Income                                                                                              | 3,52,000 | 2,18,000 | 1,83,000 |

Q11. From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2026, compute the total income for the A.Y. 2026-27, if he is:

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

|     | Particulars                                                                                                              | Amount (₹) |
|-----|--------------------------------------------------------------------------------------------------------------------------|------------|
| (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     |

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

| Particulars                                                                             | Resident & ordinarily resident<br>₹ | Resident but not ordinarily resident<br>₹ | Non-Resident<br>₹ |
|-----------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------|-------------------|
| 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.

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

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

Q12. Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2025 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2025-26. He has received the following income for the F.Y. 2025-26:

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

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

Ans. As per section 6(1), Mr. David is a non-resident for the A.Y. 2026-27, since he was not present in India at any time during the P.Y. 2025-26.

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. 2026-27**

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

Q13. From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2026, compute the total income for the A.Y. 2026-27 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), if he is

(a) Resident and ordinarily resident

(b) Non-resident

| S.No   | Particulars                                                                                                                                                     | Amount (₹) |
|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| (i)    | Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency       | 1,50,000   |
| (ii)   | Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India | 1,20,000   |
| (iii)  | Agricultural income from a land situated in Nepal, received in Nepal                                                                                            | 55,000     |
| (iv)   | Interest on savings bank deposit in UCO Bank, Delhi                                                                                                             | 18,000     |
| (v)    | Income earned from business in London which is controlled from Delhi (₹35,000 is received in India)                                                             | 60,000     |
| (vi)   | Gift received from his daughter on his birthday                                                                                                                 | 55,000     |
| (vii)  | Past foreign taxed income brought to India                                                                                                                      | 37,000     |
| (viii) | Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India                              | 12,000     |

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

|                                                                                                                | Resident and ordinarily resident (₹) | Non-resident (₹) |
|----------------------------------------------------------------------------------------------------------------|--------------------------------------|------------------|
| Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India | 1,50,000                             | 1,50,000         |
| Rent from property in Delhi, received outside India [₹1,20,000 30% of ₹1,20,000 under section 24(a)] -         | 84,000                               | 84,000           |
| Agricultural income from a land situated in Nepal, received in Nepal                                           | 55,000                               | -                |



|                                                                                                                                    |          |          |
|------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Interest on savings bank deposit in UCO Bank, Delhi                                                                                | 18,000   | 18,000   |
| Income earned from business in London which is controlled from Delhi                                                               | 60,000   | 35,000   |
| Gift received from daughter (Not taxable, since daughter is a relative)                                                            | -        | -        |
| Past foreign taxed income brought to India (Not taxable)                                                                           | -        | -        |
| Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India | 12,000   | -        |
| Gross Total Income                                                                                                                 | 3,79,000 | 2,87,000 |
| Less: Deduction under section 80TTB/80TTA [Interest on savings bank account subject to a maximum of ₹50,000/₹ 10,000]              | 18,000   | 10,000   |
| Total Income                                                                                                                       | 3,61,000 | 2,77,000 |

#### Notes

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

Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.
- In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.



Q1. Mr. Dey, a non-citizen, residing in US since 1990, came back to India on 1.4.2024 for permanent settlement. What will be his residential status for assessment year 2026-27?

Ans. Mr. Dey is a resident in A.Y. 2026-27 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2025-26.

As per section 6(6), a person will be “ordinarily Resident” in India in any previous year, if such person, inter alia,:

(a) has been a resident in 2 out of 10 previous years preceding the relevant previous year; or

(b) has during the 7 previous years immediately preceding the relevant previous year been in India for 730 days or more.

If he does not satisfy either of these conditions, he would be a resident but not ordinarily resident. For the previous year 2025-26 (A.Y. 2026-27), 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. 2025-26. He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 366 days (i.e., less than 730 days) in 7 previous years immediately preceding the P.Y. 2025-26.

Q2. Sam came to India first time during the P.Y. 2025-26. During the previous year, he stayed in India for (i) 50 days; (ii) 183 days; & (iii) 153 days. Determine his residential status for the A.Y. 2026-27.

Ans. (i) Since Sam resides in India only for 50 days during the P.Y. 2025-26, he does not satisfy any of the conditions specified in sec. 6(1). He is, therefore, a non-resident in India for the P.Y. 2025-26.

(ii) Since Sam resides in India for 183 days during the previous year 2025-26, he satisfies one of the conditions specified in sec. 6(1). He is, therefore, a resident in India for the P.Y. 2025-26.

(iii) Sam resides in India only for 153 days during the previous year 2025-26. Though he resided for more than 60 days during the previous year but in 4 years immediately preceding the previous year (as he came India first time), he did not reside in India. Hence, he does not satisfy any of the conditions specified in sec. 6(1). Thus, he is a non-resident for the P.Y. 2025-26.

Q3. Miss Pal, an Indian citizen, left India for first time on 1st April, 2025 for joining job in Tokyo. She came to India on 11th Jan, 2026 for only 170 days. Determine her residential status for P.Y. 2025-26.

Ans. Basic condition (b) is not applicable because she is covered by exception.

Number of days Miss Pal stayed in India can be calculated as under:

| P.Y   | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|-------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 25-26 | 1   | -   | -    | -    | -   | -   | -   | -   | -   | 21  | 28  | 31  | 81    |
| 26-27 | 30  | 31  | 29   | -    | -   | -   | -   | -   | -   | -   | -   | -   | 90    |

Since she left India for employment purpose, hence for becoming resident she has to stay in India for at least 182 days. However, she is in India for only 81 days during the previous year, thus she is a non-resident for the P.Y. 2025-26.

Q4. Mr. X, aged 19 years, left India for first time on May 31, 2025. Determine his residential status for the previous year 2025-26 if:

i) He left India for employment purpose      ii) He left India on world tour.

Ans. During the previous year 2025-26, Mr. X was in India for 61 days as shown below –

| P.Y   | Apr | May | June | July | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Total |
|-------|-----|-----|------|------|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| 25-26 | 30  | 31  | -    | -    | -   | -   | -   | -   | -   | -   | -   | -   | 61    |

During the previous year 2025-26, X stayed in India for 61 days. Further, he was in India for more than 365 days during 4 years immediately preceding the relevant previous year (as he left India for first time).





- i. Since he left India for employment purpose, condition of sec. 6(1)(c) shall not be applicable on such assessee. He will be treated as resident in India, if and only if, he resided in India for at least 182 days during the previous year. Hence, Mr. X is a non-resident in India for the previous year 2025-26.
- ii. Since he left India on world tour, which is not an exception of sec. 6(1), satisfaction of any one condition of sec. 6(1) makes him resident in India for the previous year 2025-26. As he satisfies 2nd condition of sec. 6(1) [shown above], he is resident in India. Further, he also satisfies dual conditions specified u/s 6(6) (since he left India for first time). Therefore, he is an ordinarily resident for the previous year 2025-26.

Q5. 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?

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

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

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

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

Q6. 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”.

Ans. 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, 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.

Q7. Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2024. He left India for the first time on 31.07.2024 and joined XYZ Inc. on 08.08.2024. During the P.Y. 2025-26, Mr. Dhanush visited India from 25.05.2025 to 22.09.2025. He has earned the following income for the previous year 2025-26

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

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

Ans. As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India. Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India. In this case, total income, other than the income from foreign sources, of Mr. Dhanush for P.Y. 2025-26 would be

| Particulars                                                                                                                        |          | Amount (₹) |
|------------------------------------------------------------------------------------------------------------------------------------|----------|------------|
| Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source)                   |          | -          |
| Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)                          |          | 5,50,000   |
| Agricultural income from land situated in Punjab [Exempt u/s 10(1)]                                                                |          | -          |
| Rent received/receivable from house property in Lucknow (Included in total income, since it is deemed to accrue or arise in India) | 4,00,000 |            |
| Less: 30% of ₹4 lakhs                                                                                                              | 1,20,000 | 2,80,000   |
| Profits from a profession in USA, which was set up in India, received there                                                        |          | 6,00,000   |
| Total income, other than the income from foreign sources                                                                           |          | 14,30,000  |

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

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

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

- Q1. Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2025-26. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the Gross total income for the A.Y. 2026-27 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

- Q2. Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31.03.2026. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2026-27 as per Income-tax Act, 1961. (Give brief reasoning)

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

- Q3. You are required to determine the residential status of Mr. Dinesh, a citizen of India, for the previous year 2025-26.

Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2025.

Following details are made available to you for the previous year 2025-26.

| Particulars                                                                                             | Date               |
|---------------------------------------------------------------------------------------------------------|--------------------|
| Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Dinesh     | 16th August, 2025  |
| Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dinesh | 21st January, 2026 |

In June, 2024, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last four years preceding the previous year 2025-26, he was present in India for 425 days.  
During the last seven previous years preceding the previous year 2025 -26, he was present in India for 830 days.

Q4. Examine the tax implications of the following transactions

- (i) Government of India has appointed Mr. Rahul as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of ₹ 2,40,000 during the previous year for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year.
- (ii) Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned ₹ 2,50,000 during the previous year.
- (iii) Mr. Naveen, a non-resident in India, has earned ₹ 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.
- (iv) Mr. James, a NRI, borrowed ₹ 10,00,000 on 01.04.2023 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @ 12% per annum.

**Solution 1:**

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2026-27

| Sr. No. | Particulars                                                                                   | Mr. Ramesh<br>(Non-Resident)<br>(₹) | Mr. Suresh<br>(Resident)<br>(₹) |
|---------|-----------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------|
| 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                        |

Notes:

1. Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
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 is accrued and 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<br>(₹) | Mr. Suresh<br>(₹) |
|--------------------------------|-------------------|-------------------|
| Rent received                  | 1,00,000          | 60,000            |
| Less: Deduction u/s 24(a) @30% | 30,000            | 18,000            |
| Net income from house property | 70,000            | 42,000            |

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

#### Solution 2:

(1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.

(2) Royalty includes, inter alia, consideration for grant of license for computer software. Hence, the amount of ₹ 10 lakhs payable by a resident (business enterprise in India) for grant of license for computer software would be royalty which is deemed to accrue or arise in India in the hands of Mr. Thomas, a non-resident, since it is for the purpose of business in India. Hence, the royalty is taxable in India.

(3) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs is not taxable in India in the hands of Mr. Thomas.

(4) ₹ 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Denim Jeans manufacturing plant in Surat. Hence, the same would be taxable in India in the hands of Mr. Thomas.

#### Solution 3:

As per Explanation 1 to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant previous year.

As per Explanation 2 to section 6(1)1, 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 an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India. In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in

international traffic, originating from a port in India (i.e., the Kochi port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage.

Therefore, the period from 16th August, 2025 and ending on 21<sup>st</sup> January, 2026 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2025-26.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2025, such period has also to be excluded for computing his period of stay in India during the P.Y.2025-26.

Consequently, the period of stay in India during the P.Y. 2025-26 would be 180 days [i.e., 366 days – 159 days – 27 days], which is less than 182 days.

Thus, Mr. Dinesh would be a non-resident for A.Y. 2026-27.

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

#### Solution 4:

- (i) As per section 9(1)(iii), salaries (including, inter alia, allowances) payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India.  
Thus, salary received from Government by Mr. Rahul, being a non-resident of ₹ 7,50,000 for rendering services in Japan would be taxable in his hands, after allowing standard deduction of ₹ 50,000. (₹75,000 in case of sec.115BAC)  
However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, ₹ 2,40,000, being the allowance would be exempt.
- (ii) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export.
- (iii) Thus, income of ₹ 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.  
Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India.  
In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.
- (iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India.  
In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of ₹ 1,20,000 (₹ 10,00,000 × 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.



## CLASSWORK

- Q1. M/s Rajveer, a proprietorship has two units namely, Unit X and Unit Y. Unit X located in Special Economic Zone and Unit Y in Domestic Tariff Area (DTA). The following are the details for the financial year 2024-25:

| Particulars    | Unit Y (₹) | M/s Rajveer (₹) |
|----------------|------------|-----------------|
| Total sales    | 50,00,000  | 85,00,000       |
| Export sales   | 28,00,000  | 55,00,000       |
| Domestic sales | 12,00,000  | 30,00,000       |
| Net Profit     | 4,00,000   | 10,00,000       |

Total Sales of F.Y. 2025-26 include freight of ₹ 5 lacs for delivery of goods outside India with respect to Unit X.

Both the units were set up and started manufacturing from 20.3.2022. Compute the amount of deduction available to M/s Rajveer under section 10AA for the A.Y. 2026-27.

Assume assessee opts out of default scheme u/s 115BAC.

Ans. Computation of deduction under section 10AA

Since A.Y. 2026-27 is the 5<sup>th</sup> assessment year from A.Y. 2022-23, relevant to the previous year 2021-22, in which the SEZ unit began manufacturing of articles or things or provide any services, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things or from services, assuming all the other conditions specified in section 10AA are fulfilled.

= Profits of Unit in SEZ × Export T.O. / Total T.O. × 100%

= 6,00,000 ×  $\frac{22,00,000}{30,00,000}$  × 100% = ₹4,40,000

Working Note:

Computation of total sales, export sales and net profit of Unit X

| Particulars    | M/S Rajveer (₹) | Unit Y (₹) | Unit X (₹) |
|----------------|-----------------|------------|------------|
| Total sales    | 85,00,000       | 50,00,000  | 35,00,000  |
| Export sales   | 55,00,000       | 28,00,000  | 27,00,000  |
| Domestic sales | 30,00,000       | 12,00,000  | 18,00,000  |
| Net Profit     | 10,00,000       | 4,00,000   | 6,00,000   |

|                                                                                                                                            |            |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Export Turnover                                                                                                                            |            |
| Sale proceeds                                                                                                                              | 27,00,000  |
| Less: Freight not includible in export turnover                                                                                            | (5,00,000) |
|                                                                                                                                            | 22,00,000  |
| Total turnover                                                                                                                             | 35,00,000  |
| Less: Freight not includible [Since freight has been excluded from export turnover, the same has to be excluded from total turnover also]. | (5,00,000) |
|                                                                                                                                            | 30,00,000  |



Q2. Mr. Y furnishes you the following information for the year ended 31.3.2026:

| Particulars                                                                                        | (₹ in lacs) |
|----------------------------------------------------------------------------------------------------|-------------|
| Total turnover of Unit A located in Special Economic Zone                                          | 100         |
| Profit of the business of Unit A                                                                   | 30          |
| Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2026 | 50          |
| Total turnover of Unit B located in Domestic Tariff Area (DTA)                                     | 200         |
| Profit of the business of Unit B                                                                   | 20          |

Compute deduction under section 10AA for the A.Y. 2026-27, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of deduction under section 10AA

50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2025-26 is the seventh year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 50\%$$

$$= ₹30 \text{ lakhs} \times \frac{50}{100} \times 50\% = ₹7.5 \text{ lakhs}$$

Note:- No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.

Q3. Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2025-26.

| Particulars  | Mr. Rudra (₹) | Unit in DTA (₹) |
|--------------|---------------|-----------------|
| Total Sales  | 6,00,00,000   | 2,00,00,000     |
| Export Sales | 5,60,00,000   | 1,60,00,000     |
| Net Profit   | 80,00,000     | 20,00,000       |

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2026 is ₹3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC (1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2026-27 if both the units were set up and start manufacturing from 22-05-2016.

Ans. Computation of deduction u/s 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment

year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years. Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC (1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

Since A.Y. 2026-27 is the 10th assessment year from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

$$= ₹60 \text{ lakhs} \times \frac{300}{400} \times 50\% = ₹22.50 \text{ lakhs}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2026 which is 3,00,00,000.

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

| Particulars  | Rudra Ltd. (₹) | Unit in DTA (₹) | Unit in SEZ (₹) |
|--------------|----------------|-----------------|-----------------|
| Total Sales  | 6,00,00,000    | 2,00,00,000     | 4,00,00,000     |
| Export Sales | 4,60,00,000    | 1,60,00,000     | 3,00,00,000     |
| Net Profit   | 80,00,000      | 20,00,000       | 60,00,000       |



## CLASSWORK

- Q1. 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 01.01.2026. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2026. Rent paid by him during the P.Y.2025-26 is as under:  
 April and May, 2025- Nil, as he stayed with his parents  
 June to October, 2025 - ₹ 6,000 p.m. for an accommodation in Ghaziabad  
 November, 2025 to March, 2026 - ₹ 8,000 p.m. for an accommodation in Delhi  
 Compute Gross salary for A.Y.2026-27, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of gross salary of Mr. Mohit for A.Y. 2026-27

| 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)

| Month | Salary (Basic Salary + DA(in terms)) | 40% or 50% of Salary | Actual Amount Received | Rent Paid – 10% of Salary | Exemption |
|-------|--------------------------------------|----------------------|------------------------|---------------------------|-----------|
| April | 15000                                | NA                   | 6000                   | NA                        | Nil       |
| May   | 15000                                | NA                   | 6000                   | NA                        | Nil       |
| June  | 15000                                | 6000                 | 6000                   | 6000 – 1500<br>=4500      | 4500      |
| July  | 15000                                | 6000                 | 6000                   | 6000 – 1500<br>=4500      | 4500      |
| Aug   | 15000                                | 6000                 | 6000                   | 6000 – 1500<br>=4500      | 4500      |
| Sept  | 15000                                | 6000                 | 6000                   | 6000 – 1500<br>=4500      | 4500      |
| Oct   | 15000                                | 6000                 | 6000                   | 6000 – 1500<br>=4500      | 4500      |
| Nov   | 15000                                | 7500                 | 6000                   | 8000 – 1500<br>= 6500     | 6000      |
| Dec   | 15000                                | 7500                 | 6000                   | 8000 – 1500<br>= 6500     | 6000      |
| Jan   | 15000                                | 7500                 | 7000                   | 8000 – 1500<br>= 6500     | 6500      |
| Feb   | 16500                                | 8250                 | 7000                   | 8000 – 1650<br>= 6350     | 6350      |
| March | 16500                                | 8250                 | 7000                   | 8000 – 1650<br>= 6350     | 6350      |
|       |                                      |                      | 75,000                 |                           | 53,700    |

Q2. Mr. Ravi retired on 15.6.2025 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

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

Compute his taxable gratuity assuming:

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

Ans. (a) He is covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10)

Least of the following:

i. Gratuity received ₹ 15,00,000

ii. Statutory limit ₹ 20,00,000

iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months

$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$

26

$\frac{15}{26} \times (50,000 + 10,000) \times 27 =$

₹ 9,34,615

₹ 9,34,615

26

Taxable Gratuity

₹ 5,65,385

(b) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10) (Note) ₹ 8,58,000

Taxable Gratuity ₹ 6,42,000

Note: Exemption under section 10(10) is least of the following:

(i) Gratuity received ₹ 15,00,000

(ii) Statutory limit ₹ 20,00,000

(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

i.e.  $\frac{1}{2} \times \text{Average salary} \times \text{years of service}$

$$= \frac{1}{2} \times \left[ \frac{(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left( \frac{1\% \times 1,20,00,000}{12} \times \frac{10}{12} \right)}{10} \right] \times 26$$

= ₹ 8,58,000

(c) He is a government employee

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption under section 10(10) ₹ 15,00,000

Taxable gratuity

Nil



Q3. Mr. Amit who retired on 1.10.2025 is receiving ₹ 5,000 p.m. as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- (a) He is a government employee.  
 (b) He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.  
 (c) He is a private sector employee and did not receive any gratuity at the time of retirement.

|      |                                                      |            |          |
|------|------------------------------------------------------|------------|----------|
| Ans. | (a) He is a government employee                      |            |          |
|      | Uncommuted pension received (October – March)        |            | ₹ 24,000 |
|      | [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)] |            |          |
|      | Commuted pension received                            | ₹ 3,00,000 |          |
|      | Less: Exempt u/s 10(10A)                             | ₹ 3,00,000 | NIL      |
|      | Taxable pension                                      |            | ₹ 24,000 |

|     |                                                                                            |            |            |
|-----|--------------------------------------------------------------------------------------------|------------|------------|
| (b) | He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement |            |            |
|     | Uncommuted pension received (October – March)                                              |            | ₹ 24,000   |
|     | [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]                                       |            |            |
|     | Commuted pension received                                                                  | ₹ 3,00,000 |            |
|     | Less: Exempt u/s 10(10A)                                                                   |            |            |
|     | $\left( \frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \times 100 \right)$                     | ₹ 1,66,667 | ₹ 1,33,333 |
|     | Taxable pension                                                                            |            | ₹ 1,57,333 |

|     |                                                                                            |            |          |
|-----|--------------------------------------------------------------------------------------------|------------|----------|
| (c) | He is a private sector employee and did not receive any gratuity at the time of retirement |            |          |
|     | Uncommuted pension received (October – March)                                              |            | ₹ 24,000 |
|     | [(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]                                       |            |          |
|     | Commuted pension received                                                                  | ₹ 3,00,000 |          |
|     | Less: Exempt u/s 10(10A)                                                                   |            |          |
|     | $\left( \frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100 \right)$                     | ₹ 2,50,000 | ₹ 50,000 |
|     | Taxable pension                                                                            |            | ₹ 74,000 |

Q4. Mr. Gupta retired on 1.12.2025 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

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

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

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

|      |                                                 |  |            |
|------|-------------------------------------------------|--|------------|
| Ans. | (a) He is a government employee                 |  |            |
|      | Leave Salary received at the time of retirement |  | ₹ 5,00,000 |
|      | Less: Exemption under section 10(10AA)          |  | ₹ 5,00,000 |
|      | Taxable Leave salary                            |  | NIL        |

(b) He is a non-government employee

|                                                      |            |
|------------------------------------------------------|------------|
| Leave Salary received at the time of retirement      | ₹ 5,00,000 |
| Less: Exempt under section 10(10AA) [See Note below] | ₹ 26,400   |
| Taxable Leave Salary                                 | ₹ 4,73,600 |

Note: Exemption under section 10(10AA) is least of the following:

|                                                                   |             |
|-------------------------------------------------------------------|-------------|
| (i) Leave salary received                                         | ₹ 5,00,000  |
| (ii) Statutory limit                                              | ₹ 25,00,000 |
| (iii) 10 months' salary based on average salary of last 10 months |             |

$$\text{i.e. } \left[ 10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right]$$

$$= \left[ 10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] \quad ₹ 66,000$$

(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) Leave Due = Leave allowed – Leave taken  
= (30 days per year × 20 years) – 480 days = 120 days

$$\text{i.e. } \left[ \frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p.m.} \right] \quad ₹ 26,400$$

$$= \left[ \frac{120 \text{ days}}{30 \text{ days}} \times \frac{₹ 66,000}{10} \right]$$

Q5. For the previous year 2025-26, X submits the following information - Basic salary: ₹ 1,20,000; dearness allowance : ₹ 40,000 (46 per cent of which is part of salary for retirement benefits); commission: ₹ 6,000 (i.e., 1 per cent of ₹ 6,00,000, being turnover achieved by X) and children education allowance for his 2 children : ₹ 7,200. The employer contributes ₹ 20,000 towards provident fund to which a matching contribution is made by X. Interest credited in the provident fund account @11 per cent comes to ₹ 93,500. Income of X from other sources is ₹ 1,36,000. Find out the net income of X for the assessment year 2026-27 if the provident fund is :

- (a) statutory provident fund
- (b) recognised provident fund
- (c) unrecognised provident fund.

Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of total Income for PY 2025-26

|                                                                                                                                                          | Statutory provident fund ₹ | Recognised provident fund ₹ | Unrecognised provident fund ₹ |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-----------------------------|-------------------------------|
| Basic salary                                                                                                                                             | 1,20,000                   | 1,20,000                    | 1,20,000                      |
| Dearness allowance                                                                                                                                       | 40,000                     | 40,000                      | 40,000                        |
| Commission [1% of ₹ 6,00,000]                                                                                                                            | 6,000                      | 6,000                       | 6,000                         |
| Education allowance [₹ 7,200 - ₹ 100 × 2 × 12]                                                                                                           | 4,800                      | 4,800                       | 4,800                         |
| Employer's contribution towards recognised provident fund in excess of 12% of salary (salary for this purpose is ₹ 1,20,000 + 46% of ₹ 40,000 + ₹ 6,000) | —                          | 2,672                       | —                             |



|                                                                                                              |          |          |          |
|--------------------------------------------------------------------------------------------------------------|----------|----------|----------|
| Interest credited to recognised provident fund account in excess of 9.5% per annum (i.e., ₹ 93,500 × 1.5/11) | —        | 12,750   | —        |
| Gross salary                                                                                                 | 1,70,800 | 1,86,222 | 1,70,800 |
| Less : Standard deduction                                                                                    | 50,000   | 50,000   | 50,000   |
| Income from salary                                                                                           | 1,20,800 | 1,36,222 | 1,20,800 |
| Income from other sources                                                                                    | 1,36,000 | 1,36,000 | 1,36,000 |
| Gross total income                                                                                           | 2,56,800 | 2,72,222 | 2,56,800 |
| Less : Deduction under section 80C                                                                           | 20,000   | 20,000   | Nil      |
| Net income (rounded off)                                                                                     | 2,36,800 | 2,52,220 | 2,56,800 |

Note: X can claim deduction under section 80C in respect of his contribution towards statutory/recognised provident fund. No deduction is, however, available in respect of X's contribution towards unrecognised provident fund.

Q6. Mr. A retires from service on December 31, 2025, after 25 years of service. Following are the particulars of his income/investments for the previous year 2025-26:

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

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2026-27? ₹ 40,000 deposited in PPF.

Ans. Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2025-26 is computed hereunder:

| Particulars                                                 | ₹        |
|-------------------------------------------------------------|----------|
| Amount taxable under the head "Salaries":                   |          |
| Employer's share in the payment received from the URPF      | 2,20,000 |
| Interest on the employer's share                            | 50,000   |
| Total                                                       | 2,70,000 |
| Amount taxable under the head "Income from Other Sources":  |          |
| Interest on the employee's share                            | 60,000   |
| Total amount taxable from the amount received from the fund | 3,30,000 |

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income.

Q7. Will your answer be any different if the fund mentioned above was a recognised provident fund?

Ans. Since the fund is a recognised one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

Q8. Basic Salary = 25,000pm



Dearness Allowance = 5000pm (60% of DA enters into retirement benefit)

Retrenchment Compensation Received = 6,00,000

Number of years of service = 22yrs 7 month.

Compute taxable Retrenchment

|      |                                                                                     |            |          |
|------|-------------------------------------------------------------------------------------|------------|----------|
| Ans. | Actual Amount Received                                                              | 6,00,0000  |          |
|      | Less – Exempt u/s 10(10B)                                                           | (3,98,077) | 2,01,923 |
|      | Exemption is least of the following                                                 |            |          |
|      | 1. $15/26 \times \text{Last drawn Salary} \times \text{Number of years of Service}$ | 3,98,077   |          |
|      | 2. Actual Amount Received                                                           | 6,00,000   |          |
|      | 3. Maximum                                                                          | 5,00,000   |          |

Q9. Mr. Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation.

|      |                                                             |               |
|------|-------------------------------------------------------------|---------------|
| Ans. | Voluntary retirement compensation received                  | ₹ 7,00,000    |
|      | Less: Exemption under section 10(10C) [See Note below]      | ₹ 5,00,000    |
|      | Taxable voluntary retirement compensation                   | ₹ 2,00,000    |
|      | Note: Exemption is to the extent of least of the following: |               |
|      | (i) Compensation actually received                          | = ₹ 7,00,000  |
|      | (ii) Statutory limit                                        | = ₹ 5,00,000  |
|      | (iii) 3 months' salary × completed years of service         |               |
|      | = $(₹ 20,000 + ₹ 5,000) \times 3 \times 30 \text{ years}$   | = ₹ 22,50,000 |
|      | (iv) Last drawn salary × remaining months of service left   |               |
|      | = $(₹ 20,000 + ₹ 5,000) \times 6 \times 12 \text{ months}$  | = ₹ 18,00,000 |

Q10. Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent- free unfurnished accommodation in Mumbai. He gives you the following particulars:

- (a) Basic salary ₹ 6,000 p.m.
- (b) Dearness Allowance ₹ 2,000 p.m. (30% is for retirement benefits)
- (c) Bonus ₹ 1,500 p.m.

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

|      |                                                                                                                                                                                                                                                                 |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ans. | Value of the rent free unfurnished accommodation                                                                                                                                                                                                                |
|      | = 10% of salary for the relevant period                                                                                                                                                                                                                         |
|      | = 10% of $[(₹ 6000 \times 5) + (₹ 2,000 \times 30\% \times 5) + (₹ 1,500 \times 5)]$ [See Note below]                                                                                                                                                           |
|      | = 10% of ₹ 40,500 = ₹ 4,050.                                                                                                                                                                                                                                    |
|      | Note: Since, Mr. C occupies the house only from 1.11.2025, 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 1.11.2025 to 31.03.2026) will be considered. |

## Ques.10

Q11. Using the data given in the previous illustration 14, compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.

Ans. First of all, we have to see whether the accommodation is provided at a concessional rate. If the value of accommodation computed in prescribed manner exceeds the rent recoverable, or payable by, the assessee, the accommodation would be deemed to have been provided at a concessional rate.

In this case, 10% of salary would be ₹5,300 (i.e. 10% of ₹53,000). The rent paid by the employee is ₹5,000 (i.e., ₹ 1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

|                                                                |          |
|----------------------------------------------------------------|----------|
| Value of the accommodation                                     | = ₹5,300 |
| Less: Rent paid by the employee (₹1,000 × 5)                   | = ₹5,000 |
| Perquisite value of accommodation given at a concessional rent | = ₹ 300  |

## Ques.10

Q12. Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹1,025 p.m. and Mr. C is required to pay a rent of ₹1,000 p.m. to the company, for the use of this accommodation.

Ans. Here again, we have to see whether the accommodation is provided at a concessional rate.

In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 10% of salary is ₹5,300 (i.e. 10% of ₹53,000). Rent paid by the employer is ₹5,125 (i.e. ₹1,025 × 5). The lower of the two is ₹5,125, which exceeds the rent paid by the employee i.e., ₹5,000 (₹1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

|                                                     |          |
|-----------------------------------------------------|----------|
| Value of the accommodation [Note]                   | = ₹5,125 |
| Less: Rent paid by the employee (₹1,000 × 5)        | = ₹5,000 |
| Value of accommodation given at a concessional rent | = ₹125   |

Note: Value of the accommodation is lower of

|                                                                    |          |
|--------------------------------------------------------------------|----------|
| (i) Lease rent paid by the company for relevant period = 1,025 × 5 | = ₹5,125 |
| (ii) 10% of salary for the relevant period (computed earlier)      | = ₹5,300 |

## Ques.10

Q13. Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹10,000; Cost ₹25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹400 p.m. each. The television was provided on 1.1.2025. However, Mr. C is required to pay a rent of ₹1,000 p.m. to the company, for the use of this furnished accommodation.

Ans. Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 40 lakhs, the accommodation would be deemed to have been provided at a concessional rate, if 10% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether the accommodation is provided at a concessional rate.

In this case, 10% of salary is ₹5,300 (i.e. 10% of ₹53,000). The value of furniture of ₹ 4,625 (See Note below) is to be added to 10% of salary. The rent paid by the employee is ₹5,000 (i.e. ₹1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

|                                                         |          |
|---------------------------------------------------------|----------|
| Value of the accommodation (computed earlier)           | = ₹5,300 |
| Add: Value of furniture provided by the employer [Note] | = ₹4,625 |
| Value of furnished accommodation                        | = ₹9,925 |
| Less: Rent paid by the employee (₹1,000 × 5)            | = ₹5,000 |

Value of furnished accommodation given at a concessional rent = ₹4,925  
 Note: Value of the furniture provided = (₹400p.m. × 2 × 5 months) + (₹25,000 × 10% p.a. for 3 months) = ₹4,000 + ₹ 625 = ₹ 4,625

### Ques.13

Q14. Using the data given in illustration 17 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹700 p.m.

Ans. In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/recoverable from the employee.

In this case, ₹3,500 (licence fees: ₹700 × 5) + ₹4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹5,000 (i.e. ₹1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (₹700 × 5) = ₹3,500

Add: Value of furniture provided by the employer (computed earlier) = ₹ 4,625

Value of furnished accommodation = ₹ 8,125

Less: Rent paid by the employee ( 1,000 × 5) = ₹ 5,000

Perquisite value of furnished accommodation given at concessional rent = ₹ 3,125

Q15. Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2025-26:

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

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

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

|    | Particulars                                                                                                                                 |
|----|---------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Reimbursement of medical expenses incurred by Ms. Rakhi                                                                                     |
|    | (A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. |
|    | (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.                     |
|    | (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.  |
|    | The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite                        |



|         |                                                                                                                                                                                                                                                                                                                                                                                             |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.      | Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per 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(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.                                                                                                                                                                                                                              |
| 5. & 6. | As per section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –                                                                                                                                                                                                                                                  |
|         | (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [₹ 1,05,000, in this case];                                                                                                                                                                                                                       |
|         | (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].                                                                                                                                                                   |
|         | The conditions subject to which the above expenditure would be exempt are as follows –                                                                                                                                                                                                                                                                                                      |
|         | (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;                                                                                                                                                                                                                                                |
|         | (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh.                                                                                                                                                                                     |
|         | Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh. |

Q16. Find out the taxable value of the perquisite for the assessment year 2026-27 in the following cases –

1. X is an employee in the Accounts Department of A Ltd. On November 27, 2025, he attends a seminar on "Perquisite Valuation". Seminar fees of ₹ 7,500 is paid by A Ltd.
2. Y's son is a student of ninth class of DPS, Noida. ₹ 17,800 being tuition fees of Y's son is paid/reimbursed by B Ltd. where Y is employed. There is no arrangement between B Ltd. and DPS, Noida.
3. Star Public School, Ajmer, is owned and maintained by C Ltd., a manufacturing company. Books of account of the school and C Ltd. are maintained separately. Z is an employee of C Ltd. The following family members of Z are students in Star Public School –

|                           | Cost of education in a similar institution | Amount charged from Z |
|---------------------------|--------------------------------------------|-----------------------|
| A. daughter of Z          | ₹ 5,500 per month                          | ₹ 800 per month.      |
| B. dependent brother of Z | ₹ 6,000 per month                          | ₹ 1,600 per month     |

4. Suppose in (3) (supra) Star Public School is not owned/maintained by C Ltd. As per arrangement of C Ltd. with the school, family members of employees of C Ltd. can have educational facility in the school. 100 seats are reserved for this purpose for which the company annually pays ₹ 10 lakh to the school (no separate billing by the school to the employees of C Ltd.). Family members of Z are students of the school. Cost of education in a similar institute and amount charged from Z by C Ltd. are given in the table in (3) (supra).

- Ans.
1. Expenditure on training/education of an employee is not chargeable to tax. ₹7,500 is, therefore, not chargeable to tax in the hands of X.
  2. ₹ 17,800, being tuition fees paid/reimbursed by B Ltd., is taxable in the hands of Y.
  - 3 & 4. School is maintained by the employer. Amount taxable in the hands of Z is ₹97,200 as follows –

A (daughter of Z) [12 × (₹ 5,500 – ₹ 1,000 – ₹ 800)]

44,400

B (brother of Z) [12 × (₹ 6,000 – ₹ 1,600)]

52,800

Q17. Find out the taxable value of the perquisite in the following cases for the assessment year 2026-27-

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, 2025, the company gives its music system to Y for domestic use. Ownership is not transferred. Cost of music system (in 2006) to the employer is ₹15,000.
3. The employer company sells the following assets to the employees on January 1, 2026

| Z            | A            | Name of employee                              | B            |
|--------------|--------------|-----------------------------------------------|--------------|
| Car          | Computer     | Asset sold                                    | Fridge       |
| ₹ 6,96,000   | ₹ 1,17,000   | Cost of the asset to employer                 | ₹ 40,000     |
| May 15, 2023 | May 15, 2023 | Date of purchase (put to use on the same day) | May 15, 2023 |
| ₹ 2,10,000   | ₹ 24,270     | Sale price                                    | ₹ 1,000      |

Before sale on January 1, 2026, these assets were used for business purpose by the employer.

- Ans.
1. X is 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 @10% 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<br>₹ | Computer<br>₹ | Fridge<br>₹ |
|----------------------------------------------------------------------------------------------------------------------------------|----------|---------------|-------------|
| Cost of the asset on May 15, 2023                                                                                                | 6,96,000 | 1,17,000      | 40,000      |
| Less : Normal wear and tear for the first year ending May 14, 2024 (20% of ₹ 6,96,000, 50% of ₹ 1,17,000, 10% of ₹ 40,000)       | 1,39,200 | 58,500        | 4,000       |
| Balance on May 15, 2024                                                                                                          | 5,56,800 | 58,500        | 36,000      |
| Less : Normal wear and tear for the second year ending May 14, 2025 (20% of ₹ 5,56,800, 50% of ₹ 58,500, 10% of ₹ 40,000)        | 1,11,360 | 29,250        | 4,000       |
| Balance on May 15, 2025                                                                                                          | 4,45,440 | 29,250        | 32,000      |
| Less; Normal wear and tear from May 15, 2025 to January 1, 2026 (for a part of the year, normal wear and tear is not deductible) | Nil      | Nil           | Nil         |
| Balance as on January 1, 2026                                                                                                    | 4,45,440 | 29,250        | 32,000      |
| Less : Sale consideration                                                                                                        | 2,10,000 | 24,270        | 1,000       |
| 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 tear is calculated at the rate of 10% per annum of cost of the asset to the employer. Normal wear and tear for a part of the year is not taken into consideration.

- Q18. Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2023. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2023, 31.3.2024 and 31.3.2025 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2025-26 and A.Y. 2026-27. Prior to 1.9.2023, he was a consultant, whose professional fees was taxable under the head “Profits and gains of business or profession”.

|       |                                                                                                                                                                                                                                   |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ans.  | Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) 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. 2022-23 – ₹ 7,50,000 = ₹ 27,600                                                                  |
| 2.    | Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$<br>= $(27,600/2) \times 0.111 + 0$<br>= ₹ 1,532                                                     |
| PC    | ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 27,600                                                                                                                       |
| PC1   | Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2023-24 and there is no employer's contribution in P.Y. 2020-21 and P.Y. 2022-23.                                                  |
| TP1   | Nil                                                                                                                                                                                                                               |
| R     | $I/Favg = 2,06,711/18,62,093 = 0.111$                                                                                                                                                                                             |
| I     | RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)                                               |
| Favg  | Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/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. 2025-26 –                                                                                                                                     |
| (i)   | ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]                                                                                                                                                     |
| (ii)  | ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]                                                                                                                                                     |
| (iii) | interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2023-24                                                                                                                                               |
|       | Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2026-27                                                                                                                                           |
| 1.    | Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2025-26 – ₹ 7,50,000 = ₹ 27,600                                                                  |
| 2.    | Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$<br>= $(27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$<br>= ₹ 1,308 + ₹ 2,761 = ₹ 4,069 |
| PC    | ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2025-26 = ₹ 27,600                                                                                                                       |
| PC1   | Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24 = ₹ 27,600                                                                                                        |
| TP1   | Taxable perquisite under section 17(2)(viia) for the P.Y. 2024-25 = ₹ 1,532                                                                                                                                                       |
| R     | $I/Favg = 3,50,307/36,95,802 = 0.09479$                                                                                                                                                                                           |
| I     | RPF balance as on 31.3.2026 – employee's and employer's contribution during the year – RPF balance as on 1.4.2025 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)                                              |
| Favg  | Balance to the credit of recognized provident fund as on 1st April, 2025 + Balance to the credit of recognized provident fund as on 31st March, 2026)/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. 2026-27 –                                                                                                                                     |
| (i)   | ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]                                                                                                                                                     |
| (ii)  | ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]                                                                                                                                                     |
| (iii) | ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2025-26]                                                                                                                                                     |
| (iv)  | interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2023-24                                                                                                                                               |
| (v)   | interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2024-25                                                                                                                                               |



Q19. Mr. X retired from the services of M/s Y Ltd. on 31.01.2026, after completing service of 30 years and one month. He had joined the company on 1.1.1996 at the age of 30 years and received the following on his retirement:

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2023 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

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

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

Ans. **Computation of Gross Total Income of Mr. X for A.Y. 2026-27**

| Particulars                              | ₹        |
|------------------------------------------|----------|
| Basic Salary = ₹ 20,000 × 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 × 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(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross total income would be ₹ 7,27,769.

- (2) Perquisite value of transfer of car: As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:





| Particulars                | ₹        |
|----------------------------|----------|
| Purchase price (30.1.2023) | 5,00,000 |
| Less: Depreciation @ 20%   | 1,00,000 |
| WDV on 29.1.2024           | 4,00,000 |
| Less: Depreciation @ 20%   | 80,000   |
| WDV on 29.1.2025           | 3,20,000 |
| Less: Depreciation @ 20%   | 64,000   |
| WDV on 29.1.2026           | 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) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$<br>$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$ |          |
|                                                                                                                                                                                | 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         |          |
| $\left( \frac{330}{30} \times 20,000 \right)$                  | 2,00,000 |
| Taxable Leave encashment                                       | 1,30,000 |

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be ₹ 3,00,000 (i.e.  $10 \times ₹ 30,000$ ) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 (₹ 3,30,000 – ₹ 3,00,000). In such a case, the gross total income would be ₹ 6,32,769.

(5) Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

| Particulars                                                                                             | ₹        |
|---------------------------------------------------------------------------------------------------------|----------|
| Amount received                                                                                         | 3,00,000 |
| Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[ 3,00,000 \times \frac{3}{2} \right]$ | 1,50,000 |
| Taxable amount                                                                                          | 1,50,000 |

- (6) The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Q20. Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 per month and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

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

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

Ans. Computation of Income from Salary of Mr. X for the A.Y. 2026-27

| Particulars                                                   | ₹      | ₹        |
|---------------------------------------------------------------|--------|----------|
| Basic salary [₹ 25,000 × 12]                                  |        | 3,00,000 |
| Commission [₹ 1,000 × 12]                                     |        | 12,000   |
| Entertainment allowance [₹ 1,000 × 12]                        |        | 12,000   |
| Rent free accommodation [Note 1]                              | 32,400 |          |
| Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months] | 16,000 | 48,400   |
| Interest on personal loan [Note 2]                            |        | 22,500   |
| Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]         |        | 2,000    |
| Transfer of motor cycle [Note 3]                              |        | 12,000   |
| Gross Salary                                                  |        | 4,08,900 |
| Less : Deduction under section 16                             |        |          |
| Under section 16(ia) – Standard deduction                     | 50,000 |          |
| Under section 16(iii) – Professional tax paid                 | 2,000  | 52,000   |
| Income from Salary                                            |        | 3,56,900 |

Notes:

- Value of rent-free unfurnished accommodation  
= 10% of salary for the relevant period  
= 10% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400
- Value of perquisite for interest on personal loan  
= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500
- 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.

- Q21. From the following details, find out the salary chargeable to tax for the A.Y.2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -
- Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2025 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.
- He is provided free housing facility which has been taken on rent by the company at ₹ 10,000 per month. He is also provided with following facilities:
- 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.
  - A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
  - Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
  - He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
  - He is getting telephone allowance @ ₹ 500 per month.

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

| 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:

- Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 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 i.e. ₹ 24,300
  - Bonus i.e., ₹ 21,000

(iv) 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 = ₹ 2,94,300 × 10/100 = ₹ 29,430

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 15% of salary (i.e., ₹ 44,145). Therefore, the perquisite value is ₹ 29,430.

3. Facility of use of laptop is not a taxable perquisite.

4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.

5. 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.

6. Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

Q22. 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.

Ans. 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.

Q23. Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2025-26:

(i) She was appointed on 01-03-2025 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.

(ii) She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.

(iii) She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.

(iv) She contributes 15% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

(v) Lunch provided by the company during office hours Cost to the employer ₹ 10,000

(vi) Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.

(vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.

(viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the



company to all employees above certain grade.

- (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2024.
- (x) Professional tax paid by the company ₹ 2,000 Compute the amount of salary chargeable to tax in the hands of Mrs Anjali for A.Y. 2026-27. Assume that she has not opted for 115BAC. (MTP 10 Marks, March'18)

Ans. Computation of taxable salary of Mrs. Anjali for A.Y. 2026-27

| Particulars                                                                                                |        | ₹        |
|------------------------------------------------------------------------------------------------------------|--------|----------|
| Basic pay [(₹20,000×11) + (₹22,500×1)] = ₹2,20,000 + ₹22,500                                               |        | 2,42,500 |
| Dearness allowance [30% of basic pay]                                                                      |        | 72,750   |
| Bonus [₹22,500 × 2]                                                                                        |        | 45,000   |
| Employer's contribution to Recognized Provident Fund in excess of 12%<br>(15% - 12% = 3% of ₹3,15,250)     |        | 9,458    |
| Taxable allowances                                                                                         |        |          |
| Transport allowance (₹2,000 × 12)                                                                          |        | 24,000   |
| Hostel allowance (₹ 4,000 × 3)                                                                             | 12,000 |          |
| Less: Exemption under section 10(14) read with Rule 2BB) @ ₹300 p.m.<br>per child maximum for two children | 7,200  | 4,800    |
| Taxable perquisites                                                                                        |        |          |
| Rent-free accommodation [See Note 1 below]                                                                 |        | 38,905   |
| Medical reimbursement                                                                                      |        | 35,000   |
| Gift voucher [See Note 3 below]                                                                            |        | 6,000    |
| Value of free lunch facility [See Note 4 below]                                                            |        | -        |
| Professional tax paid by the company [See Note 6 below]                                                    |        | 2,000    |
| Gross Salary                                                                                               |        | 4,80,413 |
| Less- Standard Deduction (Actual salary or ₹ 50,000 whichever is lower)<br>(As per amendment)              |        | 50,000   |
| Less: Professional tax paid by the company [Section 16(iii)]                                               |        | 2,000    |
| Salary chargeable to tax                                                                                   |        | 4,28,213 |

Notes:

1. 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.

(As per amendment it is 10% of salary in cities having population > 40 lakhs as per 2011 census)

For the purposes of valuation of rent-free house, salary includes:

|       |                     |          |
|-------|---------------------|----------|
| (i)   | Basic salary        | 2,42,500 |
| (ii)  | Dearness allowance  | 72,750   |
| (iii) | Bonus               | 45,000   |
| (iv)  | Transport allowance | 24,000   |
| (v)   | Hostel allowance    | 4,800    |
| Total |                     | 3,89,050 |

10% of salary = ₹3,89,050 × 10/100 = ₹ 38,905 Value of rent-free house will be

- Actual amount of lease rental paid by employer (i.e. ₹ 60,000) or
- 10% of salary (i.e., ₹ 38,905), whichever is lower.

Therefore, the perquisite value is ₹ 38,905.

2. Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is fully taxable.
3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is 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, entire amount of ₹ 6,000 is liable to tax as perquisite.  
Alternative View: 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 12.12.2011 that such gifts up to ₹ 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 ₹1,000.
4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹50 per meal.
5. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.

Q24. Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2026-27.

- (i) Basic salary is ₹ 70,000 per month.
- (ii) Dearness allowance @ 40% of basic salary
- (iii) He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- (iv) Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
- (v) Smile Ltd. allotted 800 sweat equity shares in August 2025. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (vi) He was provided with furniture during September 2021. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2026, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2025 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2025. The lending rate of SBI for similar loan as on 01.04.2025 was 8%.
- (ix) Facility of laptop costing ₹ 50,000 (MTP Mar'21, 7 Marks)

Q24. Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2026-27

| Particulars                                                                                                                                                                                                                                                                          | ₹ | ₹        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|----------|
| Basic Salary [₹ 70,000 × 12 months]                                                                                                                                                                                                                                                  |   | 8,40,000 |
| Dearness allowance [40% of ₹ 8,40,000]                                                                                                                                                                                                                                               |   | 3,36,000 |
| Entertainment allowance                                                                                                                                                                                                                                                              |   | 10,000   |
| Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2025 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note] |   | 49,291   |
| Health insurance premium paid by the employer [tax free perquisite]                                                                                                                                                                                                                  |   | Nil      |

|                                                                                                                                                                                                                                                                                              |          |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7) (iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below) |          | 10,000    |
| <u>Allotment of sweat equity shares</u>                                                                                                                                                                                                                                                      |          |           |
| Fair market value of 800 sweat equity shares @ ₹ 700 each                                                                                                                                                                                                                                    | 5,60,000 |           |
| Less: Amount recovered @ ₹ 450 each                                                                                                                                                                                                                                                          | 3,60,000 | 2,00,000  |
| Use of furniture by employee                                                                                                                                                                                                                                                                 |          |           |
| 10% p.a. of the actual cost of ₹ 1,10,000                                                                                                                                                                                                                                                    |          | 11,000    |
| <u>Use of Laptop</u>                                                                                                                                                                                                                                                                         |          |           |
| Facility of use of laptop is not a taxable perquisite                                                                                                                                                                                                                                        |          | Nil       |
| <u>Transfer of asset to employee</u> Value of furniture transferred to Mr. Samaksh                                                                                                                                                                                                           | 1,10,000 |           |
| Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 × 10% × 4 years (from September 2021 to September 2025)]                                                                                                                                             | 44,000   | 66,000    |
| Gross Salary                                                                                                                                                                                                                                                                                 |          | 15,22,291 |
| Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]                                                                                                                                                                                                               |          | 50,000    |
| Net Salary                                                                                                                                                                                                                                                                                   |          | 14,72,291 |

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2025 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

| Month                          | Maximum outstanding balance as on last date of month (₹) | Perquisite value at 3.5% for the month (₹) |
|--------------------------------|----------------------------------------------------------|--------------------------------------------|
| April, 2025                    | 15,00,000                                                | 4,375                                      |
| May, 2025                      | 15,00,000                                                | 4,375                                      |
| June, 2025                     | 14,50,000                                                | 4,229                                      |
| July, 2025                     | 14,50,000                                                | 4,229                                      |
| August, 2025                   | 14,50,000                                                | 4,229                                      |
| September, 2025                | 14,00,000                                                | 4,083                                      |
| October, 2025                  | 14,00,000                                                | 4,083                                      |
| November, 2025                 | 14,00,000                                                | 4,083                                      |
| December, 2025                 | 13,50,000                                                | 3,937.50                                   |
| January, 2026                  | 13,50,000                                                | 3,937.50                                   |
| February, 2026                 | 13,50,000                                                | 3,937.50                                   |
| March, 2026                    | 13,00,000                                                | 3,792                                      |
| Total value of this perquisite |                                                          | 49,290.50                                  |

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 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

- Q25. In the case of Mr. Hari, who turned 68 years on 28.3.2026, you are informed that the salary (computed) for the previous year 2025-26 is ₹10,20,000 and arrears of salary received is ₹3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

| Previous year | Taxable Salary (₹) | Arrears now received (₹) |
|---------------|--------------------|--------------------------|
| 2016 - 2017   | 7,10,000           | 1,03,000                 |
| 2017 - 2018   | 8,25,000           | 1,17,000                 |
| 2018 - 2019   | 9,50,000           | 1,25,000                 |



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

Note: Rates of Taxes:

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

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

Ans. Computation of tax payable by Mr. Hari for the A.Y.2026-27

| Particulars                        | Incl. arrears of salary<br>₹ | Excl. arrears of salary<br>₹ |
|------------------------------------|------------------------------|------------------------------|
| 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. 2017-18         |                      | A.Y. 2018-19         |                      | A.Y. 2019-20         |                      |
|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                        | Incl. arrears<br>(₹) | Excl. arrears<br>(₹) | Incl. arrears<br>(₹) | Excl. arrears<br>(₹) | Incl. arrears<br>(₹) | Excl. arrears<br>(₹) |
| 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       | 87,600               | 67,000               | 98,400               | 75,000               | 1,32,500             | 1,00,000             |
| Add: Cess@3%           | 2,628                | 2,010                | 2,952                | 2,250                | 5,300                | 4,000                |
| Tax payable            | 90,228               | 69,010               | 1,01,352             | 77,250               | 1,37,800             | 1,04,000             |



Computation of relief under section 89

|    | Particulars                                                                                                            | ₹        | ₹        |
|----|------------------------------------------------------------------------------------------------------------------------|----------|----------|
| i  | Tax payable in A.Y.2026-27 on arrears:                                                                                 |          |          |
|    | Tax on income including arrears                                                                                        | 2,28,280 |          |
|    | Less : Tax on income excluding arrears                                                                                 | 1,20,640 | 1,07,640 |
| ii | Tax payable in respective years on arrears :                                                                           |          |          |
|    | Tax on income including arrears (₹ 90,228 + ₹ 1,01,352 + ₹ 1,37,800)                                                   | 3,29,380 |          |
|    | Less: Tax on income excluding arrears (₹ 69,010 + ₹ 77,250 + ₹ 1,04,000)                                               | 2,50,260 | 79,120   |
|    | Relief under section 89 - difference between tax on arrears in A.Y. 2025-26 and tax on arrears in the respective years |          | 28,520   |

Tax payable for A.Y.2026-27 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               | 28,520   |
| Tax payable after claiming relief                              | 1,99,760 |

## HOMEWORK

**Q1.** X, who resides in Madras, gets ₹ 3,00,000 per annum as basic salary. He receives ₹ 50,000 per annum as house rent allowance. Rent paid by him is ₹ 40,000 per annum. Find out the amount of taxable house rent allowance. Assume the assessee opts out of the default scheme under Section 115BAC?

**Ans.** Out of ₹ 50,000 received as house rent allowance, the least of the following will be exempt from tax :

- a. ₹ 1,50,000 (being 50% of salary);
  - b. ₹ 50,000 (being the house rent allowance received); or
  - c. ₹ 10,000  
(being the excess of rent paid over 10% of salary, i.e., ₹ 40,000 – ₹ 30,000).
- ₹ 10,000 (being the least of the three) is exempt from tax.  
The balance of ₹ 40,000 (i.e., ₹ 50,000 – ₹ 10,000) will be chargeable to tax.

**Q2.** X, a resident of Ajmer, receives ₹ 1,92,000 per annum as basic salary during the previous year 2025-26. In addition, he gets ₹ 19,200 per annum as dearness allowance forming part of basic salary for computation of all retirement benefits, 7 per cent commission on sales made by him (sale made by X during the relevant previous year is ₹ 86,000) and ₹ 24,000 per annum as house rent allowance. He, however, pays ₹ 21,500 per annum as house rent. Determine the quantum of house rent allowance exempt from tax. Assume assessee opts out of default scheme u/s 115BAC

**Ans.** “Salary”, for the purpose of computing house rent allowance exempt from tax, works out to be ₹ 2,17,220 (i.e., basic salary : ₹ 1,92,000 + dearness allowance : ₹ 19,200 + commission @ 7% on ₹ 86,000 : ₹ 6,020).  
Out of the house rent allowance of ₹ 24,000, the least of the following is exempt from tax:

- a. ₹ 86,888 (being 40% of salary);
- b. ₹ 24,000 (being the amount of house rent allowance); or
- c. Nil [being the excess of rent paid (i.e., ₹ 21,500) over 10% of salary (i.e., ₹ 21,722)].

As the least of the three sums is nil, the entire house rent allowance is chargeable to tax.

**Q3.** Mr. Srikant has two sons. He is in receipt of children education allowance of ₹ 150 p.m. for his elder son and ₹ 70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances :

|                       |   |              |
|-----------------------|---|--------------|
| Transport allowance   | : | ₹ 1,800 p.m. |
| Tribal area allowance | : | ₹ 500 p.m.   |

Compute his taxable allowances

**Ans.** Taxable allowance in the hands of Mr. Srikant is computed as under -

If Mr. Srikant exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)  
Children Education Allowance:

|                                                          |         |                 |
|----------------------------------------------------------|---------|-----------------|
| Elder son [(₹ 150 – ₹ 100) p.m. × 12 months]             | = ₹ 600 |                 |
| Younger son [(₹ 70 – ₹ 70) p.m. × 12 months]             | = Nil   | ₹ 600           |
| Transport allowance (₹ 1,800 p.m. × 12 months)           |         | ₹ 21,600        |
| Tribal area allowance [(₹ 500 – ₹ 200) p.m. × 12 months] |         | ₹ 3,600         |
| <b>Taxable allowances</b>                                |         | <b>₹ 25,800</b> |

If Mr. Srikant pays tax under default tax regime under section 115BAC

|                                                                |                 |
|----------------------------------------------------------------|-----------------|
| Children Education Allowance [(₹ 150 + ₹ 70) p.m. × 12 months] | ₹ 2,640         |
| Transport allowance (₹ 1,800 p.m. × 12 months)                 | ₹ 21,600        |
| Tribal area allowance (₹ 500 p.m. × 12 months)                 | ₹ 6,000         |
| <b>Taxable allowances</b>                                      | <b>₹ 30,240</b> |

Q4. X, an employee of PQ Co. Ltd., receives ₹ 78,000 as gratuity. He is covered by the Payment of Gratuity Act, 1972. He retires on December 12, 2024 after rendering service of 38 years and 8 months. At the time of retirement his monthly basic salary and dearness allowance was ₹ 2,400 and ₹ 800, respectively. Is the entire amount of gratuity exempt from tax ?

Ans. In this case, 39 years will be taken as completed years of service. 15 days salary is ₹ 1,846.15 (i.e., ₹ 3,200 × 15/26, being the number of working days in a month).  
Out of ₹ 78,000 received as gratuity, the least of the following will be exempt from tax :  
a. ₹ 72,000 (being 15 days salary for each completed year of service, i.e., ₹ 1,846.15 × 39);  
b. ₹ 20,00,000 ; or  
c. ₹ 78,000 (being gratuity actually received).  
Hence ₹ 72,000 is exempt from tax and the balance of ₹ 6,000 is taxable.

Q5. X, who is not covered by the Payment of Gratuity Act, 1972, retires on November 20, 2025 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, 2026 and ₹ 9,000 per month from August 1, 2025. Besides, he gets ₹ 500 per month as dearness allowance (69 per cent of which is part of salary for computing all retirement benefits). What amount of gratuity will be exempt from tax ?

Ans. Computation of average monthly salary ₹

|                                                                                         |        |
|-----------------------------------------------------------------------------------------|--------|
| Basic salary from January 1, 2025 to October 31, 2025 (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  |

Out of ₹ 1,86,000 received as gratuity, the least of the following three is exempt from tax:  
a. ₹ 20,00,000;  
b. ₹ 1,64,255 (being half month's average salary for each year of completed service, i.e., ₹ 8,645 × 1/2 × 38); or  
c. ₹ 1,86,000 (being amount received as gratuity).  
₹ 1,64,255, being the least, is exempt from tax and the balance of ₹ 21,745, is taxable for the assessment year 2026-27.

Q6. Determine the amount of pension taxable for the assessment year 2026-27 in the following cases on the assumption that it becomes due on the last day of each month :

- X receives ₹ 18,250 per month as pension from the Central Government during the previous year.
- X receives ₹ 21,000 per month as pension from the Government of Punjab during the previous year.
- X receives ₹ 20,000 per month as pension from ABC Ltd., a public limited company in the private sector, during the previous year 2025-26.
- X retires from the Central Government service on May 31, 2025. He gets pension of ₹ 15,000 per month up to November 30, 2025 (i.e., ₹ 15,000 × 6). With effect from December 1, 2025, he gets one-third of his pension commuted for ₹ 7,18,000.
- X retires from ABC Co. on June 30, 2025. He gets pension of ₹ 20,000 per month up to January 31, 2026. With effect from February 1, 2026, 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 ?

|      |                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                      |                   |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Ans. | 1.                                                                                                                                                                                                                                                                                                                                                                                                     | Uncommuted pension of ₹ 2,19,000 (i.e., ₹ 18,250 × 12) is chargeable to tax.                                                                                                                                                                         |                   |
|      | 2.                                                                                                                                                                                                                                                                                                                                                                                                     | Uncommuted pension of ₹ 2,52,000 (i.e., ₹ 21,000 × 12) is chargeable to tax.                                                                                                                                                                         |                   |
|      | 3.                                                                                                                                                                                                                                                                                                                                                                                                     | Uncommuted pension of ₹ 2,40,000 (i.e., ₹ 20,000 × 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, 2025 (i.e., ₹ 15,000 × 6)                                                                                                                                                                                      | 90,000            |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Uncommuted pension from December 1, 2025 to March 31, 2026<br>(i.e., $\frac{2}{3} \times ₹ 15,000 \times 4$ )                                                                                                                                        | 40,000            |
|      | 5.                                                                                                                                                                                                                                                                                                                                                                                                     | In the case of non-Government employee while uncommuted pension is fully chargeable to tax, commuted pension is partly chargeable to, and partly exempt from, tax. Amount of taxable pension will be commuted as under :                             |                   |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | <u>Uncommuted Pension</u>                                                                                                                                                                                                                            | ₹                 |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Uncommuted pension from June 30, 2025 to January 31, 2026<br>(i.e., ₹ 20,000 × 7)                                                                                                                                                                    | 1,40,000          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Uncommuted pension from January 31, 2026 to March 31, 2026<br>(i.e., 40% of ₹ 20,000 × 2)                                                                                                                                                            | 16,000            |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Total uncommuted pension chargeable to tax as salary                                                                                                                                                                                                 | 1,56,000          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | <u>Commuted Pension</u>                                                                                                                                                                                                                              |                   |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Commuted value of 60% of usual pension                                                                                                                                                                                                               | 10,71,000         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Commuted value of full pension (i.e., ₹ 10,71,000 × 100/60)                                                                                                                                                                                          | 17,85,000         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | If X does not receive gratuity Amount exempt                                                                                                                                                                                                         |                   |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | [1/2 of commuted value of full pension (i.e., $\frac{1}{2} \times ₹ 17,85,000$ )]                                                                                                                                                                    | 8,92,500          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Commuted pension chargeable to tax as salary<br>(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<br>(i.e., $\frac{1}{3} \times ₹ 17,85,000$ )]                                                                                                                            | 5,95,000          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Commuted pension chargeable to tax as salary<br>(i.e., ₹ 10,71,000 – ₹ 5,95,000)                                                                                                                                                                     | 4,76,000          |
| Q7.  | X was employed by PQR Ltd. up to March 15, 1989. At the time of leaving PQR Ltd., he was paid ₹ 3,50,000 as leave salary out of which ₹ 57,000 was exempt from tax under section 10(10AA). Thereafter he joined ABC (P.) Ltd. and received ₹ 4,12,200 as leave salary at the time of his retirement on January 01, 2026. Determine the amount of taxable leave salary from the following information : |                                                                                                                                                                                                                                                      |                   |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Salary at the time of retirement (per month)                                                                                                                                                                                                         | ₹ 22,900          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Average salary received during 10 months                                                                                                                                                                                                             |                   |
|      | -                                                                                                                                                                                                                                                                                                                                                                                                      | From March 1, 2025 to July 31, 2025 (per month)                                                                                                                                                                                                      | ₹ 22,600          |
|      | -                                                                                                                                                                                                                                                                                                                                                                                                      | From August 1, 2025 to December 31, 2025 (per month)                                                                                                                                                                                                 | ₹ 22,900          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Duration of service (a)                                                                                                                                                                                                                              | 14 years 9 months |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Leave entitlement for every year of service (b)                                                                                                                                                                                                      | 45 days           |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Leave availed while in service (c)                                                                                                                                                                                                                   | 90 days           |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Leave at the credit of employee at the time of retirement<br>[(14 × 45 – 90) ÷ 30]                                                                                                                                                                   | 18 months         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                        | Leave salary paid at the time of retirement at the rate of                                                                                                                                                                                           |                   |



|      |                                                                                                                                                                                                                                                                        |                         |
|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
|      | ₹ 22,900 per month (i.e., ₹ 22,900 × 18)                                                                                                                                                                                                                               | ₹ 4,12,200              |
| Ans. | The amount of exemption under section 10(10AA) will be computed as under :                                                                                                                                                                                             |                         |
|      | Step (a) - Length of service [14.75 years, rounded off]                                                                                                                                                                                                                | 14 years                |
|      | Step (b) - Rate of leave entitlement [actual rate is 45 days for each year of service, it cannot exceed 30 days leave for each year of service]                                                                                                                        | 30 days for each year   |
|      | Step (c) - Leave availed while in service                                                                                                                                                                                                                              | 90 days                 |
|      | Leave to the credit of the employee at the time of retirement [(14 × 30 - 90) ÷ 30]                                                                                                                                                                                    | 11 months               |
|      |                                                                                                                                                                                                                                                                        | ₹                       |
|      | Average monthly salary (for 10 months ending on December 31, 2025) [i.e., (₹ 22,600 × 5 + ₹ 22,900 × 5) ÷ 10]                                                                                                                                                          | 22,750                  |
|      | a. Period of earned leave to the credit of the employee at the time of retirement × Average monthly salary (i.e., ₹ 22,750 per month × 11 months)                                                                                                                      | 2,50,250                |
|      | b. 10 months × average monthly salary (i.e., ₹ 22,750 × 10)                                                                                                                                                                                                            | 2,27,500                |
|      | c. Maximum amount not taxable [₹ 25,00,000 less amount exempted earlier]                                                                                                                                                                                               | 24,43,000               |
|      | d. Amount received from the employer                                                                                                                                                                                                                                   | 4,12,200                |
|      | Amount not taxable under section 10(10AA) [i.e., the least of (a), (b), (c) or (d)]                                                                                                                                                                                    | 2,27,500                |
|      | Amount taxable                                                                                                                                                                                                                                                         | 1,84,700                |
|      | Notes:                                                                                                                                                                                                                                                                 |                         |
|      | 1. While computing completed years of service, any fraction of the year shall be ignored.                                                                                                                                                                              |                         |
|      | 2. If a non-Government employee is entitled to receive leave salary at a rate higher than 30 days salary for every completed year of service, the amount shown at (a) above has to be calculated with reference to 30 days salary for every completed year of service. |                         |
| Q8.  | Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2025-26. You are required to compute his gross salary from the details given below:                                                                                                  |                         |
|      | under optional scheme of total income.                                                                                                                                                                                                                                 |                         |
|      | Basic Salary                                                                                                                                                                                                                                                           | ₹ 10,000 p.m.           |
|      | D.A. (50% is for retirement benefits)                                                                                                                                                                                                                                  | ₹ 8,000 p.m.            |
|      | Commission as a percentage of turnover                                                                                                                                                                                                                                 | 0.1%                    |
|      | Turnover during the year                                                                                                                                                                                                                                               | ₹ 50,00,000             |
|      | Bonus                                                                                                                                                                                                                                                                  | ₹ 40,000                |
|      | Gratuity                                                                                                                                                                                                                                                               | ₹ 25,000                |
|      | His own contribution in the RPF                                                                                                                                                                                                                                        | ₹ 20,000                |
|      | Employer's contribution to RPF                                                                                                                                                                                                                                         | 20% of his basic salary |
|      | Interest accrued in the RPF @ 13% p.a.                                                                                                                                                                                                                                 | ₹ 13,000                |
| Ans. | Computation of Gross Salary of Mr. B for the A.Y.2026-27                                                                                                                                                                                                               |                         |
|      | Particulars                                                                                                                                                                                                                                                            | ₹                       |
|      | Basic Salary [ ₹ 10,000 × 12]                                                                                                                                                                                                                                          | 1,20,000                |
|      | Dearness Allowance [₹ 8,000 × 12]                                                                                                                                                                                                                                      | 96,000                  |
|      | Commission on turnover [0.1% × ₹ 50,00,000]                                                                                                                                                                                                                            | 5,000                   |

|                                                   |        |          |
|---------------------------------------------------|--------|----------|
| Bonus                                             |        | 40,000   |
| Gratuity [Note 1]                                 |        | 25,000   |
| Employers contribution to RPF [20% of ₹ 1,20,000] | 24,000 |          |
| Less: Exempt [Note 2]                             | 20,760 | 3,240    |
| Interest accrued in the RPF@13% p.a.              | 13,000 |          |
| Less: Exempt@9.5% p.a.                            | 9,500  | 3,500    |
| Gross Salary                                      |        | 2,92,740 |

Notes:

1. Gratuity received during service is fully taxable.
2. Employers' contribution in the RPF is exempt up to 12% of the salary i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760
3. Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Q9. Find out the taxable value of the perquisite in respect of medical facility in the following cases -

1. X gets a fixed medical allowance of ₹ 600 per month from his employer.
2. Y, a director in the employer-company, gets medical treatment in dispensary maintained by his employer. The expenditure on medical treatment provided to Y and his family members during the previous year 2025-26 is as follows :

|                                       | ₹      |
|---------------------------------------|--------|
| Y, Mrs. Y and minor child of Y        | 9,100  |
| Major son of Y (not dependent upon Y) | 2,700  |
| Parents of Y (dependent upon Y)       | 3,000  |
| Parents of Mrs. Y (dependent upon Y)  | 12,000 |
| Brother of Y (dependent on Y)         | 6,000  |
| Sister of Y (not dependent on Y)      | 17,000 |

Besides, Y gets reimbursement of ordinary medical expenses (amount reimbursed by the employer being ₹ 11,000 for Y and ₹ 3,000 for treatment of Mrs. Y).

3. Z (salary : ₹ 2,40,000) pays "mediclaime" health insurance premium (which is later on reimbursed by his employer) as follows :

|                                                      | ₹     |
|------------------------------------------------------|-------|
| On Z's life                                          | 800   |
| On Mrs. Z's life                                     | 600   |
| On the life of Z's father (not dependent upon Z)     | 1,000 |
| On the life of major son of Z (not dependent upon Z) | 2,700 |
| On the life of brother of Z (dependent upon Z)       | 400   |
| On the life of father of Mrs. Z (dependent upon Z)   | 500   |
| On the life of grandfather of Z (dependent upon Z)   | 1,000 |

4. A (salary : ₹ 3,60,000) gets the following reimbursement from his employer during the previous year 2025-26 :

|                                                                                                                           |        |
|---------------------------------------------------------------------------------------------------------------------------|--------|
| Reimbursement of expenses incurred for caesarean operation of Mrs. A in a hospital approved by the Chief Commissioner     | 28,600 |
| Reimbursement expenses of eye's treatment (including surgical operation) in a hospital approved by the Chief Commissioner | 2,700  |
| Reimbursement of ordinary medical expenses paid to a private nursing home                                                 | 16,200 |



- Ans. 1. Fixed medical allowance of ₹ 600 per month (i.e., ₹ 7,200) is chargeable to tax. It is an allowance and not a perquisite. It is always taxable irrespective of the expenditure incurred by the concerned employee.

2. The perquisite will be chargeable to tax as under :

|                                | Value of medical facility provided in a dispensary maintained by the employer |           |
|--------------------------------|-------------------------------------------------------------------------------|-----------|
|                                | Not taxable at all ₹                                                          | Taxable ₹ |
| Y, Mrs. Y and minor child of Y | 9,100                                                                         | —         |
| Major son of Y                 | 2,700                                                                         | —         |
| Parents of Y                   | 3,000                                                                         | —         |
| Parents of Mrs. Y              | —                                                                             | 12,000    |
| Brother of Y                   | 6,000                                                                         | —         |
| Sister of Y                    | —                                                                             | 17,000    |
| Total                          | 20,800                                                                        | 29,000    |
| Less : Amount not taxable      | 20,800                                                                        | Nil       |
| Amount taxable                 | Nil                                                                           | 29,000    |

Amount taxable in the hands of Y is as follows -

₹

Medical facility in the dispensary maintained by the employer  
(as calculated above)

29,000

Reimbursement of medical expenditure (₹ 11,000 + ₹ 3,000)

14,000

Total

43,000

3. Reimbursement of “mediclaime” insurance premium shall be taxable as under :

|                                      | Not taxable ₹ | Taxable ₹ |
|--------------------------------------|---------------|-----------|
| On Z's life                          | 800           | —         |
| On Mrs. Z's life                     | 600           | —         |
| On the life of Z's father            | —             | 1,000     |
| On the life of Z's major son         | 2,700         | —         |
| On the life of Z's dependent brother | 400           | —         |
| On the life of Mrs. Z's father       | —             | 500       |
| On the life of Z's grandfather       | —             | 1,000     |
| Total                                | 4,500         | 2,500     |

4. Reimbursement of expenses will be taxable as under :

|                            | Not taxable ₹ | Taxable ₹ |
|----------------------------|---------------|-----------|
| Operation of Mrs. A        | 28,600        | —         |
| Eye's treatment            | 2,700         | —         |
| Private nursing home bills | —             | 16,200    |
| Total                      | 31,300        | 16,200    |
| Less : Not taxable         | 31,300        | Nil       |
| Amount taxable             | Nil           | 16,200    |

Q10. Mr. D went on a holiday on 25.12.2025 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. 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).

Q11. In the above illustration 11, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Ans. Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = ₹ 5,000.$$

LTC exempt would be only ₹ 55,000 (i.e. ₹ 60,000 – ₹ 5,000)

Q12. X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2025-26 –

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

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

Ans. **Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2026-27**

|     | Particulars                                                                                                                     | Amount in ₹ |          |          |
|-----|---------------------------------------------------------------------------------------------------------------------------------|-------------|----------|----------|
| (1) | Value of accommodation at concessional rate                                                                                     |             |          |          |
|     | Actual amount of lease rental paid by X Ltd.                                                                                    | 1,80,000    |          |          |
|     | 10% of salary i.e., 10% of ₹ 10,00,000                                                                                          | 1,00,000    |          |          |
|     | Lower of the above                                                                                                              |             | 1,00,000 |          |
|     | Less: Rent paid by Mr. Y (₹ 5,000 × 12)                                                                                         |             | -60,000  |          |
|     |                                                                                                                                 |             | 40,000   |          |
|     | Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)                                     |             | 36,000   | 76,000   |
| (2) | Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12] |             |          | 32,400   |
| (3) | Value of gift voucher*                                                                                                          |             |          | 10,000   |
|     | Value of perquisites chargeable to tax                                                                                          |             |          | 1,18,400 |

\* An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.

Q13. Mr. Goyal receives the following emoluments during the previous year ending 31.03.2026.

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

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

Ans. Computation of salary of Mr. Goyal for the A.Y.2026-27 under default tax regime under section 115BAC

| Particulars                                                                 | ₹        |
|-----------------------------------------------------------------------------|----------|
| Basic Salary                                                                | 4,00,000 |
| Dearness Allowance                                                          | 1,50,000 |
| Commission                                                                  | 1,00,000 |
| Entertainment Allowance received                                            | 40,000   |
| Employee's contribution to RPF [Note]                                       | -        |
| Medical expenses reimbursed                                                 | 25,000   |
| Professional tax paid by the employer                                       | 1,000    |
| Gross Salary                                                                | 7,16,000 |
| Less: Deductions under section 16(ia) - Standard deduction of upto ₹ 75,000 | 75,000   |
| Income from Salary                                                          | 6,41,000 |

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

Computation of IFS of Mr. Goyal for the AY 2026-27 under the optional tax regime (normal provisions)

| Particulars                                                      | ₹      | ₹        |
|------------------------------------------------------------------|--------|----------|
| Basic Salary                                                     |        | 4,00,000 |
| Dearness Allowance                                               |        | 1,50,000 |
| Commission                                                       |        | 1,00,000 |
| Entertainment Allowance received                                 |        | 40,000   |
| Employee's contribution to RPF [Note]                            |        | -        |
| Medical expenses reimbursed                                      |        | 25,000   |
| Professional tax paid by the employer                            |        | 1,000    |
| Gross Salary                                                     |        | 7,16,000 |
| Less: Deductions under section 16                                |        |          |
| under section 16(ia) - Standard deduction of upto ₹ 50,000       |        | 50,000   |
| under section 16(ii) - Entertainment allowance being lowest of : |        |          |
| (a) Allowance received                                           | 40,000 |          |
| (b) One fifth of basic salary [ $1/5 \times ₹ 4,00,000$ ]        | 80,000 |          |
| (c) Statutory amount                                             | 5,000  | 5,000    |
| under section 16(iii) - Professional tax paid                    |        | 2,000    |
| Income from Salary                                               |        | 6,59,000 |

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Q14. Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2025-26:

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

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

Ans. Computation of income chargeable under the head "Salaries" of Ms. Akansha for  
A.Y.2026-27 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<br>it is an obligation of the employee which is paid by the employer                                    | 2,000     |
| Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause<br>(iii) of proviso to section 17(2)]                                                                        | Nil       |
| Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since<br>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<br>section 17(2)(v)                                                                                             | 26,000    |
| Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)                                                                                                                         | Nil       |
| Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by<br>employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12] as per<br>Rule 3(2)     | 39,600    |
| Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since<br>the credit card is not exclusively used for official purposes and details of usage are not<br>available | 7,000     |
| Gross Salary                                                                                                                                                                                          | 12,26,600 |



|                                             |           |
|---------------------------------------------|-----------|
| Less: Deductions under section 16           |           |
| - Standard Deduction as per section 16(ia)  | 75,000    |
| Income chargeable under the head "Salaries" | 11,51,600 |

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,46,600, respectively.

Q15. Ms. Aaroohi is the HR manager in Shipra limited. She gives you the following particulars:

|                    |                                                                |
|--------------------|----------------------------------------------------------------|
| Basic Salary       | ₹ 70,000 p.m.                                                  |
| Dearness Allowance | ₹ 24,000 p.m. (30% of which forms part of retirement benefits) |
| Bonus              | ₹ 21,000 p.m.                                                  |

Her employer has provided her with an accommodation on 1st April 2025 at a concessional rent. The house was taken on lease by Shipra Ltd. for ₹ 12,000 p.m. Ms. Aaroohi occupied the house from 1st November 2025, ₹ 4,800 p.m. is recovered from the salary of Ms. Aaroohi. The employer gave her a gift voucher of ₹ 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount.

The company pays medical insurance premium to effect insurance on the health of Ms. Aaroohi ₹ 20,000. Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aaroohi from 1st November 2025 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aaroohi for the Assessment Year 2025-26. (RTP May '19)

Ans. Computation of income under the head "Salaries" in the hands of Ms. Aaroohi for A.Y.2026-27

| Particulars                                                                                                                                                                                                  | ₹        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Basic Salary [₹ 70,000 × 12]                                                                                                                                                                                 | 8,40,000 |
| Dearness allowance [₹ 24,000 × 12]                                                                                                                                                                           | 2,88,000 |
| Bonus [₹ 21,000 × 12]                                                                                                                                                                                        | 2,52,000 |
| Perquisite value in respect of concessional rent [See Working Note below]                                                                                                                                    | 25,100   |
| Gift voucher given by employer on Ms. Aaroohi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) [See Note for Alternative view]                                                | 10,000   |
| Employer's contribution to recognized provident fund in excess of 12% of salary<br>= 18% × [(₹ 70,000 + ₹ 24,000) × 12] – 12% × {(₹ 70,000 + ₹ 7,200<br>(being 30% of ₹ 24,000)) × 12} = 2,03,040 – 1,11,168 | 91,872   |
| [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]                                                                                                     |          |

|                                                                                                                                                                                                                                                                                 |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite                                                                                                                                          | -         |
| Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be 2400/- p.m. [₹2,400 × 5 months] | 12,000    |
| Gross salary                                                                                                                                                                                                                                                                    | 15,18,972 |
| Less: Standard deduction under section 16(ia)                                                                                                                                                                                                                                   | 50,000    |
| Salary chargeable to tax                                                                                                                                                                                                                                                        | 14,68,972 |

#### Working Note:

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 10% of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2025 to 31.3.2026 = ₹ 60,000 [ ₹ 12,000 × 5 months] 10% of salary = ₹ 49,100 [10% × (₹ 70,000 + ₹ 7,200 + ₹ 21,000) × 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus  
Lower of the above is ₹ 49,100 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 49,100 – ₹24,000 [₹ 4,800 × 5 months] = ₹ 25,100

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 10,000 was received by Ms. Aarohi 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.

Alternative view - An alternate view is also 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. The salary chargeable to tax, in this case, would be ₹ 14,84,872.

Q16. Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2025-26, she received the following amounts from her employer.

- (i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- (ii) Bonus for the previous year 2023-24 amounting to ₹ 52,000 was received on 30th November, 2025.
- (iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.
- (iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.
- (v) Ms. Suhaani was provided;
  - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2023 at ₹ 35,000.
  - a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.
- (vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2025 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.
- (vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head “Salaries” of Ms. Suhaani for the assessment year 2026-27. (RTP May '20)

Ans. Computation of Income under the head “Salaries” in the hands of Ms. Suhaani for the A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                  | ₹        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Basic Salary [₹ 48,000 x 12]                                                                                                                                                                                                                                 | 5,76,000 |
| Dearness allowance [10% of basic salary]                                                                                                                                                                                                                     | 57,600   |
| Bonus [Taxable in the P.Y. 2025-26, since it is taxable on receipt basis]                                                                                                                                                                                    | 52,000   |
| Fixed Medical Allowance [Taxable]                                                                                                                                                                                                                            | 48,000   |
| Reimbursement of Medical expenditure incurred for her father [Fully taxable from A.Y. 2026-27, even though father is included in the meaning of “family” on account of standard deduction being introduced in lieu of reimbursement of medical expenditure]. | 4,900    |
| Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]                                                                                                                                       | Nil      |
| Reimbursement of salary of domestic servant [₹ 5,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]                                                | 60,000   |
| Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]                                                                                                                         | 77,000   |
| Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]                                                                                          | 1,400    |
| Gross Salary                                                                                                                                                                                                                                                 | 8,76,900 |
| Less: Deduction under section 16                                                                                                                                                                                                                             |          |
| Professional tax paid                                                                                                                                                                                                                                        | 2,200    |
| Standard Deduction (Lower of ₹ 50,000 or amount of salary)                                                                                                                                                                                                   | 50,000   |
| Taxable Salary                                                                                                                                                                                                                                               | 8,24,700 |

Q17. Mr. B is a sales manager in PQR Ltd. During F.Y. 2025-26 he has received the following towards his salary and allowances/perquisites;

- Basic pay ₹ 85,000 per month up to December 2025 and thereafter an increase of ₹ 2,000 per month.
- Dearness allowance 40% of basic pay forming part of retirement benefits.
- Bonus 1-month basic pay based on the salary drawn during January month every year.
- He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
- Travelling allowance of ₹ 5,000 per month towards on duty tours.
- Research and training allowance ₹ 3,000 per month.
- Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
- Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2024.
- Reimbursement of medical expenses on his treatment in private hospital ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.

You are required to:

- Compute the income chargeable to tax under the head “Income from Salary”, assuming that he does not opt for the provisions under section 115BAC.
- What will be the income under the head “Salaries”, if he opts for the provisions under section 115BAC? (PYP 8 Marks Nov ‘22)





Ans. I. Computation of income chargeable to tax under the head “Salaries” for A.Y.2026-27, if Mr. B does not opt for the provisions of section 115BAC

| Particulars                                                                                               | ₹        | ₹         |
|-----------------------------------------------------------------------------------------------------------|----------|-----------|
| Basic Pay [₹ 85,000 × 9 + ₹ 87,000 × 3]                                                                   |          | 10,26,000 |
| Dearness Allowance [₹ 10,26,000 × 40%]                                                                    |          | 4,10,400  |
| Bonus                                                                                                     |          | 87,000    |
| Travelling allowance [Exempt, since provided towards duty tours]                                          |          | -         |
| Research and training allowance [₹ 3,000 × 12]                                                            |          | 36,000    |
| Medical allowance [₹ 1500 × 12]                                                                           |          | 18,000    |
| Children Education allowance [₹ 600 × 12 × 3]                                                             | 21,600   |           |
| Less: Exempt [₹100 × 12 × 2]                                                                              | 2,400    | 19,200    |
| Salary (for the purpose of valuation of Rent-free accommodation)                                          |          | 15,96,600 |
| Value of Rent-free accommodation [10% of ₹ 15,96,600]                                                     | 1,59,660 |           |
| Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]                                              | 10,000   | 1,69,660  |
| Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital] |          | 15,000    |
| Health insurance premium paid by PQR Ltd. [Exempt]                                                        |          | -         |
| Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400)  |          | 28,728    |
| Gross Salary                                                                                              |          | 18,09,988 |
| Less: Deductions under section 16                                                                         |          |           |
| Standard deduction                                                                                        |          | 50,000    |
| Income chargeable under the head “Salaries”                                                               |          | 17,59,988 |

II. Computation of income chargeable to tax under the head “Salaries” for A.Y.2026-27, if Mr. B opts for the provisions of section 115BAC

|                                                                                                          |          |           |
|----------------------------------------------------------------------------------------------------------|----------|-----------|
| Income chargeable under the head “Salaries”                                                              |          | 17,59,988 |
| Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]          |          | 2400      |
|                                                                                                          |          | 17,62,388 |
| Less: Value of rent-free accommodation (As per regular provisions)                                       |          | 1,69,660  |
|                                                                                                          |          | 15,92,728 |
| Add: Value of Rent-free accommodation [10% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)] | 1,59,900 |           |
| Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]                                             | 10,000   | 1,69,900  |
|                                                                                                          |          | 17,62,628 |
| (-) Extra std. ded <sup>n</sup> (as std. ded. is ₹75,000 under 115BAC)                                   |          | 25,000    |
| Income chargeable under the head salaries                                                                |          | 17,37,628 |

Q18. Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2025-26:

| Particulars                                    | ₹        |
|------------------------------------------------|----------|
| Basic salary                                   | 5,40,000 |
| Dearness allowance                             | 3,60,000 |
| Commission                                     | 50,000   |
| Entertainment allowance                        | 7,500    |
| Medical expenses reimbursed by the employer    | 21,000   |
| Profession tax (of this, 50% paid by employer) | 4,000    |
| Health insurance premium paid by employer      | 9,000    |



|                                                                                                                                                                                                                                    |        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Gift voucher given by employer on his birthday                                                                                                                                                                                     | 12,000 |
| Life insurance premium of Neeraj paid by employer                                                                                                                                                                                  | 34,000 |
| Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]                                                                                                     | 30,000 |
| Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. 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]                                                                                           | 5,000  |

You are required to compute the income chargeable under the head Salaries for the assessment year 2026-27.

Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of income chargeable under the head “Salaries” Of Mr. Neeraj

| Particulars                                                                                                                                                                                     | ₹                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Basic Salary                                                                                                                                                                                    | 5,40,000         |
| Dearness allowance                                                                                                                                                                              | 3,60,000         |
| Commission                                                                                                                                                                                      | 50,000           |
| Entertainment allowance                                                                                                                                                                         | 7,500            |
| Medical expenses reimbursed by the employer is fully taxable                                                                                                                                    | 21,000           |
| 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 ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]                                                                     | Nil              |
| Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]                                               | 12,000           |
| Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)                                                                                           | 34,000           |
| Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)                                                                                                                   | Nil              |
| Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 × 12] as per Rule 3(2)              | 28,800           |
| Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available | 5,000            |
| <b>Gross Salary</b>                                                                                                                                                                             | <b>10,60,300</b> |
| <b>Less: Deductions under section 16</b>                                                                                                                                                        |                  |
| • Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000                                                                                                                  | 50,000           |
| • Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)                                                                                               | Nil              |
| • Professional tax paid allowable as deduction as per section 16(iii)                                                                                                                           | 4,000            |
| <b>Income chargeable under the head “Salaries”</b>                                                                                                                                              | <b>10,06,300</b> |

Note: As per Rule 3(7) (iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of ₹

5,000, the entire amount of ₹ 12,000 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 ₹ 7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively.

Q19. AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2025. The shares were allotted at ₹200 per share as against the fair market value of ₹300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

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

Ans.

- (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). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹3,00,000

Q20. Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2024 in the scale of 60,000 1,000-70,000. He furnishes the following information for the previous year 2025-26:

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



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

Cost Inflation Index

F.Y. 2024-25-363; F.Y. 2025-26-376.

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

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

Ans. Computation of Income from Salary for Mr. Kunal For A.Y.2026-27  
Under Default Tax Regime.

| Particulars                                                                                                                                                                                                                                                                                                                                                                                                   |          | ₹         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Basic Pay [ ₹61,000 × 10 + ₹62,000 × 2 ]                                                                                                                                                                                                                                                                                                                                                                      |          | 7,34,000  |
| Dearness Allowance [ ₹7, 34000 × 25%]                                                                                                                                                                                                                                                                                                                                                                         |          | 1,83,500  |
| Bonus                                                                                                                                                                                                                                                                                                                                                                                                         |          | 61,000    |
| Leave encashment for P.Y. 2025-26                                                                                                                                                                                                                                                                                                                                                                             |          | 10,000    |
| Value of perquisite                                                                                                                                                                                                                                                                                                                                                                                           |          |           |
| Perquisite of Motor Car [₹3,300 × 4]                                                                                                                                                                                                                                                                                                                                                                          |          |           |
| As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹3,300( ₹2,400+ ₹900) The car was provided to employee from 01.12.2025, therefore the perquisite value has been calculated for 4 months.                              |          | 13,200    |
| Perquisite of interest on loan (Working Note Below)                                                                                                                                                                                                                                                                                                                                                           |          | 5,917     |
| Value of Rent-free accommodation                                                                                                                                                                                                                                                                                                                                                                              |          |           |
| Value of Rent-free accommodation (10% of ₹9,15,100 i.e., [₹7,34,000, basic salary + ₹1,10,100 (₹1,83,500 × 60%, DA forming part of retirement benefit) + 10,000, leave encashment + 61,000, bonus])                                                                                                                                                                                                           | 91,510   |           |
| Add: Value of furniture [₹1,50,000 × 10% p.a.]                                                                                                                                                                                                                                                                                                                                                                | 15,000   |           |
|                                                                                                                                                                                                                                                                                                                                                                                                               | 1,06,510 |           |
| As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one previous year, shall not exceed the amount calculated for first previous year, as multiplied by the amount which is a ratio of CII for the previous year for which the value is calculated and CII for the previous year in which accommodation was initially provided to the employee. |          |           |
| Accordingly, value of perquisite for P.Y. 2025-26 to be restricted to ₹92,000 × 376/363                                                                                                                                                                                                                                                                                                                       | 95,295   | 95,295    |
| Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [₹5,000 × 12]                                                                                                                                                                                                                                                                      |          | 60,000    |
| Mobile phone received as gift from colleagues (Not taxable under the head "Salaries")                                                                                                                                                                                                                                                                                                                         |          | Nil       |
| Gross Salary                                                                                                                                                                                                                                                                                                                                                                                                  |          | 11,62,912 |
| Less: Standard deduction under section 16 [Actual salary or ₹75,000, whichever is less]                                                                                                                                                                                                                                                                                                                       |          | 75,000    |
| Net Salary                                                                                                                                                                                                                                                                                                                                                                                                    |          | 10,87,912 |

#### Working Note:

##### Perquisite of Interest on Loan

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

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is  $9.5\% - 5.5\% = 4\%$  p.a.

| Month                       | Maximum outstanding balance as on last date of month (₹) | Perquisite value at 4% for the month (₹) |
|-----------------------------|----------------------------------------------------------|------------------------------------------|
| June, 2025                  | 2,00,000                                                 | 667                                      |
| July, 2025                  | 2,00,000                                                 | 667                                      |
| August, 2025                | 2,00,000                                                 | 667                                      |
| September, 2025             | 2,00,000                                                 | 667                                      |
| October, 2025               | 1,75,000                                                 | 583                                      |
| November, 2025              | 1,75,000                                                 | 583                                      |
| December, 2025              | 1,75,000                                                 | 583                                      |
| January, 2026               | 1,50,000                                                 | 500                                      |
| February, 2026              | 1,50,000                                                 | 500                                      |
| March, 2026                 | 1,50,000                                                 | 500                                      |
| Taxable Value of perquisite |                                                          | 5,917                                    |

Q1. Mr. Raj Kumar has the following receipts from his employer:

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

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

Q2. Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2025-26:

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

Q3. Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2025-26:

- (i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer). In case the company has employed the domestic servant, what is the value of perquisite?
- (ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- (iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- (iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- (vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2025 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. 2026-27.

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

- Q4. Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2026:
- (i) Basic salary upto 31.10.2025 ₹ 50,000 p.m. Basic salary from 01.11.2025 ₹ 60,000 p.m.  
Note - Salary is due and paid on the last day of every month.
  - (ii) Dearness allowance @ 40% of basic salary.
  - (iii) Bonus equal to one month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month.
  - (iv) Contribution of employer to recognized provident fund account of the employee@16% of basic salary.
  - (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
  - (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2025.
  - (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee.
  - (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.
- Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
- Q5. You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2026:
- (i) He retired on 31-12-2025 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
  - (ii) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
  - (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
  - (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
  - (v) He is receiving ₹ 5,000 as pension. On 1.2.2026, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
  - (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.
- Q6. Mr. Thomas is an executive at M/s. A Ltd., Chennai from 01-04-2025. His salary and other particulars are as given here under:
- Basic Salary ₹ 20,000 p.m.
  - Dearness Allowance ₹ 15,000 p.m. (100% forming part of retirement benefits) House Rent Allowance ₹ 20,000 p.m.
  - Rent paid by Mr. Thomas is ₹ 25,000 p.m.
  - Telephone bills paid by A Ltd. for the telephone installed at his Residence ₹ 24,000 p.a.
  - Motor car running and maintenance charges of ₹ 30,600 fully paid by employer. (The motor car is owned





and driven by Mr. Thomas. The engine cubic capacity is below 1.60 liters. The motor car is used for both official and personal purpose by the employee)

Annual premium paid by A Ltd. towards a personal accident policy on his life ₹ 5,000.

He was retrenched by his previous employer M/s B Ltd. after continuous service of 20 year. He received a compensation of ₹ 15 Lakhs. His Basic Salary and Dearness Allowance at the time of retrenchment was ₹ 25,000 p.m. and ₹ 18,000 p.m. respectively.

Compute the amount taxable under the head salary for the Assessment Year 2026-27. Assume that he has not opted for 115BAC. (MTP 10 Marks, Aug'18)

- Q7. Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year. He submits the following information:
- Salary received outside India (For 6 months) ₹ 50,000 P.M Salary received in India (For 6 months) ₹ 50,000 P.M.
- He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period, he is given free lunch facility.
- During the previous year, company incurred an expenditure of ₹ 48,000 on this facility.
- He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.
- The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2026-27. Assume that he does not opt for 115BAC. (PYP 10 Marks, May'18)

- Q8. Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2026 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:
- (i) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
  - (ii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
  - (iii) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organized by the HR department a day before his retirement.
- He drew a basic salary of ₹ 25,000 per month along with 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2025 to 31st March, 2026.
- Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2024 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer. You are required to compute the taxable salary of Mr. Rohan for A.Y.2026-27 assuming that he does not opt to pay tax under section 115BAC. (PYP 7 Marks May '23)

**Solution 1:**

|                                           |            |
|-------------------------------------------|------------|
| HRA received                              | ₹ 1,80,000 |
| Less: Exempt under section 10(13A) [Note] | ₹ 1,36,800 |
| Taxable HRA                               | ₹ 43,200   |

Note: Exemption shall be least of the following three limits:

|                                                                                                                                                                                                                                             |              |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| (a) the actual amount received ( $₹ 15,000 \times 12$ )                                                                                                                                                                                     | = ₹ 1,80,000 |
| (b) excess of the actual rent paid by the assessee over 10% of his salary<br>= Rent Paid (-) 10% of salary for the relevant period<br>= ( $₹ 16,000 \times 12$ ) (-) 10% of [ $(₹ 40,000 + ₹ 6,000) \times 12$ ]<br>= ₹ 1,92,000 - ₹ 55,200 | = ₹ 1,36,800 |
| (c) 40% salary as his accommodation is situated at Kanpur<br>= 40% of [ $(₹ 40,000 + ₹ 6,000) \times 12$ ]                                                                                                                                  | = ₹ 2,20,800 |

Note: For the purpose of exemption under section 10(13A), salary includes dearness allowance only when the terms of employment so provide, but excludes all other allowances and perquisites.

**Solution 2:**

Computation of taxable value of perquisite in the hands of Mr. G

| Particulars                                                                                                         | ₹                          | ₹      |
|---------------------------------------------------------------------------------------------------------------------|----------------------------|--------|
| Treatment of Mrs. G in a Government hospital                                                                        |                            | -      |
| Treatment of Mr. G's father (75 years and dependent) abroad Expenses of staying abroad of the patient and attendant | 50,000<br>30,000<br>80,000 |        |
| Less: Exempt up to limit specified by RBI                                                                           | 75,000                     | 5,000  |
| Medical premium paid for insuring health of Mr. G                                                                   |                            | -      |
| Treatment of Mr. G by his family doctor                                                                             |                            | 5,000  |
| Treatment of Mr. G's mother (dependent) by family doctor                                                            |                            | 8,000  |
| Treatment of Mr. G's sister (dependent) in a nursing home                                                           |                            | 3,000  |
| Treatment of Mr. G's grandfather in a private clinic                                                                |                            | 12,000 |
| Treatment of Mr. G's brother (independent)                                                                          |                            | 6,000  |
| Taxable value of perquisite                                                                                         |                            | 39,000 |

Payment of premium on personal accident insurance policies

If an employer takes personal accident insurance policies on the life of employees and pays the insurance premium, no immediate benefit would become payable and benefit will accrue at a future date only if certain events take place.

Moreover, the employers would be taking such policy in their business interest only, so as to indemnify themselves from payment of any compensation. Therefore, the premium so paid will not constitute a taxable perquisite in the employees' hands.

**Solution 3:**

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, 2025     | 5,88,000                                                 | 1,960                                    |
| May, 2025       | 5,76,000                                                 | 1,920                                    |
| June, 2025      | 5,64,000                                                 | 1,880                                    |
| July, 2025      | 5,52,000                                                 | 1,840                                    |
| August, 2025    | 5,40,000                                                 | 1,800                                    |
| September, 2025 | 5,28,000                                                 | 1,760                                    |
| October, 2025   | 5,16,000                                                 | 1,720                                    |
| November, 2025  | 5,04,000                                                 | 1,680                                    |
| December, 2025  | 4,92,000                                                 | 1,640                                    |

|                                |          |        |
|--------------------------------|----------|--------|
| January, 2026                  | 4,80,000 | 1,600  |
| February, 2026                 | 4,68,000 | 1,560  |
| March, 2026                    | 4,56,000 | 1,520  |
| Total 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].

#### Solution 4:

##### Computation of income from salary for AY 2026-27

| 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   |
| Taxable Salary                                                                                                 | 9,67,500  |

#### Notes:

- Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
- As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2024, 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. He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- 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.

#### Solution 5:

#### Computation of income under the head “Salaries” of Mr. Raja for the A.Y.2026-27 under default tax regime

| Particulars                                                                                                                                                                                                                                                                                                                     | ₹        | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Basic Salary = ₹ 25,000 × 9 months                                                                                                                                                                                                                                                                                              |          | 2,25,000 |
| House Rent Allowance = ₹ 6,000 × 9 months [Fully taxable under default tax regime]                                                                                                                                                                                                                                              |          | 54,000   |
| Gratuity                                                                                                                                                                                                                                                                                                                        | 3,50,000 |          |
| Less: Least of the following exempt under section 10(10)(ii)                                                                                                                                                                                                                                                                    | 3,50,000 | Nil      |
| (i) Actual Gratuity received ₹ 3,50,000                                                                                                                                                                                                                                                                                         |          |          |
| (ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$                                                                                                                                                                                                                        |          |          |
| (iii) Notified limit = ₹ 20,00,000                                                                                                                                                                                                                                                                                              |          |          |
| Leave encashment                                                                                                                                                                                                                                                                                                                | 3,15,000 |          |
| Less: Least of the following exempt under section 10(10AA)                                                                                                                                                                                                                                                                      | 2,50,000 | 65,000   |
| (i) ₹ 25,00,000                                                                                                                                                                                                                                                                                                                 |          |          |
| (ii) Leave salary actually received ₹ 3,15,000                                                                                                                                                                                                                                                                                  |          |          |
| (iii) ₹ 2,50,000, being 10 months' salary × ₹ 25,000                                                                                                                                                                                                                                                                            |          |          |
| (iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired                                                                             |          |          |
| $375/30 \times ₹ 25,000 = ₹ 3,12,500$                                                                                                                                                                                                                                                                                           |          |          |
| [Leave Due = Leave allowed – Leave taken]                                                                                                                                                                                                                                                                                       |          |          |
| $= 750 (30 \text{ days per year} \times 25 \text{ years}) - 375 \text{ days } (15 \text{ days} \times 25)$                                                                                                                                                                                                                      |          |          |
| $= 375 \text{ days}$                                                                                                                                                                                                                                                                                                            |          |          |
| Uncommuted Pension received $[(₹ 5,000 \times 1) + (₹ 5,000 \times 2 \times 40\%)]$                                                                                                                                                                                                                                             |          | 9,000    |
| Commuted Pension received                                                                                                                                                                                                                                                                                                       | 3,00,000 |          |
| Less: Exempt under section 10(10A)                                                                                                                                                                                                                                                                                              |          |          |
| $1/3 \times ₹ 3,00,000/60\% \times 100\%$                                                                                                                                                                                                                                                                                       | 1,66,667 | 1,33,333 |
| Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]                                                                                                     |          | Nil      |
| Mobile Phone received as gift from colleagues (Neither taxable under the head “Salaries” nor “Income from other sources”, since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of “property” thereunder) |          | Nil      |
| Gross Salary                                                                                                                                                                                                                                                                                                                    |          | 4,86,333 |
| Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less] [Allowable under default tax regime]                                                                                                                                                                                                             |          | 75,000   |
| Net Salary                                                                                                                                                                                                                                                                                                                      |          | 4,11,333 |

**Solution 6:**

Computation of Income taxable under the head “Salaries” for the A.Y. 2026-27

| Particulars                                                                                                                                                                                    | ₹         | ₹         | ₹         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Basic Salary (₹ 20,000 × 12)                                                                                                                                                                   |           |           | 2,40,000  |
| Dearness Allowance (₹ 15,000 × 12)                                                                                                                                                             |           |           | 1,80,000  |
| House Rent Allowance Received                                                                                                                                                                  |           | 2,40,000  |           |
| Less: Exempt under section 10(13A)                                                                                                                                                             |           | 2,10,000  | 30,000    |
| Least of the following would be exempt                                                                                                                                                         |           |           |           |
| House Rent Allowance Received                                                                                                                                                                  | 2,40,000  |           |           |
| Rent paid (-) 10% of salary [(₹ 25,000 × 12) – 10% × 4,20,000]                                                                                                                                 | 2,58,000  |           |           |
| 50% of salary, since place of residence is Chennai (50% × 4,20,000)                                                                                                                            | 2,10,000  |           |           |
| Telephone bills paid by A Ltd. for the telephone installed at his Residence [Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite] |           |           | -         |
| Annual premium paid by A. Ltd. for towards personal accident policy on his life                                                                                                                |           |           | -         |
| Motor car owned and driven by employee, running and maintenance charges borne by the employer [₹ 30,600 – ₹ 21,600 (i.e., ₹ 1,800 × 12)]                                                       |           |           | 9,000     |
| Retrenchment compensation received                                                                                                                                                             |           | 15,00,000 |           |
| Less : Exempt u/s 10(10B)                                                                                                                                                                      |           | 4,96,154  | 10,03,846 |
| Least of the following would be exempt                                                                                                                                                         |           |           |           |
| Compensation actually received                                                                                                                                                                 | 15,00,000 |           |           |
| Monetary Limit                                                                                                                                                                                 | 5,00,000  |           |           |
| Amount calculated as per section 25F of Industrial Disputes Act {15/26 × [(25,000 + 18,000) × 3]/3 × 20}                                                                                       | 4,96,154  |           |           |
| Salary income chargeable to tax                                                                                                                                                                |           |           | 14,62,846 |
| Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower)                                                                                                                       |           |           | 50,000    |
| Net Salary Income                                                                                                                                                                              |           |           | 14,12,846 |

**Solution 7:**

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2026-27

| Particulars                                                                                                                 | ₹        | ₹        |
|-----------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Basic Salary                                                                                                                |          |          |
| Salary received outside India for 6 months (₹ 50,000 × 6)                                                                   | 3,00,000 |          |
| Salary received in India for 6 months (₹ 50,000 × 6)                                                                        | 3,00,000 | 6,00,000 |
| Children Education and Hostel Allowance                                                                                     |          |          |
| Amount received from employer (₹ 3,000 × 12)                                                                                | 36,000   |          |
| [No exemption is available in respect of allowance received for any education or hostel facility of children outside India] | Nil      | 36,000   |

|                                                                                                                                                                                                                                                        |        |          |          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|----------|----------|
| Perquisites:                                                                                                                                                                                                                                           |        |          |          |
| Value of rent-free accommodation in USA                                                                                                                                                                                                                |        |          | 63,600   |
| Lower of:                                                                                                                                                                                                                                              |        |          |          |
| - 15% 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance)<br>(As per amendment it is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee) |        | 63,600   |          |
| - Rent paid by employer = ₹ 15,000 x 12                                                                                                                                                                                                                |        | 1,80,000 |          |
| Value of guest house in India                                                                                                                                                                                                                          |        |          | -        |
| [not taxable, since it is provided for stay when he visits India wholly for official purposes]                                                                                                                                                         |        |          |          |
| Lunch facility provided by employer [Taxable perquisite, since the value exceeds ₹ 50 per meal] [See Note 1 below]                                                                                                                                     |        |          | 48,000   |
| Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]                                                                                                                                                                                 |        |          | 84,400   |
| Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 liters, assuming that expenses are fully met by employer                            |        | 14,400   |          |
| Used for personal purposes by his family members for 6 months when he is in India                                                                                                                                                                      |        |          |          |
| Actual running and maintenance expenditure [₹ 5,000 x 6]                                                                                                                                                                                               | 30,000 |          |          |
| Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12                                                                                                                                                          | 40,000 | 70,000   |          |
| Education expenditure of elder son in India met by employer [Fully taxable perquisite]                                                                                                                                                                 |        |          | 12,000   |
| Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite                                                                                               |        |          | 10,000   |
| Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.                                                          |        |          | -        |
| Gross Salary                                                                                                                                                                                                                                           |        |          | 8,85,800 |
| Less: Deductions under section 16                                                                                                                                                                                                                      |        |          | Nil      |
| Standard deduction (lower of actual salary or ₹ 50,000) (as per amendment)                                                                                                                                                                             |        |          | (50,000) |
| Taxable Salary                                                                                                                                                                                                                                         |        |          | 8,35,800 |

#### Notes:

- (1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly. However, in CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been



explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility. 3 It is assumed that the same is fully met by the employer

- (2) In the above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows:

| Particulars                                                                                                                                                    | ₹      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Motor car provided by employer [₹5,400 + ₹40,000]                                                                                                              |        |
| Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹900 p.m., since cubic capacity exceeds 1.6 liters, | 5,400  |
| Used for personal purposes by his family members for 6 months when he is in India                                                                              |        |
| Normal wear and tear [10% of actual cost of motor car for 6 months]<br>= ₹ 8,00,000 × 10% × 6/12                                                               | 40,000 |
|                                                                                                                                                                | 45,400 |

In this case, the taxable salary would be ₹8,46,800.

#### Solution 8:

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

|           | ₹        | Particulars                                                                                                                                                  |
|-----------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
|           | 3,00,000 | Basic Salary ₹ 25,000 × 12                                                                                                                                   |
|           | 1,50,000 | Dearness Allowance (50% of basic salary)                                                                                                                     |
|           | 1,44,231 | Gratuity [₹ 7,50,000 – ₹ 6,05,769]                                                                                                                           |
| ₹         |          | Less: Exempt under section 10(10) - Least of the following:                                                                                                  |
| 20,00,000 |          | (i) Notified limit                                                                                                                                           |
| 7,50,000  |          | (ii) Actual gratuity received                                                                                                                                |
| 6,05,769  |          | (iii) 15/26 × last drawn salary × no. of completed years of services or part in excess of 6 months [15/26 × 37,5004 × 28]                                    |
|           | 1,50,000 | Leave encashment [₹ 3,25,000 – ₹ 1,75,000]                                                                                                                   |
|           |          | Less: Exempt under section 10(10AA) - Least of the following:                                                                                                |
| 3,00,000  |          | (iv) Notified limit                                                                                                                                          |
| 3,25,000  |          | (v) Actual leave salary received                                                                                                                             |
| 2,50,000  |          | (vi) 10 months × ₹ 25,000                                                                                                                                    |
| 1,75,000  |          | (vii) Cash equivalent of leave to his credit [₹ 25,000 × 210/30]                                                                                             |
|           |          | - Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]                                                                               |
|           |          | Perquisite value of car [Driver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000 × 12) + ₹ 80,000 (10% of ₹ 8,00,000), being normal wear and tear on car] |
|           | 2,00,000 | Gross Salary                                                                                                                                                 |
|           | 9,44,231 |                                                                                                                                                              |
|           | 50,000   | Less: Standard deduction u/s 16(ia)                                                                                                                          |
|           | 8,94,231 | Taxable Salary                                                                                                                                               |



## CLASSWORK

- Q1. Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the previous year. Unrealised rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for A.Y.2026-27.

Ans. Computation of Income from house property of Mr. Anirudh for A.Y.2026-27

| 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.,<br>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 = ₹<br>1,32,000 - ₹ 11,000              | 1,21,000    |          |
| Step 3 Compare ER of ₹ 1,20,000 and Actual rent received/receivable of ₹<br>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)<br>= 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   |

- Q2. Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2026. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y.2026-27.

Ans. Computation of income from house property of Ganesh for A.Y.2026-27

| Particulars                                                                                                                                                         | Amount in ₹ |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|--|
| Computation of GAV                                                                                                                                                  |             |  |
| Step 1 Compute ER                                                                                                                                                   |             |  |
| Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but<br>restricted to SR of ₹ 2,10,000 p.a.                                                                 | 2,10,000    |  |
| Step 2 Compute Actual rent received/receivable Actual rent received/<br>receivable for let out period less unrealized rent as per Rule 4 =<br>₹ 2,00,000 - ₹ 20,000 | 1,80,000    |  |

|                                                                                                                                                                                                                                                                                                    |          |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Step 3 Compare ER & 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 2023). 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 | 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   |

- Q3. Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2025. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2025 could not be 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. 2026-27.

Ans. Computation of income from house property of Smt. Rajalakshmi for A.Y.2026-27

| 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 × 9) - (₹ 50,000 × 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 |

Q4. Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2025-26 are as under:

| Particulars                                                                         | House I (₹) | House II (₹) | House III (₹) |
|-------------------------------------------------------------------------------------|-------------|--------------|---------------|
| Municipal valuation p.a.                                                            | ₹ 3,00,000  | ₹ 3,60,000   | ₹ 3,30,000    |
| Fair rent p.a.                                                                      | ₹ 3,75,000  | ₹ 2,75,000   | ₹ 3,80,000    |
| Standard rent p.a.                                                                  | ₹ 3,50,000  | ₹ 3,70,000   | ₹ 3,75,000    |
| Date of completion/purchase                                                         | 31.3.2000   | 31.3.2002    | 01.4.2016     |
| Municipal taxes paid during the year                                                | 12%         | 8%           | 6%            |
| Interest on money borrowed for repair of property during the year                   | -           | ₹ 55,000     |               |
| Interest for current year on money borrowed in April, 2018 for purchase of property |             |              | ₹ 1,75,000    |

Compute Ganesh's income from house property for A.Y.2026-27 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

Ans. 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. 2026-27

| Particulars                                                        | Amount in ₹ |          |           |
|--------------------------------------------------------------------|-------------|----------|-----------|
|                                                                    | House I     | House II | House III |
| Gross Annual Value (GAV)                                           |             |          |           |
| ER is the GAV of house property                                    |             |          |           |
| ER = Higher of MV and FR, but restricted to SR                     | 3,50,000    | 3,60,000 | 3,75,000  |
| Less: Municipal taxes (paid by the owner during the previous year) | 36,000      | 28,800   | 19,800    |
| Net Annual Value (NAV)                                             | 3,14,000    | 3,31,200 | 3,55,200  |
| Less: Deductions under section 24                                  |             |          |           |
| (a) 30% of NAV                                                     | 94,200      | 99,360   | 1,06,560  |
| (b) Interest on borrowed capital                                   | -           | 55,000   | 1,75,000  |
| Income from house property                                         | 2,19,800    | 1,76,840 | 73,640    |

Ganesh can opt to treat any two of the above house properties as self-occupied.

Under default tax regime under section 115BAC

OPTION 1 (House I and II- self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

| Particulars                                      | Amount ₹ |
|--------------------------------------------------|----------|
| House I (Self-occupied)                          | Nil      |
| House II (Self-occupied) (No interest deduction) | Nil      |
| House III (Deemed to be let-out)                 | 73,640   |
| Income from house property                       | 73,640   |

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from house property shall be –

| Particulars                                       | Amount in ₹ |
|---------------------------------------------------|-------------|
| House I (Self-occupied)                           | Nil         |
| House II (Deemed to be let-out)                   | 1,76,840    |
| House III (Self-occupied) (No interest deduction) | Nil         |
| Income from house property                        | 1,76,840    |

OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

| Particulars                                       | Amount in ₹ |
|---------------------------------------------------|-------------|
| House I (Deemed to be let-out)                    | 2,19,800    |
| House II (Self-occupied) (No interest deduction)  | -           |
| House III (Self-occupied) (No interest deduction) | -           |
| Income from house property                        | 2,19,800    |

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the A.Y. 2026-27 under default tax regime under section 115BAC.

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

OPTION 1 (House I and II– self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be –

| Particulars                                                          | Amount ₹ |
|----------------------------------------------------------------------|----------|
| 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 ₹   |
|---------------------------------|------------|
| House I (Self-occupied)         | Nil        |
| House II (Deemed to be let-out) | 1,76,840   |
| House III (Self-occupied)       | (1,75,000) |
| Income from house property      | 1,840      |

OPTION 3 (House II and III –self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from house property shall be –

| Particulars                                                          |            | Amount in ₹ |
|----------------------------------------------------------------------|------------|-------------|
| House I (Deemed to be let-out)                                       |            | 2,19,800    |
| House II (Self-occupied) (Interest deduction restricted to ₹ 30,000) | (30,000)   |             |
| House III (Self-occupied) (No interest deduction)                    | (1,75,000) |             |
| (Total interest deduction restricted to ₹ 2,00,000)                  |            | (2,00,000)  |
| Income from house property                                           |            | 19,800      |

Since Option 2 is most beneficial in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be ₹ 1,840 for the A.Y. 2026-27 under the optional tax regime i.e., the normal provisions of the Act.

- Q5. Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year. The construction of the house began in June, 2018 and was completed on 31-5-2021. Vikas took a loan of ₹ 1,00,000 on 1-7-2018 for the construction of building. He paid interest on loan @ 12% per annum



and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Ans.** Computation of income from house property of Mr. Vikas for the A.Y. 2026-27

| Particulars                                                                                                                                                                  | ₹        | ₹        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Income from house property                                                                                                                                                   |          |          |
| I. Self-occupied portion (Two third)                                                                                                                                         |          |          |
| Net Annual value                                                                                                                                                             |          | Nil      |
| Less: Deduction under section 24(b)                                                                                                                                          |          |          |
| Interest on loan (See Note below) (₹ 18,600 × 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)] |          | 12,400   |
| Loss from self occupied property                                                                                                                                             |          | (12,400) |
| II. Let-out portion (One third)                                                                                                                                              |          |          |
| Gross Annual Value                                                                                                                                                           |          |          |
| (a) Actual rent received (₹ 5,000 × 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 × 1/3                      |          |          |
| Higher of (a) or (b)                                                                                                                                                         | 60,000   |          |
| Less: Municipal taxes                                                                                                                                                        | 3,520    |          |
| (₹ 96,000 × 11% × 1/3)                                                                                                                                                       |          |          |
| 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 × 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.

**Q6.** 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. 2026-27.

Ans.

## Computation of Income from House property

| Particulars                                                      | Amount in ₹ |          |
|------------------------------------------------------------------|-------------|----------|
| 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                            | 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 × 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.

Q7. Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2017-2018. The property consists of eight identical units and is situated at Cochin.

During the financial year 2025-26, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

|                                                                | ₹        |
|----------------------------------------------------------------|----------|
| (i) Repairs                                                    | 40,000   |
| (ii) Insurance premium (paid)                                  | 15,000   |
| (iii) Interest payable on loan taken for construction of house | 3,00,000 |





One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2025-26.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2026-27 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. (i) If Arun and Bimal pay tax under the default tax regime under section 115BAC

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

| Particulars                                        | Arun (₹) | Bimal(₹) |
|----------------------------------------------------|----------|----------|
| Income from house property                         |          |          |
| I. Self-occupied portion (25%)                     |          |          |
| Annual value                                       | Nil      | Nil      |
| Less: Deduction under section 24(b)                | Nil      | Nil      |
| Loss from self occupied property                   | Nil      | Nil      |
| II. Let-out portion (75%) – See Working Note below | 1,25,850 | 1,25,850 |
| Income from house property                         | 1,25,850 | 1,25,850 |
| Other Income                                       | 2,90,000 | 1,80,000 |
| Total Income                                       | 4,15,850 | 3,05,850 |

Working Note – Computation of Income from Let-Out Portion of House Property

| Particulars                                                | ₹        | ₹        |
|------------------------------------------------------------|----------|----------|
| Let-out portion (75%)                                      |          |          |
| Gross Annual Value                                         |          |          |
| (a) Municipal value (75% of ₹ 9 lakh)                      | 6,75,000 |          |
| (b) Actual rent [(₹ 12000 × 6 × 12) – (₹ 12,000 × 1 × 4)]  | 8,16,000 |          |
| = ₹ 8,64,000 – ₹ 48,000                                    |          |          |
| - whichever is higher                                      |          | 8,16,000 |
| Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)  |          | 1,35,000 |
| Net Annual Value (NAV)                                     |          | 6,81,000 |
| Less: Deduction under section 24                           |          |          |
| (a) 30% of NAV                                             | 2,04,300 |          |
| (b) Interest on loan taken for the house [75% of ₹ 3 lakh] | 2,25,000 | 4,29,300 |
| Income from let-out portion of house property              |          | 2,51,700 |
| Share of each co-owner (50%)                               |          | 1,25,850 |

- (ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

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

| Particulars                                                                                                                                                                                             | ₹        | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Income from house property                                                                                                                                                                              |          |          |
| I. Self-occupied portion (25%)                                                                                                                                                                          |          |          |
| Annual value                                                                                                                                                                                            | Nil      | Nil      |
| Less: Deduction under section 24(b)                                                                                                                                                                     |          |          |
| Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)] | 37,500   | 37,500   |
| Loss from self occupied property                                                                                                                                                                        | (37,500) | (37,500) |
| II. Let-out portion (75%) – See Working Note above                                                                                                                                                      | 1,25,850 | 1,25,850 |
| Income from house property                                                                                                                                                                              | 88,350   | 88,350   |
| Other Income                                                                                                                                                                                            | 2,90,000 | 1,80,000 |
| Total Income                                                                                                                                                                                            | 3,78,350 | 2,68,350 |

- Q8. Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built up area of each house was 1,500 sq. ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2024 and completed on 1-04-2025. Suresh started the construction on 1-04-2024 and completed the construction on 30-06-2025. Ramesh occupied the entire house on 01-04-2025. Suresh occupied the ground floor on 01-07-2025 and let out the first floor for a rent of ₹ 15,000 per month. However, the tenant vacated the house on 31-12-2025 and Suresh occupied the entire house during the period 01-01-2026 to 31-03-2026.

Following are the other information.

|       |                                                            |                     |
|-------|------------------------------------------------------------|---------------------|
| (i)   | Fair rental value of each unit (ground floor /first floor) | ₹1,00,000 per annum |
| (ii)  | Municipal value of each unit (ground floor / first floor)  | ₹ 72,000 per annum  |
| (iii) | Municipal taxes paid by                                    | Ramesh – ₹ 8,000    |
|       |                                                            | Suresh – ₹ 8,000    |
| (iv)  | Repair and maintenance charges paid by                     | Ramesh – ₹ 28,000   |
|       |                                                            | Suresh – ₹ 30,000   |

Ramesh has availed a housing loan of ₹ 20 lakhs @ 12% p.a. on 01-04-2024. Suresh has availed a housing loan of ₹ 12 lakhs @ 10% p.a. on 01-07-2024. No repayment was made by either of them till 31-03-2026. Compute income from house property for Ramesh and Suresh for the previous year 2025-26 (A.Y. 2026-27). (Both Mr. Ramesh and Mr. Suresh has opted out of section 115BAC).

(MTP 7 Marks April '23 , March'21, Apr'19)

- Ans. Computation of income from house property of Mr. Ramesh for A.Y. 2026-27

| Particulars                                                              | ₹        | ₹          |
|--------------------------------------------------------------------------|----------|------------|
| Annual value is nil (since house is self-occupied)                       |          | Nil        |
| Less: Deduction under section 24(b)                                      |          |            |
| Interest paid on borrowed capital ₹ 20,00,000 @ 12%                      | 2,40,000 |            |
| Pre-construction interest ₹ 2,40,000/5                                   | 48,000   |            |
| As per second proviso to section 24(b), interest deduction restricted to | 2,88,000 | 2,00,000   |
| Loss under the head "Income from house property" of Mr. Ramesh           |          | (2,00,000) |

Computation of income from house property of Mr. Suresh for A.Y. 2026-27

| Particulars                                                                                        | Ground floor<br>(Self occupied) | First floor |
|----------------------------------------------------------------------------------------------------|---------------------------------|-------------|
| Gross annual value (See Note below)                                                                | Nil                             | 90,000      |
| Less: Municipal taxes (for first floor)                                                            |                                 | 4,000       |
| Net annual value(A)                                                                                | Nil                             | 86,000      |
| Less: Deduction under section 24                                                                   |                                 |             |
| (a) 30% of net annual value                                                                        |                                 | 25,800      |
| (b) interest on borrowed capital                                                                   |                                 |             |
| Current year interest                                                                              |                                 |             |
| ₹ 12,00,000 × 10% = ₹ 1,20,000                                                                     | 60,000                          | 60,000      |
| Pre-construction interest                                                                          |                                 |             |
| ₹ 12,00,000 × 10% × 9/12 = ₹ 90,000                                                                |                                 |             |
| ₹ 90,000 allowed in 5 equal installments                                                           | 9,000                           | 9,000       |
| ₹ 90000/5 = ₹ 18,000 per annum                                                                     |                                 |             |
| Total deduction under section 24(b)                                                                | 69,000                          | 94,800      |
| Income from house property (A)-(B)                                                                 | (69,000)                        | (8,800)     |
| Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor) | (77,800)                        |             |

Note: Computation of Gross Annual Value (GAV) of first floor of Suresh's house

If a single unit of property (in this case the first floor of Suresh's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2024.

Expected rent = ₹ 75,000 being higher of -

Fair rent =  $1,00,000 \times 9 / 12 = ₹ 75,000$  Municipal value =  $72,000 \times 9/12 = ₹ 54,000$

Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2025) Gross

Annual Value = ₹ 90,000 (being higher of Expected Rent of ₹ 75,000 and actual rent of ₹ 90,000)

Q9. Mr. Varun is a resident but not ordinarily resident in India during the Assessment Year 2026-27. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2025-26:

- He owns two houses, one in ~~Australia~~ **Singapore** and the other in Delhi.
- The house in ~~Australia~~ **Singapore** is let out there at a rent of SGD 3,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1000 and Sewerage Tax SGD 500 there. (1SGD=INR 55)
- The house in Delhi is self-occupied. He had taken a loan of ₹ 20,00,000 to construct the house on 1st June, 2020 @12%. The construction was completed on 31st May, 2023 and he occupied the house on 1st June, 2023.

The entire loan is outstanding as on 31st March, 2026. Property tax paid in respect of the second house is ₹ 2,500.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Varun for the Assessment Year 2026-27. (Mr. Varun is opted out of section 115BAC)

(MTP 4 Marks Sep'22, RTP May 20)

Ans. Computation of income from house property of Mr. Varun for A.Y. 2026-27

| Particulars                                                                                         | ₹        | ₹          |
|-----------------------------------------------------------------------------------------------------|----------|------------|
| 1. Income from let-out property in Australia [See Note 1 below]                                     |          | 19,80,000  |
| 1Gross Annual Value (SGD 3,000 p.m. x 12 months x ₹ 55)                                             |          |            |
| Less: Municipal taxes paid during the year [SGD 1,500 (SGD 1,000 + SGD 500) x ₹ 55] <sup>2</sup>    |          | 82,500     |
| Net Annual Value (NAV)                                                                              |          | 18,97,500  |
| Less: Deductions under section 24                                                                   |          |            |
| (a) 30% of NAV                                                                                      | 5,69,250 |            |
| (b) Interest on housing loan                                                                        | -        | 5,69,250   |
|                                                                                                     |          | 13,28,250  |
| 1. Income from self-occupied property in Delhi                                                      |          |            |
| Annual Value [Nil, since the property is self-occupied]                                             |          | Nil        |
| [No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property] |          | Nil        |
| Less: Deduction in respect of interest on housing loan [See Note 2below]                            |          | 2,00,000   |
|                                                                                                     |          | (2,00,000) |
| Income from house property [₹ 13,28,250 – ₹ 2,00,000]                                               |          | 11,28,250  |

Notes:

(1) Since Mr. Varun is a resident but not ordinarily resident in India for A.Y. 2026-27, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in Australia would be taxable in India since such income is received by him in India.

(2) Interest on housing loan for construction of self-occupied property allowable as deduction under section 24.

Interest for the current year (₹ 20,00,000 x 12%) ₹ 2,40,000

Pre-construction interest

For the period 01.06.2020 to 31.03.2023 (₹ 20,00,000 x 12% x 34/12) = ₹ 6,80,000

₹ 6,80,000 allowed in 5 equal installments (₹ 6,80,000/5) ₹ 1,36,000

₹ 3,76,000

In case of self-occupied property, interest deduction to be restricted to ₹ 2,00,000

<sup>1</sup> In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV

<sup>2</sup> Both property tax and sewerage tax qualify for deduction from gross annual value

Q10. Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2025-26. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2025, which is used for self- occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2025-26. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2023 for purchasing this flat. No amount is repaid by him till 31.03.2026.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a.



He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2025-26. Compute the income chargeable from house property of Mr. Roxx for the assessment year 2026-27. Assuming Mr. Roxx opting out of Section 115 BAC (RTP May '21, MTP 6 Marks Oct '23)

Ans. Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands. Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx. Accordingly, the income from house property of Mr. Roxx for A.Y.2026-27 will be calculated as under:

|    | Particulars                                                                                                                         | ₹        | ₹          |
|----|-------------------------------------------------------------------------------------------------------------------------------------|----------|------------|
| 1. | Self-occupied house at Delhi                                                                                                        |          |            |
|    | Annual value                                                                                                                        |          | Nil        |
|    | Less: Deduction under section 24                                                                                                    | Nil      |            |
|    | Interest on borrowed capital (See Note below)                                                                                       |          | 2,00,000   |
|    | Chargeable income from this house property                                                                                          |          | (2,00,000) |
| 2. | Let out house property at Bangalore                                                                                                 |          |            |
|    | Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000 | 4,20,000 |            |
|    | Actual rent [40,000 × 12]                                                                                                           | 4,80,000 |            |
|    | Gross Annual Value, being higher of expected rent and actual rent                                                                   |          | 4,80,000   |
|    | Less: Municipal taxes                                                                                                               |          | 5,400      |
|    | Net Annual Value                                                                                                                    |          | 4,74,600   |
|    | Less: Deduction under section 24                                                                                                    |          |            |
|    | - 30% of net annual value [30% × 4,74,600]                                                                                          | 1,42,380 |            |
|    | - Interest on borrowed capital (actual allowable as deduction without any ceiling limit)                                            | 2,50,000 | 3,92,380   |
|    |                                                                                                                                     |          | 82,220     |
|    | Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)                                                            |          | (1,17,780) |

Note: Interest on borrowed capital

| Particulars                                                  |          | ₹        |
|--------------------------------------------------------------|----------|----------|
| Interest for the current year [18,00,000 × 9.5%]             |          | 1,71,000 |
| Add: 1/5th of pre-construction interest (₹ 2,85,000 × 1/5)   |          | 57,000   |
| 1.8.2023 to 31.03.2024- (₹ 18,00,000 × 9.5% × 8/12)          | 1,14,000 |          |
| 1.4.2024 to 31.03.2025 - (₹ 18,00,000 × 9.5%)                | 1,71,000 |          |
|                                                              |          | 2,28,000 |
| Interest deduction allowable under section 24, restricted to |          | 2,00,000 |

Q11. Mr. Roy owns a house in Kolkata. During the previous year 2025-26, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2026. The property was vacant during March, 2026. Rent for the months of January 2026 and February 2026 could not be realized in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2018 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2026-27. Assuming

Mr. Roy opting out from section 115BAC. (RTP Nov'22)

Ans. There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self- occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let -out during the previous year and its annual value has to be determined as per section 23(1).

Computation of Income from house property of Mr. Roy for the A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                                                            |          | ₹          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------|
| Unit I (3/4th area – self-occupied)                                                                                                                                                                                                                                                                    |          |            |
| Annual Value                                                                                                                                                                                                                                                                                           |          | Nil        |
| Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000                                                                                                                                                                                                                                                |          | 1,13,250   |
| Income from Unit I (self-occupied)                                                                                                                                                                                                                                                                     |          | (1,13,250) |
| Unit II (1/4th area – let out)                                                                                                                                                                                                                                                                         |          |            |
| Computation of GAV                                                                                                                                                                                                                                                                                     |          |            |
| Step 1 – Computation of Expected Rent (ER)                                                                                                                                                                                                                                                             |          |            |
| ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).                                                                                                                                                                                                          | 1,17,500 |            |
| However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.                                     |          |            |
| Step 2 – Computation of actual rent received/ receivable                                                                                                                                                                                                                                               | 1,08,000 |            |
| ₹ 12,000 × 9 = 1,08,000                                                                                                                                                                                                                                                                                |          |            |
| [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2026 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]                           |          |            |
| Step 3 – Computation of GAV                                                                                                                                                                                                                                                                            |          |            |
| The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2026, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV. | 1,08,000 |            |
| Gross Annual Value (GAV)                                                                                                                                                                                                                                                                               |          |            |
| Less: Municipal taxes paid by the owner during the previous year relating to let-out portion                                                                                                                                                                                                           |          | 1,08,000   |
| 1/4th of (10% of ₹ 4,50,000) = ₹ 45,000/4 = ₹ 11,250                                                                                                                                                                                                                                                   | 29,025   | 11,250     |
| Net Annual Value (NAV)                                                                                                                                                                                                                                                                                 |          | 96,750     |
| Less: Deductions under section 24                                                                                                                                                                                                                                                                      |          |            |
| (a) 30% of NAV = 30% of ₹ 96,750                                                                                                                                                                                                                                                                       |          |            |
| (b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]                                                                                                                                                                                                              | 37,750   | 66,775     |
| Income from Unit II (let-out)                                                                                                                                                                                                                                                                          |          | 29,975     |
| Loss under the head “Income from house property” (-1,13,250 + 29,975)                                                                                                                                                                                                                                  |          | -83,275    |

## HOMEWORK

- Q1. Jayashree owns five houses in India, all of which are let-out. Compute the IFHP of each house from the information given below –

| Particulars                      | House I (₹) | House II (₹) | House III (₹) | House IV (₹) | House V (₹) |
|----------------------------------|-------------|--------------|---------------|--------------|-------------|
| Municipal Value                  | 80,000      | 55,000       | 65,000        | 24,000       | 80,000      |
| Fair Rent                        | 90,000      | 60,000       | 65,000        | 25,000       | 75,000      |
| Standard Rent                    | N.A.        | 75,000       | 58,000        | N.A.         | 78,000      |
| Actual rent received/ receivable | 72,000      | 72,000       | 60,000        | 30,000       | 72,000      |

- Ans. Computation of IFHP of each house owned by Jayashree

|       | Particulars                           | House I (₹) | House II (₹) | House III (₹) | House IV (₹) | House V (₹) |
|-------|---------------------------------------|-------------|--------------|---------------|--------------|-------------|
| (i)   | Municipal value                       | 80,000      | 55,000       | 65,000        | 24,000       | 80,000      |
| (ii)  | Fair rent                             | 90,000      | 60,000       | 65,000        | 25,000       | 75,000      |
| (iii) | Higher of (i) & (ii)                  | 90,000      | 60,000       | 65,000        | 25,000       | 80,000      |
| (iv)  | Standard rent                         | N.A.        | 75,000       | 58,000        | N.A.         | 78,000      |
| (v)   | Expected rent [Lower of (iii) & (iv)] | 90,000      | 60,000       | 58,000        | 25,000       | 78,000      |
| (vi)  | Actual rent received/receivable       | 72,000      | 72,000       | 60,000        | 30,000       | 72,000      |
|       | GAV [Higher of (v) & (vi)]            | 90,000      | 72,000       | 60,000        | 30,000       | 78,000      |
| Less: | Municipal Tax                         | -           | -            | -             | -            | -           |
|       | NAV                                   | 90,000      | 72,000       | 60,000        | 30,000       | 78,000      |
| Less: | Std. Ded. @ 30% of NAV                | (27,000)    | (21,600)     | (18,000)      | (9,000)      | (23,400)    |
|       | IFHP                                  | 63,000      | 50,400       | 42,000        | 21,000       | 54,600      |

- Q2. Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2019 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2019. The construction was completed on 30.11.2021. The accumulated interest up to 31.3.2021 is ₹ 3,60,000. On 31.3.2026, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2026-27 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- Ans. Computation of income from house property of Smt. Poorna for A.Y.2026-27

| Particulars                                                                                                                                                                                                                               | Amount ₹   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Annual Value of house used for self-occupation under section 23(2)                                                                                                                                                                        | Nil        |
| Less: <u>Deduction under section 24(b): Interest on borrowed capital</u>                                                                                                                                                                  |            |
| loan was taken for construction of house on/after 1.4.99 & same was completed within the prescribed time. interest paid or payable subject to a maximum of ₹ 2,00,000 (including pre-construction interest) will be allowed as deduction. |            |
| In this case the total interest is ₹ 1,80,000 + ₹ 72,000 (Being 1/5th of ₹ 3,60,000) = ₹ 2,52,000. However, the interest deduction is restricted to ₹ 2,00,000.                                                                           | 2,00,000   |
| Loss from house property                                                                                                                                                                                                                  | (2,00,000) |

- Q3. 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 1.10.2024 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2026-27 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house. He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2026-27

| Particulars                                                                                                                                 | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------|
| I Interest on loan taken for acquisition of residential house property at Bombay<br>30,00,000 × 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<br>₹ 5,00,000 × 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 |

Q4. Prem owns a house in Madras. During the previous year 2025-26, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2021 for acquiring the property. Interest on loan paid during the previous year 2025-26 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y.2026-27 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). What would be Prem's income from house property under the default tax regime?

Ans. There are two units of the house. Unit I with 2/3rd area is used by Prem for self- occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

Computation of income from house property of Mr. Prem for A.Y.2026-27 under the optional tax regime (i.e., the normal provisions of the Act)

| Particulars                         | Amount in ₹ |          |
|-------------------------------------|-------------|----------|
| Unit I (2/3rd area – self-occupied) |             |          |
| Annual Value                        |             | Nil      |
| Less: Deduction under section 24(b) |             |          |
| 2/3rd of ₹ 1,20,000                 |             | 80,000   |
| Income from Unit I (self-occupied)  |             | (80,000) |
| Unit II (1/3rd area – let out)      |             |          |
| Computation of GAV                  |             |          |
| Step I Compute ER                   |             |          |



|                                                                                                                                                                                                                                                |                  |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------|
| ER = Higher of MV and FR, restricted to SR                                                                                                                                                                                                     | 1,00,000         |          |
| However, in this case, SR of ₹ 1,10,000 (1/3rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV. |                  |          |
| Step 2 Compute actual rent received/ receivable<br>₹ 8,000×12 = ₹ 96,000                                                                                                                                                                       | 96,000           |          |
| Step 3 Compare ER and Actual rent received/receivable                                                                                                                                                                                          |                  |          |
| Step 4 GAV is the higher of ER and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000                                                                                                                                      | 1,00,000         |          |
| Gross Annual Value(GAV)                                                                                                                                                                                                                        |                  | 1,00,000 |
| Less: Municipal taxes paid by the owner during the previous year relating to let-out portion<br>1/3rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000                                                                                           |                  | 10,000   |
| Net Annual Value(NAV)                                                                                                                                                                                                                          |                  | 90,000   |
| Less: Deductions under section 24<br>(a) 30% of NAV = 30% of ₹ 90,000<br>(b) Interest paid on borrowed capital (relating to let out portion)<br>1/3rd of ₹ 1,20,000                                                                            | 27,000<br>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.

Q5. Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2025-26. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2025, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2026. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

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

She had taken a loan from Standard Chartered Bank in June, 2023 for purchasing this flat. Interest on loan was as under:

| Particulars              | ₹        |
|--------------------------|----------|
| Period prior to 1.4.2025 | 49,200   |
| 1.4.2025 to 30.6.2025    | 50,800   |
| 1.7.2025 to 31.3.2026    | 1,31,300 |

She had a house property in Bangalore, which was sold in March, 2022. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2026. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2026-27 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

Ans. (i) Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her

total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of “Nil” Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2026-27 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                          |        |            |
| Interest on borrowed capital (See Note below)             |        | 1,91,940   |
|                                                           |        | (1,91,940) |
| 3. Arrears in respect of Bangalore property (Section 25A) |        |            |
| Arrears of rent received                                  | 60,000 |            |
| Less: Deduction @ 30% u/s 25A(2)                          | 18,000 | 42,000     |
| Loss under the head “Income from house property”          |        | (1,49,940) |

Note: Interest on borrowed capital

| Particulars                                              | ₹        |
|----------------------------------------------------------|----------|
| Interest for the current year (₹ 50,800 + ₹ 1,31,300)    | 1,82,100 |
| Add: 1/5th of pre-construction interest (₹ 49,200 × 1/5) | 9,840    |
| Interest deduction allowable under section 24            | 1,91,940 |

Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

- Q6. You are required to compute the income from “House Property” for the A.Y. 2026-27 of Mrs. Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum. The property was let out for ₹ 80,000 per month for the period April 2025 to November 2025. Thereafter, the tenant vacated the property and Mrs. Rajni used the house for self -occupation. Rent for the months of October and November 2025. could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property. (MTP 4 Marks March '22, RTP Nov '19)(Same concept different figures PYP 7 Marks Nov'18)

Ans. Computation of income from house property of Mrs. Rajni for the A.Y.2026-27

| Particulars                                                                                                                                                                                                                    | Amount in ₹ |          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|----------|
| Computation of Gross Annual Value                                                                                                                                                                                              |             |          |
| Expected Rent for the whole year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000, but restricted to Standard Rent of ₹ 7,20,000                                                                          | 7,20,000    |          |
| Actual rent received for the let-out period = ₹ 80,000 × 8                                                                                                                                                                     | 6,40,000    |          |
| [Unrealised rent is not deductible from actual rent in this case since the defaulting tenant is in occupation of another property of the assessee, and hence, one of the conditions laid out in Rule 4 has not been fulfilled] |             |          |
| GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period                                                                                                               | 7,20,000    |          |
| Gross Annual Value (GAV)                                                                                                                                                                                                       |             | 7,20,000 |
| Less: Municipal taxes (paid by the owner during the previous year)<br>= 12% of ₹ 7,50,000                                                                                                                                      |             | 90,000   |
| Net Annual Value (NAV)                                                                                                                                                                                                         |             | 6,30,000 |
| Less: Deductions under section 24                                                                                                                                                                                              |             |          |
| (a) 30% of NAV = 30% of ₹ 6,30,000                                                                                                                                                                                             | 1,89,000    |          |
| b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let- out property)                                                                                                              |             | 2,39,000 |
| Income from house property                                                                                                                                                                                                     | 50,000      | 3,91,000 |

Q7. Shraddha has two flats in Mumbai, both of which are self-occupied. The particulars of these are given below:

| Particulars                                                                 | (Value in ₹)     |                     |
|-----------------------------------------------------------------------------|------------------|---------------------|
|                                                                             | Flat at Goregaon | Flat at Navi Mumbai |
| Municipal Valuation per annum                                               | 1,40,000         | 1,35,000            |
| Fair Rent per annum                                                         | 1,60,000         | 1,80,000            |
| Standard rent per annum                                                     | 1,40,000         | 1,90,000            |
| Date of completion of construction                                          | 1-02-2013        | 24-08-2007          |
| Municipal taxes payable during the year (paid for Flat at Navi Mumbai only) | 10%              | 12%                 |
| Interest on money borrowed for repair of property during current year       | -                | 72,000              |

Compute Shraddha's income from house property for the Assessment Year 2026-27. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum. (RTP May '19)

Ans. In this case, Shraddha has more than one house property for self-occupation. As per section 23(4), If Assessee has more than one property for own residential purpose then upto 2 houses can be treated as self occupied property and any other houses are deemed to be let out

| Particulars                                               | Amount in ₹ |
|-----------------------------------------------------------|-------------|
| Flat at Goregaon (Self-occupied) [Annual value is Nil]    | Nil         |
| Flat at Navi Mumbai (Self-occupied) [Annual value is Nil] | Nil         |
| Income from house property                                | Nil         |

Q8. Rajesh, a British national, is a resident and ordinarily resident in India during the P.Y.2025-26. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2025-26. The value of one £ in Indian rupee to be taken at 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2026-27.

Ans. For the P.Y.2025-26, 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.2026-27

| Particulars                               | Amount in ₹ |
|-------------------------------------------|-------------|
| Gross Annual Value (£ 10,000 × 12 × 95)   | 1,14,00,000 |
| Less: Municipal taxes paid (£ 8,000 × 95) | 7,60,000    |
| Net Annual Value (NAV)                    | 1,06,40,000 |

Q1. Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2025-26 are as under:

|                               |                           |
|-------------------------------|---------------------------|
| Standard rent                 | ₹ 1,62,000 p.a.           |
| Municipal valuation           | ₹ 1,90,000 p.a.           |
| Fair rent                     | ₹ 1,85,000 p. a           |
| Municipal tax (Paid by Mr. X) | 5% of municipal valuation |
| Light and water charges       | ₹ 500 p.m.                |
| Interest on borrowed capital  | ₹ 1,500 p.m.              |
| Lease money                   | ₹ 1,200 p.a.              |
| Insurance charges             | ₹ 3,000 p.a.              |
| Repairs                       | ₹ 12,000 p.a.             |

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

Q2. Mr. Anand sold his residential house property in March, 2025. In June, 2025, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2019 to March 2021. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2021-22.

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Satish. In April, 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, 2025, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2023 to February, 2025.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Q3. Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2024 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹3,00,000@12% on 1.10.2024 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2026-27, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Q4. From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2026, compute the total income for the A.Y. 2026-27, if he is:

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

|     | Particulars                                                                                                              | ₹      |
|-----|--------------------------------------------------------------------------------------------------------------------------|--------|
| (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 |

- Q5. Mr. Akash owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @8% of the Municipal Value were paid during the year by Mr. Akash. He made the following payments in respect of the house property during the previous year 2025-26:  
Light and Water charges ₹ 2,000, Repairs ₹ 1,45,000, Interest on loan taken for the repair of property ₹ 36,000. Mr. Akash has taken a loan of ₹ 5,00,000 in July, 2018 for the construction of the above house property. Construction was completed on 30th June, 2021. He paid interest on loan @12% per annum and every month such interest was paid. No repayment of loan has been made so far.  
Income of Mr. Akash from his profession amounted to ₹ 8,00,000 during the year (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 8,000 on the portion of house used for profession).  
Determine the Gross total income of Mr. Akash for the A.Y. 2026-27 ignoring the provisions of section 115BAC. (RTP May '23)

- Q6. Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

| Particulars                                                            | (Value in ₹ ) |            |           |
|------------------------------------------------------------------------|---------------|------------|-----------|
|                                                                        | House – I     | House – II | House-III |
| Municipal Valuation per annum                                          | 1,30,000      | 1,20,000   | 1,20,000  |
| Fair Rent per annum                                                    | 1,10,000      | 1,85,000   | 1,45,000  |
| Standard rent per annum                                                | 1,00,000      | 1,90,000   | 1,30,000  |
| Date of completion                                                     | 30-01-2006    | 31-07-2009 | 31.5.2012 |
| Municipal taxes payable during the year (paid for House II & III only) | 12%           | 9%         | 10%       |
| Interest on money borrowed for repair of property during current year  | -             | 75,000     | -         |

You are required to compute Pihu's income from house property for the Assessment Year 2026-27 and suggest which houses should be opted by Pihu to be assessed as self- occupied so that her tax liability is minimum.

Assume the assessee opts out of the default scheme under Section 115BAC?



**Solution 1:****Computation of Income from house property for A.Y. 2026-27**

| Particulars                                                                                                                                                                                                                                              | Amount in ₹ |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------|
| (A) Rented unit (50% of total area – See Note below)                                                                                                                                                                                                     |             |         |
| Step I – Computation of Expected Rent                                                                                                                                                                                                                    |             |         |
| Municipal valuation (₹ 1,90,000 × ½)                                                                                                                                                                                                                     | 95,000      |         |
| Fair rent (₹ 1,85,000 × ½)                                                                                                                                                                                                                               | 92,500      |         |
| Standard rent (₹ 1,62,000 × ½)                                                                                                                                                                                                                           | 81,000      |         |
| Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent                                                                                                                                                            | 81,000      |         |
| Step II – Actual Rent                                                                                                                                                                                                                                    |             |         |
| Rent received/receivable for the let out period (₹ 8,000 × 10)                                                                                                                                                                                           | 80,000      |         |
| Step III – Computation of Gross Annual Value                                                                                                                                                                                                             |             |         |
| The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV. | 80,000      |         |
| Gross Annual Value                                                                                                                                                                                                                                       |             | 80,000  |
| Less: Municipal taxes (5% of ₹ 95,000)                                                                                                                                                                                                                   |             | 4,750   |
| Net Annual value                                                                                                                                                                                                                                         |             | 75,250  |
| Less : Deductions under section 24 -                                                                                                                                                                                                                     |             |         |
| (i) 30% of net annual value                                                                                                                                                                                                                              | 22,575      |         |
| (ii) Interest on borrowed capital (₹ 750 × 12)                                                                                                                                                                                                           | 9,000       | 31,575  |
| Taxable income from let out portion                                                                                                                                                                                                                      |             | 43,675  |
| (B) Self occupied unit (50% of total area – See Note below)                                                                                                                                                                                              |             |         |
| Annual value                                                                                                                                                                                                                                             | Nil         |         |
| Less : Deduction under section 24 (b):                                                                                                                                                                                                                   |             |         |
| Interest on borrowed capital (₹ 750 × 12)                                                                                                                                                                                                                | 9,000       | 9,000   |
| Loss from self occupied portion                                                                                                                                                                                                                          |             | (9,000) |
| Income from house property                                                                                                                                                                                                                               |             | 34,675  |

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

**Solution 2:**

Since the unrealised rent was recovered in the P.Y.2025-26, the same would be taxable in the A.Y.2026-27 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2025-26, and hence the same would be taxable in the A.Y.2026-27 under section 25A, even though Mr. 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.2026-27.

**Computation of income from house property of Mr. Anand for A.Y.2026-27**

| Particulars                   | ₹      |
|-------------------------------|--------|
| (i) Unrealised rent recovered | 10,000 |
| (ii) Arrears of rent received | 69,000 |
|                               | 79,000 |
| Less: Deduction@30%           | 23,700 |
| Income from house property    | 55,300 |

**Solution 3:** Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2026-27

| Particulars                                                                        | ₹        |
|------------------------------------------------------------------------------------|----------|
| I Interest on loan taken for acquisition of residential house property at Calcutta |          |
| ₹ 50,00,000 × 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 × 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.2026-27

| Particulars                                                                      | ₹        |
|----------------------------------------------------------------------------------|----------|
| Interest on loan taken for acquisition of residential house property at Calcutta |          |
| ₹ 50,00,000 × 10% = ₹ 5,00,000                                                   |          |
| Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000                              |          |
| Restricted to ₹ 2,00,000                                                         | 2,00,000 |
| Deduction under section 24(b)                                                    | 2,00,000 |

**Solution 4:**

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

| Particulars                                                                             | Resident & ordinarily resident<br>₹ | Resident but not ordinarily resident<br>₹ | Non- Resident<br>₹ |
|-----------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------|--------------------|
| 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).

**Solution 5:**Computation of Gross total income of Mr. Akash for the A.Y. 2026-27

|    | Particulars                                                                                                                                      |            | ₹        | ₹        |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------|----------|
| I  | Income from House Property                                                                                                                       |            |          |          |
|    | Unit-II (75% of floor area)                                                                                                                      |            |          |          |
|    | Gross Annual Value                                                                                                                               |            |          |          |
|    | (a) Actual rent received (₹ 8,500 × 12)                                                                                                          | ₹ 1,02,000 |          |          |
|    | (b) Expected rent                                                                                                                                | ₹ 1,27,500 |          |          |
|    | [Higher of municipal value (i.e. ₹ 1,60,000) and fair rent (i.e. ₹ 1,70,000) but restricted to standard rent (i.e. ₹ 1,90,000) ₹ 1,70,000 × 75%] |            |          |          |
|    | Higher of (a) or (b) is GAV                                                                                                                      |            | 1,27,500 |          |
|    | Less: Municipal taxes (₹ 1,60,000 × 8% × 75%)                                                                                                    |            | 9,600    |          |
|    | NAV                                                                                                                                              |            | 1,17,900 |          |
|    | Less: Deductions u/s 24                                                                                                                          |            |          |          |
|    | (a) 30% of NAV                                                                                                                                   | ₹ 35,370   |          |          |
|    | (b) Interest on loan (See note)                                                                                                                  | ₹ 96,750   | 1,32,120 |          |
| II | Profits & Gains of business & profession                                                                                                         |            |          | (14,220) |
|    | Income from Profession                                                                                                                           |            | 8,00,000 |          |
|    | Less: Light & Water Charges (25% of ₹ 2,000)                                                                                                     | ₹ 500      |          |          |
|    | Municipal taxes (25% of ₹ 12,800)                                                                                                                | ₹ 3,200    |          |          |
|    | Repairs (25% of ₹ 1,45,000)                                                                                                                      | ₹ 36,250   |          |          |
|    | Interest on loan taken for repair (25% of ₹ 36,000)                                                                                              | ₹ 9,000    |          |          |
|    | Interest on loan taken for construction of house property (25% of ₹ 60,000)                                                                      | ₹ 15,000   |          |          |
|    | Depreciation                                                                                                                                     | ₹ 8,000    | 71,950   | 7,28,050 |
|    | Gross Total Income                                                                                                                               |            |          | 7,13,830 |

Note:

Computation of Interest on loan

|                                                                                     | ₹        |
|-------------------------------------------------------------------------------------|----------|
| Interest for the year (₹ 5,00,000 × 12%)                                            | 60,000   |
| Pre-construction period Interest- 12% of ₹ 5,00,000 for 33 months = ₹ 1,65,000      |          |
| To be allowed in 5 equal instalments from the year of completion (₹ 1,65,000 × 1/5) | 33,000   |
| Interest on loan taken for repair (no restriction for let out property)             | 36,000   |
| Total Interest deduction u/s 24(b)                                                  | 1,29,000 |
| Total Interest deduction u/s 24(b) for let out property (75% × ₹ 1,29,000)          | 96,750   |

**Solution 6:**

In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of “Nil” Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as “deemed let-out” property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.

OPTION 1 [House I & II – Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu’s income from house property for A.Y.2026-27 would be –

| Particulars                                                                                                                                                                                                                                                                                | Amount in ₹   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| House I (Self-occupied) [Annual value is Nil]                                                                                                                                                                                                                                              | Nil           |
| House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal]. | (30,000)      |
| House III (Deemed to be let-out) [See Working Note below]                                                                                                                                                                                                                                  | 82,600        |
| <u>Income from house property</u>                                                                                                                                                                                                                                                          | <u>52,600</u> |

OPTION 2 [House I & III – Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y.2026-27 would be –

| Particulars                                              | Amount in ₹   |
|----------------------------------------------------------|---------------|
| House I (Self-occupied) [Annual value is Nil]            | Nil           |
| House II (Deemed to be let-out) [See Working Note below] | 46,940        |
| House III (Self-occupied) [Annual value is Nil]          | Nil           |
| <u>Income from house property</u>                        | <u>46,940</u> |

OPTION 3 [House I – Deemed to be let out and House II & III – Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2026-27 would be –

| Particulars                                                                                                                                                                                                                                                                               | Amount in ₹   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| House I (Deemed to be let-out) [See Working Note below]                                                                                                                                                                                                                                   | 70,000        |
| House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal]. | (30,000)      |
| House III (Self-occupied) [Annual value is Nil]                                                                                                                                                                                                                                           | Nil           |
| <u>Income from house property</u>                                                                                                                                                                                                                                                         | <u>40,000</u> |

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self- occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2026-27.

Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

| Particulars                                                                            | Amount in Rupees |               |               |
|----------------------------------------------------------------------------------------|------------------|---------------|---------------|
|                                                                                        | House I          | House II      | House III     |
| Gross Annual Value (GAV)                                                               |                  |               |               |
| Expected rent is the GAV of house property                                             |                  |               |               |
| Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent | 1,00,000         | 1,85,000      | 1,30,000      |
| Less: Municipal taxes (paid by the owner during the previous year)                     | Nil              | 10,800        | 12,000        |
| Net Annual Value (NAV)                                                                 | 1,00,000         | 1,74,200      | 1,18,000      |
| Less: Deductions under section 24                                                      |                  |               |               |
| (a) 30% of NAV                                                                         | 30,000           | 52,260        | 35,400        |
| (b) Interest on borrowed capital (allowed in full in case of deemed let out property)  | -                | 75,000        | -             |
| <u>Income from deemed to be let-out house property</u>                                 | <u>70,000</u>    | <u>46,940</u> | <u>82,600</u> |





Q1. Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

|     | Particulars                                                                                                                    | ₹         |
|-----|--------------------------------------------------------------------------------------------------------------------------------|-----------|
| (1) | Opening balance of plant and machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 after reducing depreciation for P.Y. 2024-25) | 30,00,000 |
| (2) | New plant and machinery purchased and put to use on 8.06.2025                                                                  | 20,00,000 |
| (3) | New plant and machinery acquired and put to use on 15.12.2025                                                                  | 8,00,000  |
| (4) | Computer acquired and installed in the office premises on 2.1.2026                                                             | 3,00,000  |

Compute the amount of depreciation and additional depreciation for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

Ans. Computation of depreciation and additional depreciation for A.Y. 2026-27

| Particulars                                                               | P&M (15%) | Computer (40%) |
|---------------------------------------------------------------------------|-----------|----------------|
| Normal depreciation @15% on ₹ 50,00,000 [See Working Notes 1 & 2]         | 7,50,000  | -              |
| @7.5% (50% of 15%, since put to use for less than 180 days) on ₹ 8,00,000 | 60,000    | -              |
| @20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000  | -         | 60,000         |
| Additional Depreciation                                                   |           |                |
| @20% on ₹ 20,00,000 (new P&M put to use for more than 180 days)           | 4,00,000  | -              |
| @10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000  | 80,000    | -              |
| Total depreciation                                                        | 12,90,000 | 60,000         |

Working Notes:

(1) Computation of written down value of Plant & Machinery

| Particulars                                            | P&M (₹)   | Computer (₹) |
|--------------------------------------------------------|-----------|--------------|
| Opening balance as on 1.4.2025                         | 30,00,000 | -            |
| Add: Plant & Machinery purchased on 08.6.2025          | 20,00,000 | -            |
| Add: Plant & Machinery acquired on 15.12.2025          | 8,00,000  | -            |
| Computer acquired and installed in the office premises | -         | 3,00,000     |
| Written down value as on 31.03.2026                    | 58,00,000 | 3,00,000     |

(2) Composition of plant and machinery included in the WDV

| Particulars                                                                                                   | P&M (₹)   | Computer (₹) |
|---------------------------------------------------------------------------------------------------------------|-----------|--------------|
| Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2025)] | 50,00,000 |              |
| Plant and machinery put to use for < 180 days                                                                 | 8,00,000  | -            |
| Computers put to use for < 180 days                                                                           | -         | 3,00,000     |
|                                                                                                               | 58,00,000 | 3,00,000     |

Notes:

(1) Where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2025 and computer acquired and installed on 02.01.2026, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.

Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) As per section 32, the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2027-28.

(3) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, in the business of manufacture @20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Q2. Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

|                                                                 | (₹ in lakhs) |
|-----------------------------------------------------------------|--------------|
| WDV of Plant and Machinery on 31.3.2025                         | 30.00        |
| Depreciation including additional depreciation for P.Y. 2024-25 | 4.75         |
| New machinery purchased on 1-9-2025                             | 10.00        |
| New machinery purchased on 1-12-2025                            | 8.00         |
| Computer purchased on 3-1-2026                                  | 4.00         |

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2025 and computer have been installed in the office.
- During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2024, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2025.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2026 if -

(i) he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

(ii) he pays tax under the default tax regime under section 115BAC.

Ans. Computation of written down value of block of assets of Venus Ltd. as on 31.3.2026

| Particulars                                                           | Plant & Machinery<br>(₹ in lacs) | Computer<br>(₹ in lacs) |
|-----------------------------------------------------------------------|----------------------------------|-------------------------|
| Written down value (as on 31.3.2025)                                  | 30.00                            | Nil                     |
| Less: Depreciation including additional depreciation for P.Y. 2024-25 | 4.75                             | -                       |
| Opening balance as on 1.4.2025                                        | 25.25                            |                         |
| Add: Actual cost of new assets acquired during the year               |                                  |                         |
| New machinery purchased on 1.9.2025                                   | 10.00                            | -                       |
| New machinery purchased on 1.12.2025                                  | 8.00                             | -                       |
| Computer purchased on 3.1.2026                                        | -                                | 4.00                    |
|                                                                       | 43.25                            | 4.00                    |
| Less: Assets sold/discarded/destroyed during the year                 | Nil                              | Nil                     |
| Written Down Value (as on 31.03.2026)                                 | 43.25                            | 4.00                    |

(i) If Mr. Venus exercises the option of shifting out of the default tax regime provided u/s. 115BAC(1A)  
In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.



Computation of depreciation for A.Y. 2026-27

|     | Particulars                                                                                                                                                              | Plant & Machinery<br>(₹ in lacs) | Computer<br>(₹ in lacs) |
|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------|
| I.  | Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation        |                                  |                         |
|     | <u>Normal Depreciation</u>                                                                                                                                               |                                  |                         |
|     | - WDV of plant and machinery (₹ 25.25 lacs x 15%)                                                                                                                        | 3.79                             | -                       |
|     | - New Machinery purchased on 1.9.2025 (₹ 10 lacs x 15%)                                                                                                                  | 1.50                             | -                       |
|     | (A)                                                                                                                                                                      | 5.29                             | -                       |
|     | <u>Additional Depreciation</u>                                                                                                                                           |                                  |                         |
|     | New Machinery purchased on 1.9.2025 (₹ 10 lakhs x 20%)                                                                                                                   | 2.00                             | -                       |
|     | Balance additional depreciation in respect of new machinery purchased on 31.10.2024 and put to use for less than 180 days in the P.Y. 2024-25 (₹ 10 lakhs x 20% x 50%)   | 1.00                             |                         |
|     | (B)                                                                                                                                                                      | 3.00                             |                         |
| II. | Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any |                                  |                         |
|     | <u>Normal Depreciation</u>                                                                                                                                               |                                  |                         |
|     | New machinery purchased on 1.12.2025                                                                                                                                     | 0.60                             | -                       |
|     | [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]                                                                                                                                     |                                  |                         |
|     | Computer purchased on 3.1.2025                                                                                                                                           |                                  |                         |
|     | [₹ 4 lacs x 20% (50% of 40%)]                                                                                                                                            | -                                | 0.80                    |
|     | (C)                                                                                                                                                                      | 0.60                             | 0.80                    |
|     | Total Depreciation (A+B+C)                                                                                                                                               | 8.89                             | 0.80                    |

Notes:

- (1) As per section 32, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, in the business of manufacture at the rate of 20% of the actual cost of such machinery or plant.  
However, additional depreciation shall not be allowed in respect of, inter alia, –
- any office appliances or road transport vehicles;
  - any machinery or plant installed in, inter alia, office premises.
- In view of the above provisions, additional depreciation cannot be claimed in respect of –
- Machinery purchased on 1.12.2025, installed in office and
  - Computer purchased on 3.1.2026, installed in office.
- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.  
Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2024-25 and put to use for less than 180 days in that year can be claimed in P.Y. 2025-26 being immediately succeeding previous year.

(i) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

|     | Particulars                                                                                                                           | P&M<br>(₹ in lacs) | Computer<br>(₹ in lacs) |
|-----|---------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------------|
| I.  | Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation |                    |                         |
|     | Normal Depreciation                                                                                                                   |                    |                         |
|     | - WDV of plant and machinery (₹ 25.25 lacs x 15%)                                                                                     | 3.79               | -                       |
|     | - New Machinery purchased on 1.9.2025 (₹ 10 lacs x 15%)                                                                               | 1.50               | -                       |
|     | (A)                                                                                                                                   | 5.29               | -                       |
| II. | Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation  |                    |                         |
|     | Normal Depreciation                                                                                                                   |                    |                         |
|     | New machinery purchased on 1.12.2025 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]                                                             | 0.60               | -                       |
|     | Computer purchased on 3.1.2025 [₹ 4 lacs x 20% (50% of 40%)]                                                                          | -                  | 0.80                    |
|     | (C)                                                                                                                                   | 0.60               | 0.80                    |
|     | Total Depreciation (A+B+C)                                                                                                            | 5.89               | 0.80                    |

Q3. Dynamic India & Co. commences production on 16/8/2025. It incurred the following expenses related to scientific research, find deduction u/s 35.

| Date                   | Particulars                                                                 | Amount   | Purpose       |
|------------------------|-----------------------------------------------------------------------------|----------|---------------|
| 18/8/2025              | Paid to an Approved University for research in Social science               | 50,000   | Non- business |
| 15/10/2025             | Paid to a scientist (not the employee of the company)                       | 30,000   | Business      |
| 18/11/2025             | Paid to approved National laboratory                                        | 60,000   | Non- business |
| 15/12/2025             | Purchase of land & building for in house research (cost of land ₹ 1,50,000) | 5,00,000 | Business      |
| 18/12/2025             | Purchase of car to carry research-workers                                   | 2,00,000 | Business      |
| 16/8/2022 to 15/8/2025 | Capital expenditure (including cost of land ₹ 1,00,000)                     | 5,00,000 | Business      |
| "                      | Purchase of material                                                        | 3,00,000 | Business      |
| "                      | Payment of salary (other than Perquisites)                                  | 2,00,000 | Business      |
| "                      | Perquisites provided to research-personnel                                  | 1,00,000 | Business      |
| "                      | Other revenue expenditure                                                   | 80,000   | Business      |
| 1/4/2022 to 15/8/2022  | Capital expenditure (other than land)                                       | 9,00,000 | Business      |
| "                      | Payment of salary (other than Perquisites)                                  | 50,000   | Business      |
| 1/4/2020 to 31/3/2022  | Capital expenditure                                                         | 80,000   | Business      |
| "                      | Revenue expenditure                                                         | 30,000   | Business      |



Ans. Computation of deduction u/s 35 to Dynamic India & Co.

| Date                      | Particulars                                                     | section    | Amount   | Deduction |
|---------------------------|-----------------------------------------------------------------|------------|----------|-----------|
| 1/4/2020 to 31/3/2022     | Capital expenditure                                             | NA         | 80,000   | Nil       |
|                           | Revenue expenditure                                             | NA         | 30,000   | Nil       |
| 1/4/2022 to 15/8/2022     | Capital expenditure (other than land)                           | NA         | 9,00,000 | Nil       |
|                           | Payment of salary (other than Perquisites)                      | NA         | 50,000   | Nil       |
| 16/8/2022 to 15/8/2025    | Capital expenditure (excluding cost of land ₹ 1,00,000)         | 35(2)      | 5,00,000 | 4,00,000  |
|                           | Payment of salary (other than Perquisites)                      | 35(1)(i)   | 2,00,000 | 2,00,000  |
|                           | Perquisites provided to research-personnel                      | NA         | 1,00,000 | Nil       |
|                           | Purchase of material                                            | 35(1)(i)   | 3,00,000 | 3,00,000  |
|                           | Other Revenue expenditure                                       | NA         | 80,000   | Nil       |
| 18/8/2025                 | Paid to an Approved University for research in Social science   | 35(1)(iii) | 50,000   | 50,000    |
| 15/10/2025                | Paid to a scientist (not the employee of the company)           | 35(1)(i)   | 30,000   | 30,000    |
| 18/11/2025                | Paid to approved National laboratory                            | 35(2AA)    | 60,000   | 60,000    |
| 15/12/2025                | Purchase of land & building (excluding cost of land ₹ 1,50,000) | 35(2)      | 5,00,000 | 3,50,000  |
| 18/12/2025                | Purchase of car to carry research-workers                       | 35(2)      | 2,00,000 | 2,00,000  |
| Total amount of deduction |                                                                 |            |          | 15,90,000 |

Note:

1. Expenditure (whether revenue or capital) incurred before 3 years immediately preceding the year of commencement of business shall not be allowed as deduction.
2. Expenditure incurred within 3 years prior to commencement of business: Only material and salary (other than perquisite) of research personnel shall be allowed as deduction

Q4. Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2025. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2025 to March, 2025 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2025. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2025-26, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes". The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2026-27 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Ans.

## Computation of profits and gains of business or profession for A.Y.2026-27

| Particulars                                                                                                                    | ₹ (in lakhs) |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|
| Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32) | 31           |
| Less: Depreciation under section 32                                                                                            |              |
| 10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)                                                                    | 3            |
| Income chargeable under “Profits and gains from business or profession”                                                        | 28           |

## Computation of income/loss from specified business under section 35AD

| Particulars |                                                                                                                                                                                                                                                                                       | Food Grains  | Sugar | Total |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------|-------|
|             |                                                                                                                                                                                                                                                                                       | ₹ (in lakhs) |       |       |
| (A)         | Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)                                                                                                                                                                        | 16           | 14    | 30    |
|             | Less: Deduction under section 35AD                                                                                                                                                                                                                                                    |              |       |       |
| (B)         | Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh) | 30           | 20    | 50    |
| (C)         | Capital expenditure incurred during the P.Y. 2025-26                                                                                                                                                                                                                                  | 20           | 15    | 35    |
| (D)         | Total capital expenditure (B + C)                                                                                                                                                                                                                                                     | 50           | 35    | 85    |
| (E)         | Deduction under section 35AD                                                                                                                                                                                                                                                          |              |       |       |
|             | 100% of capital expenditure (food grains/ sugar)                                                                                                                                                                                                                                      | 50           | 35    | 85    |
|             | Total deduction u/s 35AD for A.Y.2026-27                                                                                                                                                                                                                                              | 50           | 35    | 85    |
| (F)         | Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)                                                                                                 |              |       |       |
|             |                                                                                                                                                                                                                                                                                       | (34)         | (21)  | (55)  |

## Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- (ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2025-26.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

- Q5. Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.
- Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.
- Examine the tax implications of such transfer in the hands of Mr. Arnav.

Ans. Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2025-26, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2026-27.

| Particulars                                                            | ₹         |
|------------------------------------------------------------------------|-----------|
| Deduction allowed u/s 35AD for A.Y.2025-26                             | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs] | 5,00,000  |
| Deemed income under section 35AD(7B)                                   | 45,00,000 |

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation u/s 32 on the building in Unit B for A.Y.2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

| Particulars                                                                | ₹         |
|----------------------------------------------------------------------------|-----------|
| Actual cost to the assessee                                                | 50,00,000 |
| Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lacs]     | 5,00,000  |
| Actual cost in the hands of Mr. Arnav in respect of building in its Unit B | 45,00,000 |

- Q6. Jardine Ltd. is an existing Indian company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

| Particulars                                                                       | Amount    |
|-----------------------------------------------------------------------------------|-----------|
| Preparation of project report                                                     | 4,00,000  |
| Market survey                                                                     | 5,00,000  |
| Legal and other charges for issue of additional capital required for the new unit | 2,00,000  |
| Total                                                                             | 11,00,000 |

The following further data is given:

| Particulars                      | Amount    |
|----------------------------------|-----------|
| Cost of project                  | 30,00,000 |
| Capital employed in the new unit | 40,00,000 |

What is the deduction admissible to the company u/s 35D?

Ans. Calculation of admissible preliminary expenditure

| Particulars                                                                           | Amount    |
|---------------------------------------------------------------------------------------|-----------|
| Cost of project (A)                                                                   | 30,00,000 |
| Capital employed (B)                                                                  | 40,00,000 |
| Eligible preliminary expenditure being minimum of the following:                      |           |
| a) Actual expenditure                                                                 | 11,00,000 |
| b) 5% of (A) or (B) whichever is higher (i.e. ₹ 40,00,000 * 5%)                       | 2,00,000  |
| Amount eligible for amortization                                                      | 2,00,000  |
| Amount of deduction u/s 35D for current year (till 5 years) being 1/5th of ₹ 2,00,000 | 40,000    |

Q7. X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Ans. Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

| Particulars                                                                                                                    | ₹         |
|--------------------------------------------------------------------------------------------------------------------------------|-----------|
| Basic Salary                                                                                                                   | 10,00,000 |
| Dearness Allowance@40% of basic salary [DA forms part of pay]                                                                  | 4,00,000  |
| Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)                                                               | 14,00,000 |
| Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)                                                               | 2,00,000  |
| Less: Permissible deduction under section 36(1)(iva) (14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,96,000) | 1,96,000  |
| Excess contribution disallowed under section 40A(9)                                                                            | 4,000     |

Q8. A firm has paid ₹ 8,50,000 as remuneration to its partners for the PY.2025-26, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh. What is the remuneration allowable as deduction?

Ans. The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

| Particulars                                           | ₹        |
|-------------------------------------------------------|----------|
| On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]   | 5,40,000 |
| On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%] | 2,40,000 |
|                                                       | 7,80,000 |

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 – ₹ 7,80,000) would be disallowed as per section 40(b)(v).

Q9. Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

- (1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the A.Y. 2026-27 as per section 40(b).

Ans. (i) As per Explanation 3 to section 40(b), “book profit” shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

| Particulars                                                                               | ₹        | ₹         |
|-------------------------------------------------------------------------------------------|----------|-----------|
| Net Profit (before deduction of depreciation, salary and interest)                        |          | 17,00,000 |
| Less: Depreciation under section 32                                                       | 1,50,000 |           |
| Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 × 12%) | 60,000   | 2,10,000  |
| Book Profit                                                                               |          | 14,90,000 |





(ii) Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 9,60,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

|                                                           |                                                     |
|-----------------------------------------------------------|-----------------------------------------------------|
| On the first ₹ 6,00,000 of book profit or in case of loss | ₹ 3,00,000 or 90% of book profit, whichever is more |
| On the balance of book profit                             | 60% of the balance book profit                      |

Therefore, the maximum allowable working partners' salary for the A.Y. 2026-27 in this case would be:

| Particulars                                                                                  | ₹         |
|----------------------------------------------------------------------------------------------|-----------|
| On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more] | 5,40,000  |
| On the balance of book profit [60% of (₹ 14,90,000 - ₹ 6,00,000)]                            | 5,34,000  |
| Maximum allowable partners' salary                                                           | 10,74,000 |

Hence, allowable working partners' salary for the A.Y.2026-27 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

Q10. Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2025-26. Amount received in cash during the P.Y. 2025-26 is ₹ 14,00,000 and balance through prescribed electronic modes on or before due date of filing return. His income from the said business as per books of account is ₹15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2026-27?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iii) What is the due date for filing his return of income under both the options?

Ans. (i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover (14,00,000/2,98,50,000 × 100) and his total turnover for the F.Y.2025-26 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).

(iii) Mr. Praveen had declared profit for the previous year 2024-25 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2026-27 to A.Y. 2030-31, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2025-26 relevant to A.Y.2026-27, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2027-28 to A.Y. 2031-32.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

(iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2025. In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2026.



Q11. Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

| Particulars                            | ₹           | Particulars         | ₹           |
|----------------------------------------|-------------|---------------------|-------------|
| To Opening stock                       | 90,000      | By Sales            | 1,12,11,500 |
| To Purchases                           | 1,10,04,000 | By Closing stock    | 1,86,100    |
| To Gross Profit                        | 3,03,600    |                     | -           |
|                                        | 1,13,97,600 |                     | 1,13,97,600 |
| To Salary                              | 60,000      | By Gross profit b/d | 3,03,600    |
| To Rent and rates                      | 36,000      | By Income from UTI  | 2,400       |
| To Interest on loan                    | 15,000      |                     |             |
| To Depreciation                        | 1,05,000    |                     |             |
| To Printing & stationery               | 23,200      |                     |             |
| To Postage & telegram                  | 1,640       |                     |             |
| To Loss on sale of shares (Short-term) | 8,100       |                     |             |
| To Other general expenses              | 7,060       |                     |             |
| To Net Profit                          | 50,000      |                     |             |
|                                        | 3,06,000    |                     | 3,06,000    |

Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

|               |          |
|---------------|----------|
| Opening stock | ₹ 9,000  |
| Closing stock | ₹ 18,000 |

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.

(iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2025 minus depreciation for P.Y. 2024-25) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2025 for ₹ 70,000. Two old plants were sold on 1.10.2025 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2026.

(vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Ans. Computation of business income of Mr. Sivam for the A.Y. 2026-27

| Particulars                                            | ₹      | ₹      |
|--------------------------------------------------------|--------|--------|
| Net Profit as per profit and loss account              |        | 50,000 |
| Add: Inadmissible expenses/ losses                     |        |        |
| Under valuation of closing stock                       | 18,000 |        |
| Salary paid to brother – unreasonable [Section 40A(2)] | 2,000  |        |



|                                                                                                                                                       |          |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)] | 23,200   |          |
| Depreciation (considered separately)                                                                                                                  | 1,05,000 |          |
| Short term capital loss on shares                                                                                                                     | 8,100    |          |
| Donation to public charitable trust                                                                                                                   | 2,000    | 1,58,300 |
|                                                                                                                                                       |          | 2,08,300 |
| Less: Items to be deducted:                                                                                                                           |          |          |
| Under valuation of opening stock                                                                                                                      | 9,000    |          |
| Income from UTI [Chargeable under the head "Income from Other Sources]                                                                                | 2,400    | 11,400   |
| Business income before depreciation                                                                                                                   |          | 1,96,900 |
| Less: Depreciation (See Note 1)                                                                                                                       |          | 66,000   |
|                                                                                                                                                       |          | 1,30,900 |

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 × 6 / 100 = ₹ 6,72,690

Notes:

1. Calculation of depreciation

| Particulars                                                                                                         | ₹        |
|---------------------------------------------------------------------------------------------------------------------|----------|
| Opening balance of plant & machinery as on 1.4.2025 (i.e. WDV as on 31.3.2025)                                      | 4,20,000 |
| (-) depreciation for P.Y. 2024-25)                                                                                  |          |
| Add: Cost of new plant & machinery                                                                                  | 70,000   |
|                                                                                                                     | 4,90,000 |
| Less: Sale proceeds of assets sold                                                                                  | 50,000   |
| WDV of the block of plant & machinery as on 31.3.2026                                                               | 4,40,000 |
| Depreciation@15%                                                                                                    | 66,000   |
| No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article. |          |

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Q12. Mr. X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the P.Y.2025-26. Compute his income under section 44AE for A.Y.2026-27.

|     | Gross Vehicle Weight (in kilograms) | Number | Date of purchase |
|-----|-------------------------------------|--------|------------------|
| (1) | 7,000                               | 2      | 10.04.2025       |
| (2) | 6,500                               | 1      | 15.03.2026       |
| (3) | 10,000                              | 3      | 16.07.2025       |
| (4) | 11,000                              | 1      | 02.01.2026       |
| (5) | 15,000                              | 2      | 29.08.2025       |
| (6) | 15,000                              | 1      | 23.02.2026       |

Would your answer change if the goods vehicles purchased in April, 2025 were put to use only in July, 2025?

Ans. Since Mr. X does not own more than 10 vehicles at any time during the previous year 2025-26, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

| (1)                                              | (2)              | (3)                                      | (4)                                         |
|--------------------------------------------------|------------------|------------------------------------------|---------------------------------------------|
| Number of Vehicles                               | Date of purchase | No. of months for which vehicle is owned | No. of months × No. of vehicles [(1) × (3)] |
| For Heavy goods vehicle                          |                  |                                          |                                             |
| 2                                                | 29.08.2025       | 8                                        | 16                                          |
| 1                                                | 23.02.2026       | 2                                        | 2                                           |
|                                                  |                  |                                          | 18                                          |
| For goods vehicle other than heavy goods vehicle |                  |                                          |                                             |
| 2                                                | 10.4.2025        | 12                                       | 24                                          |
| 1                                                | 15.3.2026        | 1                                        | 1                                           |
| 3                                                | 16.7.2025        | 9                                        | 27                                          |
| 1                                                | 02.1.2026        | 3                                        | 3                                           |
|                                                  |                  |                                          | 55                                          |

The presumptive income of Mr. X under section 44AE for A.Y.2026-27 would be ₹ 6,82,500, i.e., 55 × ₹7,500, being for other than heavy goods vehicle + 18 × ₹ 1,000 × 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2025 were put to use only in July, 2025, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Q13. Profit & Loss Account of Mr A for PY 2025 -2026 is as follows

|                                                                 |           |                                     |           |
|-----------------------------------------------------------------|-----------|-------------------------------------|-----------|
| To Opening Stock                                                | 1,20,000  | To Sales                            | 60,00,000 |
| To Purchases                                                    | 20,00,000 | To Closing Stock                    | 2,00,000  |
| To Rent for Building                                            | 60,000    | To Dividend                         | 30,000    |
| To Municipal Tax for Building                                   | 20,000    | To Profit on Sale of Import License | 40,000    |
| To Depreciation on Furniture                                    | 25,000    | To Income Tax Refund                | 50,000    |
| To Depreciation on Motor Car                                    | 15,000    | To Interest of Income Tax Refund    | 3,000     |
| To Depreciation on P/M                                          | 20,000    |                                     |           |
| To Patents (acquired on 31.12.2025)                             | 100,000   |                                     |           |
| To Reserve for Bad & Doubtful Debt                              | 40,000    |                                     |           |
| To Advance Income Tax                                           | 30,000    |                                     |           |
| To Family Planning Expense                                      | 4,000     |                                     |           |
| To Mediclaim paid in cash (Policy in the name of Employee)      | 7,000     |                                     |           |
| To Life Insurance paid in cash (Policy in the name of Employee) | 10,000    |                                     |           |
| To Voluntary Retirement Compensation                            | 40,000    |                                     |           |
| To Preliminary Expenses                                         | 100,000   |                                     |           |
| To General Expenses                                             | 20,00,000 |                                     |           |
| To Net Profit                                                   | 17,32,000 |                                     |           |
|                                                                 | 63,23,000 |                                     | 6323000   |



1. Opening Stock is overvalued by 10%
2. Closing Stock is undervalued by 10%
3. Municipal tax paid upto Due date of filing return is 10,000 & balance is paid after due date of filing return
4. WDV of Furniture on 01.04.2026 = 3,00,000  
Furniture purchased during the year on 15.06.2025 - 25,000 (Payment by account payee cheque)  
Furniture purchased during the year on 14.12.2025 - 10,000 (Payment by cash) Furniture purchased during the year on 03.01.2026 - 26,000 (Payment by crossed cheque)
5. WDV of Motor Car on 01.04.2025 6,00,000 (25% time car is used for personal purpose) Car Was acquired on 23.12.2019 & it was put to use on 31.01.2020
6. WDV of P/M on 01.04.2025 = 8,00,000  
P/M purchased during the year on 15.06.2025 - 2,50,000 (Payment by account payee cheque)  
P/M purchased during the year on 14.12.2025 - 1,00,000 (Payment by cash)  
P/M purchased during the year on 03.01.2026 - 2,50,000 (Payment by crossed cheque)
7. Total Voluntary Retirement Compensation 40,000 paid in Current PY
8. Total Preliminary Expenses = 1,00,000 (Cost of Project = 15,00,000)

Compute Total Income?

Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of Total Income

|                                         |           |
|-----------------------------------------|-----------|
| Income from Business & Profession (WN1) | 17,79,631 |
| Income from Other Sources(WN2)          | 33000     |
| Total Income                            | 18,12,631 |

WN1 - Computation of Income from Business & Profession

| Particulars                                                                                                                                                     | Note | Amount | Amount    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------|-----------|
| Net Profit as per Profit & Loss Account                                                                                                                         |      |        | 17,32,000 |
| Add - Expenses debited to Profit & Loss Account but not allowed as deduction/Incomes not credited to profit & loss account but taxable                          |      |        |           |
| - Reserve For Bad Doubtful Debts                                                                                                                                |      | 40000  |           |
| - Advance Income tax                                                                                                                                            |      | 30000  |           |
| - Family Planning Expense                                                                                                                                       | 4    | 4000   |           |
| - Mediclaim paid in cash                                                                                                                                        |      | 7000   |           |
| - Voluntary Retirement Compensation                                                                                                                             | 1    | 32000  |           |
| - Preliminary Expenses                                                                                                                                          | 2    | 85000  |           |
| - Patents                                                                                                                                                       |      | 100000 |           |
| - Overvaluation of Opening Stock                                                                                                                                |      | 10909  |           |
| - Undervaluation of Closing Stock                                                                                                                               |      | 22222  |           |
| - Unpaid Municipal Tax                                                                                                                                          | 3    | 10000  |           |
| - Depreciation on Furniture                                                                                                                                     |      | 25000  |           |
| - Depreciation on Motor Car                                                                                                                                     |      | 15000  |           |
| - Depreciation on P/M                                                                                                                                           |      | 20000  | 401131    |
| Less - Expenses not debited to Profit & Loss Account but allowed as deduction/Incomes credited to profit & loss account but taxable under other heads or exempt |      |        |           |

|   |                                                  |   |        |           |
|---|--------------------------------------------------|---|--------|-----------|
| - | Dividend                                         |   | 30000  |           |
| - | Income tax Refund                                |   | 50000  |           |
| - | Interest on Income tax Refund                    |   | 3000   |           |
| - | Depreciation on Patents (25% X 100000 X 1/2)     |   | 12500  |           |
| - | Depreciation on Furniture                        | 5 | 33000  |           |
| - | Depreciation on Motor Car (6,00,000 x 15% x 75%) |   | 67500  |           |
| - | Depreciation on P/M                              | 6 | 157500 | 353500    |
|   |                                                  |   |        |           |
|   |                                                  |   |        | 17,79,631 |

- 1 Voluntary Retirement Compensation is allowed as deduction u/s 35DDA in 5 equal Instalments
- 2 Preliminary Expense is allowed as deduction u/s 35D in 5 Equal Instalments. Maximum deduction allowed is 5% of cost of project. Therefore total Deduction allowed is 75000 (5% of 15,00,000). Yearly Deduction is 15,000 (75000/5)
- 3 Municipal Tax is allowed as deduction as per Section 43B.
- 4 Family Planning Expense is allowed as deduction to Company assessee only
- 5 Computation of Depreciation on Furniture

|                                                                                         | No | Value  |
|-----------------------------------------------------------------------------------------|----|--------|
| Opening WDV                                                                             | 1  | 300000 |
| Add - Acquired on 15.06.25                                                              | 1  | 25000  |
| Add - Acquired on 14.12.25                                                              | 1  | 10000  |
| Add - Acquired on 03.01.26 (Not included in block because payment is by crossed cheque) | 1  | NIL    |
|                                                                                         |    |        |
| Depreciation (on 3,25,000 * 10% + 10000 * 5%)                                           |    | 33000  |

6 Computation of Depreciation on Plant & Machinery

|                                                                                         | No | Value  |
|-----------------------------------------------------------------------------------------|----|--------|
| Opening WDV                                                                             | 1  | 800000 |
| Add - Acquired on 15.06.25                                                              | 1  | 250000 |
| Add - Acquired on 14.12.25 (Not included in block because payment is by cash)           | 1  | NIL    |
| Add - Acquired on 03.01.26 (Not included in block because payment is by crossed cheque) | 1  | NIL    |
|                                                                                         |    |        |
| Depreciation (on 10,50,000 * 15% )                                                      |    | 157500 |

WN2 - Income from Other Sources

|                               |       |
|-------------------------------|-------|
| Dividend                      | 30000 |
| Interest on Income tax Refund | 3000  |
|                               |       |
|                               | 33000 |

Q14. Profit & Loss Account of Mr X for PY 2025 -2026 is as follows

|                                       |           |                                       |           |
|---------------------------------------|-----------|---------------------------------------|-----------|
| To Opening Stock                      | 1,20,000  | To Sales                              | 58,50,000 |
| To Purchases                          | 20,00,000 | To Closing Stock                      | 2,00,000  |
| To Rent for Plant & Machinery         | 60,000    |                                       |           |
| To Municipal Tax for Let Out property | 20,000    | To Rent from House Property           | 4,00,000  |
| To Depreciation on Furniture          | 25000     | To Share in Profit Received from Firm | 40,000    |

|                                                                  |           |                                                                                                                                             |          |
|------------------------------------------------------------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------|----------|
| To Motor Car (acquired on 31.07.2025 & Put to Use on 31.12.2025) | 3,00,000  | To Salary Received from Firm (he is the only working partner in firm & there is book loss in the books of Firm Amounting to Rupee 3,00,000) | 3,50,000 |
| To Depreciation on P/M                                           | 20,000    | To Interest on capital received from firm @ 20%                                                                                             | 60,000   |
| To Patents (acquired on 31.12.2025)                              | 1,00,000  |                                                                                                                                             |          |
| To Reserve for Bad & Doubtful Debt                               | 40,000    |                                                                                                                                             |          |
| To Advance Tax                                                   | 30,000    |                                                                                                                                             |          |
| To Family Planning Expense                                       | 4,000     |                                                                                                                                             |          |
| To Bonus                                                         | 70,000    |                                                                                                                                             |          |
| To Employers Contribution to Provident Fund                      | 10,000    |                                                                                                                                             |          |
| To National Fund for Rural Development                           | 40,000    |                                                                                                                                             |          |
| To CSR Expenses                                                  | 1,00,000  |                                                                                                                                             |          |
| To Printing & Stationery                                         | 20,000    |                                                                                                                                             |          |
| To Net Profit                                                    | 39,41,000 |                                                                                                                                             |          |
|                                                                  | 69,00,000 |                                                                                                                                             | 6900000  |

- Opening Stock is overvalued by 10%
  - Closing Stock is undervalued by 10%
  - Municipal taxes paid during the PY = 15,000
  - WDV of Furniture on 01.04.2025 = 4,00,000  
Furniture purchased during the year on 15.06.2025 - 45,000 (Payment by account payee cheque)  
Furniture purchased during the year on 14.12.2025 - 30,000 (Payment by cash)
  - Depreciation on Plant & Machinery as per Income tax Rules = 20,000
  - Purchases include purchases of 3,00,000 from sister in law (Market Value of goods = 2,40,000)
  - Bonus Paid upto due date of filing return = 30,000
  - Entire amount of printing & stationery is paid in cash on 20.08.2025
- Compute Total Income? Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of Total Income

|                                         |           |
|-----------------------------------------|-----------|
| Income from House property (WN1)        | 2,69,500  |
| Income from Business & Profession (WN2) | 40,59,631 |
| Total Income                            | 43,29,131 |

#### WN1 - Income from House Property

|                            |        |          |
|----------------------------|--------|----------|
| Rent from House property   |        | 4,00,000 |
| Less - Municipal Tax       |        | 15000    |
| NAV                        |        | 3,85,000 |
| Less -                     |        |          |
| Standard Deduction @ 30%   | 115500 |          |
| Interest on Loan           | 0      | 115500   |
| Income from House property |        | 2,69,500 |

## WN2 - Computation of Income from Business & Profession

| Particulars                                                                                                                                                     |                                                | Amount | Amount    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------|-----------|
| Net Profit as per Profit & Loss Account                                                                                                                         |                                                |        | 39,41,000 |
| Add - Expenses debited to Profit & Loss Account but not allowed as deduction/Incomes not credited to profit & loss account but taxable                          |                                                |        |           |
| -                                                                                                                                                               | Municipal Tax for Let Out Property             | 20000  |           |
| -                                                                                                                                                               | Patents                                        | 100000 |           |
| -                                                                                                                                                               | Reserve For Bad Doubtful Debts                 | 40000  |           |
| -                                                                                                                                                               | Advance Income tax                             | 30000  |           |
| -                                                                                                                                                               | Family Planning Expense                        | 4000   |           |
| -                                                                                                                                                               | CSR Expenses                                   | 100000 |           |
| -                                                                                                                                                               | Overvaluation of Opening Stock                 | 10909  |           |
| -                                                                                                                                                               | Undervaluation of Closing Stock                | 22222  |           |
| -                                                                                                                                                               | Depreciation on Furniture                      | 25000  |           |
| -                                                                                                                                                               | Depreciation on P/M                            | 20000  |           |
| -                                                                                                                                                               | Purchase of Motor Car                          | 300000 |           |
| -                                                                                                                                                               | Unpaid Bonus                                   | 40000  |           |
| -                                                                                                                                                               | Printing & Stationary paid in cash             | 20000  | 732131    |
| Less - Expenses not debited to Profit & Loss Account but allowed as deduction/Incomes credited to profit & loss account but taxable under other heads or exempt |                                                |        |           |
| -                                                                                                                                                               | Rent from House property                       | 400000 |           |
| -                                                                                                                                                               | Share in profit received from firm             | 40000  |           |
| -                                                                                                                                                               | Remuneration in excess of limit u/s 40(b)      | 50000  |           |
| -                                                                                                                                                               | Interest in excess of limit u/s 40(b)          | 24000  |           |
| -                                                                                                                                                               | Depreciation on Patents (25% X 100000 X 1/2)   | 12500  |           |
| -                                                                                                                                                               | Depreciation on Furniture                      | 44500  |           |
| -                                                                                                                                                               | Depreciation on P/M                            | 20000  |           |
| -                                                                                                                                                               | Depreciation on Motor car (300000 * 15% * 1/2) | 22500  | 613500    |
| Taxable Profit                                                                                                                                                  |                                                |        | 40,59,631 |

1 Purchases from sister in law will not attract section 40A(2)

2 Computation of Depreciation on Furniture

|                                                                               | No | Value  |
|-------------------------------------------------------------------------------|----|--------|
| Opening WDV                                                                   | 1  | 400000 |
| Add - Acquired on 15.06.25                                                    | 1  | 45000  |
| Add - Acquired on 14.12.25 (Not included in block because payment is by cash) | 1  | 0      |
| Depreciation (on 4,45,000 * 10% )                                             |    | 44500  |

3 It is assumed that employers contribution is paid on or before due date of filing return



Q15. Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026:

**Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026**

| Particulars                                  | ₹                | Particulars                         | ₹           |
|----------------------------------------------|------------------|-------------------------------------|-------------|
| To Opening Stock                             | 71,000           | By Sales                            | 2,32,00,000 |
| To Purchase of Raw Materials                 | 2,16,99,000      | By Closing stock                    | 2,00,000    |
| To Manufacturing Wages & Expenses            | 5,70,000         |                                     |             |
| To Gross Profit                              | 10,60,000        |                                     |             |
|                                              | 2,34,00,000      |                                     | 2,34,00,000 |
| To Administrative charges                    | 3,26,000         | By Gross Profit                     | 10,60,000   |
| To SGST penalty                              | 5,000            | By Dividend from domestic companies | 15,000      |
| To GST paid                                  | 1,10,000         | By Income from agriculture (net)    | 1,80,000    |
| To General Expenses                          | 54,000           |                                     |             |
| To Interest to Bank (On machinery term loan) | 60,000           |                                     |             |
| To Depreciation                              | 2,00,000         |                                     |             |
| To Net Profit                                | 5,00,000         |                                     |             |
|                                              | <u>12,55,000</u> |                                     |             |
|                                              |                  |                                     | 12,55,000   |

Following are the further information relating to the financial year 2025-26:

- (i) Administrative charges include ₹46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹36,000.
- (ii) The assessee paid ₹33,000 in cash to a transport carrier on 29.12.2025. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- (iii) A sum of ₹4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- (iv) Bank term loan interest actually paid upto 31.03.2026 was ₹20,000 and the balance was paid in November 2026.
- (v) Housing loan principal repaid during the year was ₹50,000 and it relates to residential property acquired by him in P.Y. 2024-25 for self-occupation. Interest on housing loan was ₹23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- (vi) Depreciation allowable under the Act is to be computed on the basis of following information:

| Plant & Machinery (Depreciation rate@15%)                | ₹         |
|----------------------------------------------------------|-----------|
| WDV as on 31.03.2025 minus Depreciation for P.Y. 2024-25 | 11,90,000 |
| Additions during the year (used for more than 180 days)  | 2,00,000  |
| Total additions during the year                          | 4,00,000  |

Compute the total income of Mr. Raju for the A.Y. 2026-27 and tax liability under both regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

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

| Particulars                                                                                                                                                                                                                                                                                             | ₹        | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Profits and gains of business or profession                                                                                                                                                                                                                                                             |          |          |
| Net profit as per profit and loss account                                                                                                                                                                                                                                                               |          | 5,00,000 |
| Add: Excess commission paid to brother disallowed under section 40A(2)                                                                                                                                                                                                                                  | 10,000   |          |
| Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.                                                     | Nil      |          |
| Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B                                                                                                                                                                                | 40,000   |          |
| State GST penalty paid disallowed [See Note 2 below]                                                                                                                                                                                                                                                    | 5,000    |          |
| Depreciation debited to profit and loss account                                                                                                                                                                                                                                                         | 2,00,000 | 2,55,000 |
|                                                                                                                                                                                                                                                                                                         |          | 7,55,000 |
| Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]                                                                                                                                                                                                   | 15,000   |          |
| Income from agriculture [Exempt under section 10(1)]                                                                                                                                                                                                                                                    | 1,80,000 |          |
| Salary paid to staff not recorded in the books (Assumed it was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession) [See Note 1 below] | 48,000   |          |
| Depreciation under the Income-tax Act, 1961 (As per working note)                                                                                                                                                                                                                                       | 2,23,500 | 4,66,500 |
|                                                                                                                                                                                                                                                                                                         |          | 2,88,500 |
| Income from house property                                                                                                                                                                                                                                                                              |          |          |
| Annual value of self-occupied property                                                                                                                                                                                                                                                                  | Nil      |          |
| Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]                                                                                                                                                                            | Nil      | Nil      |
| Income from Other Sources                                                                                                                                                                                                                                                                               |          |          |
| Dividend from domestic companies                                                                                                                                                                                                                                                                        |          | 15,000   |
| Gross Total Income                                                                                                                                                                                                                                                                                      |          | 3,03,500 |
| Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]                                                                                                                                                                                                         |          | Nil      |
| Total Income                                                                                                                                                                                                                                                                                            |          | 3,03,500 |

Working Note:

Computation of depreciation under the Income-tax Act, 1961

| Particulars                                                                                                                                                                                  | ₹        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2024 less depreciation for P.Y. 2023-24 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh) | 2,08,500 |
| Depreciation @7.5% on ₹ 2 lakh (Assets used for < 180 days)                                                                                                                                  | 15,000   |
|                                                                                                                                                                                              | 2,23,500 |

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(ia) would not be available to him.

Notes (Alternate views):

1. It is also possible to take a view that the salary paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE. In such a case, no deduction allowable in respect of such expenditure.
2. Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.  
Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹3,94,500.

Q16. From the following particulars of Shri Khote for the year ending 31st March, 2026, find out his taxable income from business

| Particulars                  | Amount      | Particulars                         | Amount      |
|------------------------------|-------------|-------------------------------------|-------------|
| To Opening Stock             | 1,20,000    | By Sales                            | 2,14,20,000 |
| To Purchases                 | 2,10,00,000 | By Profit on sale of import licence | 5,000       |
| To Salaries                  | 25,000      | By Gift received                    | 24,000      |
| To Legal Expenses            | 10,000      | By Closing Stock                    | 2,00,000    |
| To Bad Debts                 | 5,000       |                                     |             |
| To Rent                      | 50,000      |                                     |             |
| To Interest on loan          | 2,500       |                                     |             |
| To Depreciation              | 15,000      |                                     |             |
| To Income tax paid           | 2,000       |                                     |             |
| To Outstanding Customs Duty  | 25,000      |                                     |             |
| To Advertisement             | 2,000       |                                     |             |
| To Legal expenses            | 12,000      |                                     |             |
| To Contribution towards URPF | 5,000       |                                     |             |
| To General expenses          | 17,500      |                                     |             |
| To Traveling expenses        | 1,00,000    |                                     |             |
| To Net Profit                | 2,58,000    |                                     |             |
|                              | 2,16,49,000 |                                     | 2,16,49,000 |

In computing the income, the following facts are to be taken into consideration:

1. Interest on loan is paid to brother of Shri Khote for loan taken for payment of advance income tax.
2. During the previous year 2018-19, assessee had claimed ₹ 45,000 as bad debt out of which only ₹ 35,000 was allowed. During the previous year, he recovers ₹ 25,000.
3. Contribution towards unrecognised provident fund was paid within time.
4. Legal expenses include ₹ 2,000 paid for preparation of income tax return.
5. Stock is undervalued by 10%.
6. Gift received was given by a supplier for achieving target sale.
7. Outstanding customs duty has been paid on 31-12-2026.

8. During the previous year, he comes to know that his former employee had embezzled cash of ₹ 5,000 on 31-3-2025, which was not accounted for.
  9. Traveling expenses include ₹ 50,000 being cost of trip to Singapore by an employee for 10 days. However, only 8 days of trip is useful to business and 2 days has been allowed as holiday to employee.
  10. Rent includes expenditure on extension of shed on rented building ₹ 26,000. However, such extension was completed on 1-5-2026 with total cost of ₹ 50,000.
  11. General expenses includes –
    - Salary of ₹ 1,200 paid to domestic servant.
    - Compensation of ₹ 2,000 paid for retrenchment of an employee.
- Compute his business income for the A.Y. 2026-27
- Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of Profits and gains of business or profession of Shri Khote

| Particulars                                              | Workings | Details | Amount   |
|----------------------------------------------------------|----------|---------|----------|
| Net profit as per Profit and Loss A/c                    |          |         | 2,58,000 |
| Add: Expenditure disallowed but debited in P/L A/c       |          |         |          |
| Income tax paid                                          | 1        | 2000    |          |
| Outstanding Customs Duty                                 | 2        | 25,000  |          |
| Contribution towards unrecognized provident fund         | 3        | 5,000   |          |
| Interest on loan                                         | 4        | 2,500   |          |
| Expenditure on extension of building shed                | 5        | 26,000  |          |
| Salary paid to domestic servant                          | 6        | 1,200   |          |
| Add: Income taxable but not credited to P/L A/c          |          |         |          |
| Recovery of bad debts [₹ 25,000 – (₹ 45,000 – ₹ 35,000)] | 7        | 15,000  | 76,700   |
|                                                          |          |         | 3,34,700 |
| Less: Expenditure allowed but not debited to P/L A/c     |          |         |          |
| Embezzlement by employee                                 | 8        |         | 5,000    |
|                                                          |          |         | 3,29,700 |
| Adjustment for valuation of stock                        |          |         |          |
| Add: Under valuation of closing stock                    | 12       | 22,222  |          |
| Less: Under valuation of opening stock                   | 13       | 13,333  | 8,889    |
| Profits and gains of business or profession              |          |         | 3,38,589 |

Notes:

1. Income tax is specifically disallowed u/s 40(a).
2. Customs Duty paid after due date of filing of return shall not be allowed as deduction [Sec. 43B]
3. Contribution to unrecognized provident fund is disallowed.
4. Interest on loan taken for payment of advance tax is disallowed.
5. Extension of building shed is an expenditure of capital nature, hence disallowed u/s 30.
6. Any expenditure of personal nature is disallowed.
7. As per sec. 41(4), where a deduction has been allowed in respect of bad debt or part of debt u/s 36(1)(vii), then if the amount subsequently recovered on any such debt or part is greater than the difference between the debt or part of debt and the amount so allowed, the excess shall be deemed to be profits and gains of business or profession.
8. Loss by embezzlement of cash by employee is allowed as deduction in the year in which such fact was known to the assessee.
9. Legal expenditure for preparation of income tax return is allowed expenditure u/s 37(1).
10. Gift received for achieving target-sale is perquisite related to business and shall be taxable u/s 28.



11. Traveling expenditure shall be fully allowed as deduction, as trip was for 10 days out of which 8 days spent for business purpose and remaining 2 days trip shall be treated as staff welfare expenditure being allowed u/s 37(1).
12. Under valuation of closing stock  
Actual value of closing stock (₹ 2,00,000/90%) = ₹ 2,22,222  
Under valuation of closing stock is 10% of ₹ 2,22,222 = ₹ 22,222
13. Under valuation of opening stock  
Actual value of opening stock (₹ 1,20,000/90%) = ₹ 1,33,333  
Under valuation of opening stock is 10% of ₹ 1,33,333 = ₹ 13,333

Q17. During the previous year 2025-26, profit and loss account of Shri Raj, proprietor of Raj Enterprises engaged in the business of readymade garments, shows profits of ₹ 1,50,000. With the following information, compute his taxable income from business –

- (a) Interest on capital ₹ 5,000
  - (b) Purchases include goods of ₹ 12,000 from his younger brother in cash. However, market value of such goods is ₹ 9,000.
  - (c) Interest paid outside India ₹ 1,00,000 without deducting tax at source.
  - (d) Penalty paid to Government for non-filing of GST return ₹ 5,000
  - (e) Penalty paid to customer for non-fulfilling of order within time ₹ 10,000
  - (f) Bad debts ₹ 1,00,000. Money has been advanced for purchase of Building.
  - (g) Revenue expenditure on promoting family planning among employees ₹ 10,000.
  - (h) Premium paid on health of employees ₹ 6,000 in cash
  - (i) Premium paid on health of his relatives ₹ 6,000 in cheque
  - (j) Employer's contribution to RPF ₹ 12,000. One-half of the amount is paid after due date as per relevant Act but before 31-3-2026.
  - (k) Employees contribution to RPF ₹ 10,000. ½ of the amount is paid after due date as per relevant Act.
  - (l) Interest on late payment of professional tax ₹ 1,000 (yet to be paid)
  - (m) Interest on loan from State Bank of India ₹ 10,000 (₹ 5,000 is not paid till due date of filing of return)
  - (n) Interest on late refund from income tax department ₹ 500
  - (o) Sale includes sale to Raj ₹ 10,000. (Cost of such goods ₹ 8,000; Market value of such goods ₹ 12,000)
  - (p) He received ₹ 80,000 from a debtor at a time in cash.
  - (q) Recovery of bad debt ₹ 10,000 (out of which ₹ 8,000 was allowed as deduction during A.Y.2018-19)
  - (r) Depreciation (being not debited in accounts) ₹ 20,000 allowed as deduction u/s 32
- Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of Profits and gains of business or profession of Shri Raj for the A.Y. 2026-27

| Particulars                                                 | Note | Details  | Amount   |
|-------------------------------------------------------------|------|----------|----------|
| Net profit as per Profit and Loss account                   |      |          | 1,50,000 |
| Add: Expenditure disallowed but debited in P/L A/c          |      |          |          |
| Interest on capital                                         | 1    | 5000     |          |
| Payment to relative in excess of market value of goods      | 2    | 3000     |          |
| Interest paid outside India without deducting tax at source | 3    | 1,00,000 |          |
| Penalty paid to government for non-filing of GST return     | 4    | 5000     |          |
| Bad debt                                                    | 6    | 1,00,000 |          |
| Premium paid on health of employees in cash                 | 8    | 6,000    |          |

|                                                               |    |        |          |
|---------------------------------------------------------------|----|--------|----------|
| Premium paid on health of his relatives in cheque             | 9  | 6,000  |          |
| Employees contribution to RPF                                 | 11 | 5,000  |          |
| Interest on loan from State Bank of India                     | 13 | 5,000  |          |
| Cost of goods sold to himself                                 | 14 | 8,000  |          |
| Family Planning                                               |    | 10,000 | 2,53,000 |
|                                                               |    |        | 4,03,000 |
| Less: Expenditure allowed but not debited in P/L A/c          |    |        |          |
| Depreciation u/s 32                                           |    | 20,000 |          |
| Less: Income not taxable but credited to P/L A/c              |    |        |          |
| Sales to himself (goods withdrawn for personal purpose)       | 14 | 10,000 |          |
| Recovery of bad debts                                         | 15 | 2,000  |          |
| Less: Income taxable under other head but credited to P/L A/c |    |        |          |
| Interest on late refund from income tax department            | 16 | 500    | 32,500   |
| Profits and gains of business or profession                   |    |        | 3,70,500 |

Notes:

- Interest on capital to proprietor is not allowed as no one can earn from a transaction with himself.
- Any unreasonable payment to relative is disallowed u/s 40A(2). Hence, ₹ 3,000 is disallowed. Since cash payment towards allowed expenditure (i.e. ₹ 9,000) does not exceed ₹ 10,000, hence provision of sec. 40A(3) is not applicable.
- Interest paid outside India without deducting tax at source is disallowed u/s 40(a).
- Any payment made for infringement of law is disallowed.
- Payment made for non-fulfilling of contract is not a payment for infringement of law. Hence, allowed u/s 37(1).
- Bad debt is allowed only when such debt has been taken into account as income of previous year or any earlier previous year(s) [Sec. 36(1)(vii)]. Since, the debt is in respect of purchase of a building, which was not considered as income of any previous year, hence it is disallowed.
- Any expenditure for promoting family planning is allowed to company assessee only [Sec. 36(1)(ix)].
- Payment of insurance premium on health of employees in cheque is allowed u/s 36(1)(ib).
- Payment of insurance premium on health of relative is not related to business, hence disallowed.
- Employer's contribution towards RPF is allowed if payment is made before due date of filing of return irrespective of fact that such payment was made after due date prescribed in the relevant Act.
- Any sum received from employees as their contribution towards RPF is allowed only when such sum has been credited to such fund within the due date prescribed in the relevant Act [Sec. 36(1)(va)].
- Interest on late payment of professional tax is not a penalty but compensatory in nature. Hence, it is allowed u/s 37(1). Further such interest is not governed by the provisions of sec. 43B.
- Any interest payable to any scheduled bank is allowed on cash basis [Sec. 43B]. Hence, unpaid amount is disallowed.
- Any expenditure of personal nature is not allowed. Further, no one can earn from a transaction with himself. Hence, sale made to himself is not treated as income.
- Bad debt recovery is treated as income in the year of recovery to the extent of bad debt allowed in the earlier year [Sec. 41(4)]
- Interest on late refund of income tax is taxable under the head 'Income from other sources'.
- Receipt from debtor ₹ 80,000 in cash is not attracted by provision of sec. 40A(3).



Q18. Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2025, for the purpose of his business as per following details:

|                             |           |
|-----------------------------|-----------|
| Cost of car (excluding GST) | 12,00,000 |
| Add: Delhi GST at 14%       | 1,68,000  |
| Add: Central GST at 14%     | 1,68,000  |
| Total price of car          | 15,36,000 |

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2026-27, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2027-28 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. (PYP 4 Marks, Nov'18, RTP Nov '19)

Ans.

| Particulars                                                                                                                                                                                                                                                                                                                                               | ₹        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Since the car was put to use for more than 180 days in the PY.2025-26, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable. |          |
| Depreciation for PY.2025-26 = $15\% \times ₹15,36,000 \times 75\% =$                                                                                                                                                                                                                                                                                      | 1,72,800 |
| Written Down Value as on 1.4.2026 = $₹15,36,000 - ₹1,72,800 = ₹13,63,200$                                                                                                                                                                                                                                                                                 |          |
| Depreciation for PY.2026-27 = $15\% \times ₹13,63,200 \times 75\% =$                                                                                                                                                                                                                                                                                      | 1,53,360 |

Note - As per GST Law, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence,

GST would form part of actual cost of car. The above solution has been worked out accordingly. However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows -

Alternative Answer

| Particulars                                                                                                                                                                                                                                | ₹        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Since the car was put to use for more than 180 days in the PY.2025-26, full depreciation@15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST. |          |
| Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.                                                                           |          |
| Depreciation for PY.2025-26 = $15\% \times ₹ 12,00,000 \times 75\% =$                                                                                                                                                                      | 1,35,000 |
| Written Down Value as on 1.4.2015 = $₹ 12,00,000 - ₹ 1,35,000 = ₹ 10,65,000$                                                                                                                                                               |          |
| Depreciation for PY.2026-27 = $15\% \times ₹ 10,65,000 \times 75\% =$                                                                                                                                                                      | 1,19,813 |



## HOMEWORK

- Q1.** A car purchased by Dr. Soman on 10.08.2022 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2025 by him, when its market value was ₹ 2,50,000.  
Compute the actual cost of the car and the amount of depreciation for the A.Y. 2026-27 assuming the rate of depreciation to be 15%.

**Ans.** As per section 43(1), the expression “actual cost” would mean the actual cost of asset to the assessee. The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.  
Therefore, amount of depreciation on car as per section 32 for the A.Y.2026-27 would be ₹ 78,750, being ₹ 5,25,000 × 15%.  
Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

- Q2.** A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2025-26 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2026-27. Assume that all the assets were purchased by way of account payee cheque.

| Sl. No. | Description                                            | Date of acquisition | Date when put to use | Amount ₹ |
|---------|--------------------------------------------------------|---------------------|----------------------|----------|
| 1.      | Computer including computer software                   | 27 Sept., 25        | 1 Oct., 25           | 35,000   |
| 2.      | Computer UPS                                           | 2 Oct., 25          | 8 Oct., 25           | 8,500    |
| 3.      | Computer printer                                       | 1 Oct., 25          | 1 Oct., 25           | 12,500   |
| 4.      | Books (other than publications are of ₹ 12,000) annual | 1 Apr., 25          | 1 Apr., 25           | 13,000   |
| 5.      | Office furniture<br>(Acquired from a practicing C.A.)  | 1 Apr., 25          | 1 Apr., 25           | 3,00,000 |
| 6.      | Laptop                                                 | 26 Sep., 25         | 8 Oct., 25           | 43,000   |

**Ans.** Computation of depreciation allowable for A.Y.2026-27

| Asset                                                                                                                   | Rate | Depreciation (₹) |
|-------------------------------------------------------------------------------------------------------------------------|------|------------------|
| Block 1 Furniture [See working note below]                                                                              | 10%  | 30,000           |
| Block 2 Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below] | 40%  | 34,500           |
| <b>Total depreciation allowable</b>                                                                                     |      | <b>64,500</b>    |

Working Note:

Computation of depreciation

| Block of Assets                                                                                                                             | ₹      |
|---------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Block 1: Furniture – [Rate of depreciation – 10%]<br>Put to use for more than 180 days [₹ 3,00,000@10%]                                     | 30,000 |
| Block 2: Plant [Rate of depreciation- 40%]<br>(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%] | 14,000 |



|                                                                                                                                |        |
|--------------------------------------------------------------------------------------------------------------------------------|--------|
| (b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @20%]<br>[See note below]                                        | 1,700  |
| (c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @40%]                                                       | 5,000  |
| (d) Laptop (put to use for less than 180 days) [₹ 43,000 @20%] [See note below]                                                | 8,600  |
| (e) Books (being annual publications or other than annual publications)<br>(Put to use for more than 180 days) [₹ 13,000 @40%] | 5,200  |
|                                                                                                                                | 34,500 |

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2025-26 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

- Q3. Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2026-27, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

|       | Particulars                                                                                                                                         | (₹ in lacs) |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (i)   | WDV of block as on 31.3.2025 (15% rate)                                                                                                             | 50.00       |
| (ii)  | Depreciation for P.Y. 2024-25                                                                                                                       | 7.50        |
| (iii) | New machinery purchased on 12-10-2025                                                                                                               | 10.00       |
| (iv)  | Machinery imported from Colombo on 12-4-2025.<br>This machine had been used only in Colombo earlier<br>and the assessee is the first user in India. | 9.00        |
| (v)   | New computer installed in generation wing unit on<br>15-7-2025                                                                                      | 2.00        |

All assets were purchased by A/c payee cheque.

Ans. Computation of depreciation under section 32 for A.Y.2026-27

| Particulars                                                                                                                                                                                                              | ₹        | ₹         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Normal Depreciation                                                                                                                                                                                                      |          |           |
| Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2024 of ₹ 50,00,000 – Depreciation for P.Y. 2024-25 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000] | 7,72,500 |           |
| Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days                                                                                                                                  | 75,000   |           |
|                                                                                                                                                                                                                          | 8,47,500 |           |
| Depreciation@40% on computers purchased ₹ 2,00,000                                                                                                                                                                       | 80,000   | 9,27,500  |
| Additional Depreciation (Refer Note below)                                                                                                                                                                               |          |           |
| Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2024]                                                                                                                  | 1,00,000 |           |
| Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]                                                                                                                 | 40,000   | 1,40,000  |
| Depreciation on Plant and Machinery                                                                                                                                                                                      |          | 10,67,500 |

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2025, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2026-27. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person.

Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

- Q4. Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2025. He incurred capital expenditure of ₹ 50 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2025. Further, during the P.Y. 2025-26, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2026-27, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes". He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2026-27. Also, assume that payments for capital expenditure were made by net banking.

Ans. Computation of profits and gains of business or profession for A.Y. 2026-27

| Particulars                                                                                                                                           | ₹         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Profits from the specified business of new hotel in Madurai<br>(before providing deduction under section 35AD)                                        | 25 lakh   |
| Less: Deduction under section 35AD                                                                                                                    |           |
| Capital expenditure incurred during the P.Y.2025-26<br>(excluding the expenditure incurred on acquisition of<br>land) = ₹ 200 lakh – ₹ 150 lakh =     | 50 lakh   |
| Capital expenditure incurred prior to 1.4.2025 (i.e.,<br>prior to commencement of business) and capitalized in<br>the books of account as on 1.4.2025 | 50 lakh   |
|                                                                                                                                                       | 100 lakh  |
| Loss from the specified business of new hotel in Madurai                                                                                              | (75 lakh) |
| Profit from the existing business of running a hotel in Coimbatore                                                                                    | 120 lakh  |
| Net profit from business after set-off of loss of specified business<br>against profits of another specified business under section 73A               | 45 lakh   |

- Q5. Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

|      |                                                                     | ₹         |
|------|---------------------------------------------------------------------|-----------|
| (i)  | Andhra Pradesh State Financial Corporation (P.Y. 2024-25 & 2025-26) | 15,00,000 |
| (ii) | Indian Bank (P.Y. 2025-26)                                          | 30,00,000 |
|      |                                                                     | 45,00,000 |

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2026, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

- Ans. According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2026-27 shall be calculated as follows:

|                                     | Interest outstanding | Number of Instalments | Amount per instalment | Instalments paid | Interest allowable (₹) |
|-------------------------------------|----------------------|-----------------------|-----------------------|------------------|------------------------|
| APSFC                               | 15 lakh              | 60                    | 25,000                | 5                | 1,25,000               |
| Indian Bank                         | 30 lakh              | 60                    | 50,000                | 3                | 1,50,000               |
| Total amount eligible for deduction |                      |                       |                       |                  | 2,75,000               |

- Q6. Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

| Particulars            | ₹        |
|------------------------|----------|
| Financial year 2022-23 | 1,15,000 |
| Financial year 2023-24 | 1,80,000 |
| Financial year 2024-25 | 2,10,000 |

What is his obligation regarding maintenance of books of accounts for Assessment Year 2026-27 under section 44AA of Income-tax Act, 1961?

- Ans. Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- (i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or
- (ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2022-23, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Q7. Profit & Loss Account of Mr X for PY 2025 -2026 is as follows

|                                                         |             |                                                         |             |
|---------------------------------------------------------|-------------|---------------------------------------------------------|-------------|
| To Opening Stock                                        | 1,20,000    | By Sales                                                | 1,71,10,000 |
| To Purchases                                            | 20,00,000   | By Closing Stock                                        | 3,00,000    |
| To Rent for Plant & Machinery                           | 60,000      | By Income from UTI                                      | 30,000      |
| To Donation of Political Party                          | 30,000      | By Dividend from Indian Company                         | 40,000      |
| To Income Tax                                           | 40,000      | By Refund of Excess of GST Penalty                      | 30,000      |
| To Advertisement Expense                                | 67,500      | By Employees contribution to<br>Provident Fund received | 3,00,000    |
| To Income tax Penalty                                   | 40,000      |                                                         |             |
| To Interest paid to Bank                                | 40,000      |                                                         |             |
| To Bonus                                                | 30,000      |                                                         |             |
| To Employers Contribution to<br>Gratuity Fund           | 70,000      |                                                         |             |
| To Employers Contribution to<br>National Pension Scheme | 3,80,000    |                                                         |             |
| General expenses                                        | 90,00,000   |                                                         |             |
| To Net Profit                                           | 59,32,500   |                                                         |             |
|                                                         | 1,78,10,000 |                                                         | 1,78,10,000 |

- Opening Stock is overvalued by 10%
- Closing Stock is undervalued by 10%
- Basic Salary & Dearness Allowance (in terms) of Employees for which National Pension scheme account is opened is 20,00,000. Employers Contribution deposited on or before due date of Fund = 1,70,000.& Balance is deposited upto due date of filing return
- Employers Contribution to Gratuity Fund Paid upto Due date of filing return = 40000
- Depreciation as per Income tax Rules = 20,000
- Purchases include purchases of 4,00,000 from brother (Market Value of goods = 4,20,000)
- Bonus Paid upto due date of filing return = 27,500
- Employees Contribution deposited upto due date of fund = 250000 & balance is deposited upto due date of filing return. Entry is not recorded in profit & loss account

Compute Total Income?

Assume the assessee opts out of the default scheme under Section 115BAC?

Ans. Computation of Total Income

|                                         |           |
|-----------------------------------------|-----------|
| Income from Business & Profession (WN1) | 58,49,242 |
| Income from Other Sources(WN2)          | 70000     |
| Total Income                            | 59,19,242 |

# WN1 - Computation of Income from Business & Profession

| Particulars                                                                                                                                                                                                                                 | Note | Amount | Amount    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------|-----------|
| Net Profit as per Profit & Loss Account                                                                                                                                                                                                     |      |        | 59,32,500 |
| Add - Expenses debited to Profit & Loss Account but not allowed as deduction/Incomes not credited to profit & loss account but taxable                                                                                                      |      |        |           |
| - Donation to Political Party                                                                                                                                                                                                               |      | 30000  |           |
| - Income tax                                                                                                                                                                                                                                |      | 40000  |           |
| - Income tax Penalty                                                                                                                                                                                                                        |      | 40000  |           |
| - Overvaluation of opening Stock                                                                                                                                                                                                            |      | 10909  |           |
| - Undervaluation of Closing Stock                                                                                                                                                                                                           |      | 33333  |           |
| - Employers Contribution to NPS (Maximum allowed is 14% of Basic Salary + DA (in terms) i.e 2,80,000. entire amt is deposited upto due date therefore it is allowed. Employers contribution in excess of limit is not allowed as deduction) |      | 100000 |           |
| - Employers contribution to Gratuity fund not deposited upto due date of ROI                                                                                                                                                                |      | 30000  |           |
| - Purchases from Brother (Purchased for price less than MV)                                                                                                                                                                                 |      | 0      |           |
| - Unpaid Bonus                                                                                                                                                                                                                              |      | 2500   |           |
|                                                                                                                                                                                                                                             |      |        | 286742    |
| Less - Expenses not debited to Profit & Loss Account but allowed as deduction/Incomes credited to profit & loss account but taxable under other heads or exempt                                                                             |      |        |           |
| - Dividend                                                                                                                                                                                                                                  |      | 40000  |           |
| - Income from UTI                                                                                                                                                                                                                           |      | 30000  |           |
| - Refund of excess GST Penalty                                                                                                                                                                                                              |      | 30000  |           |
| - Depreciation as per Income tax Rules                                                                                                                                                                                                      |      | 20000  |           |
| - Employees Contribution deposited upto due date on fund                                                                                                                                                                                    |      | 250000 | 370000    |
|                                                                                                                                                                                                                                             |      |        | 58,49,242 |

# WN2 - Income from Other Sources

|                 |       |
|-----------------|-------|
| Dividend        | 40000 |
| Income from UTI | 30000 |
|                 | 70000 |

Q8. Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

- Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2024-25 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- Commodities transaction tax paid ₹ 20,000 on sale of bullion.



Ans. Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (PY.2025-26, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2025-26 exceeds ₹ 100 lakhs. Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Q9. Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2026-27:

(i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.

(ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.

(iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.

(iv) Payment of ₹ 50,000 by using credit card for fire insurance.

(v) Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.

(vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.





- Ans. (i) Not allowable as deduction: As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
  - (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.
- Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.
- Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.
- (ii) Allowable as deduction: As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000. Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.
- (iii) Not allowable as deduction: Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.
- (iv) Allowable as deduction: Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.
- (v) Not allowable as deduction: Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.
- (vi) Allowable as deduction: The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹30,000 made in cash to a transporter for carriage of goods.

Q10. Mr. Prem has following assets used for business purpose as on 01.04.2025:

- (i) A machinery costing ₹4 lakh, which was used for scientific research related to business and deduction u/s 35 was allowed and claimed.
  - (ii) A laptop received as a gift from his friend costing ₹60,000. It was purchased on 01.04.2024 by his friend.
  - (iii) A temporary wooden structure costing ₹70,000 erected in December, 2025.
- Compute the depreciation allowed on these assets for A.Y. 2026-27.

Computation of Depreciation to Mr. Prem for A.Y. 2026-27

| Ans. | Particulars                                                                                                                                                                                        | Amount (₹) |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
|      | Depreciation on machinery used for scientific research Actual cost is nil as 4,00,000, being actual cost 4,00,000, being deduction allowed and claimed u/s 35]                                     | Nil        |
|      | Depreciation on laptop received as a gift @40% on 36,000 [ 60,000, being actual cost to previous owner 24,000, being depreciation for P.Y. 2024-25 allowable to assessee if it was the only asset] | 14,400     |

|                                                                                                                 |        |
|-----------------------------------------------------------------------------------------------------------------|--------|
| Depreciation on temporary wooden structure @40% x 50% on 70,000 [Since it is put to use for less than 180 days] | 14,000 |
|                                                                                                                 | 28,400 |

- Q11. AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of 15 lakhs each and remuneration of ₹50,000 p.m. to Anand and ₹40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2026, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

|                                                                                     | ₹        |
|-------------------------------------------------------------------------------------|----------|
| (i) Current year revenue expenditure on scientific research                         | 2,40,000 |
| (ii) Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23 | 85,000   |
| (iii) Unabsorbed depreciation of A.Y. 2017-18                                       | 52,000   |
| (iv) Current year depreciation under section 32                                     | 4,70,000 |
| (v) Brought forward business loss of A.Y. 2021-22                                   | 49,000   |
| (vi) Current year capital expenditure on scientific research                        | 3,45,000 |

You are required to compute the book profit and remuneration allowable in the hands of AB Light LLP for A.Y. 2026-27. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Ans. Computation of book profit of AB Light LLP for the A.Y. 2026-27

| Particulars                                                                                                       | Amount (₹) | Amount (₹) |
|-------------------------------------------------------------------------------------------------------------------|------------|------------|
| Net profit as per profit and loss account before interest on capital and remuneration to partners and other items |            | 25,86,000  |
| Less: Expenditure allowable from business income                                                                  |            |            |
| - Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% × 2)                  | 3,60,000   |            |
| - Current year revenue expenditure on scientific research under section 35(1)(i)                                  | 2,40,000   |            |
| - Current year depreciation under section 32(1)                                                                   | 4,70,000   |            |
| - Current year capital expenditure on scientific research under section 35(1)(iv)                                 | 3,45,000   |            |
| - Unabsorbed depreciation of A.Y. 2017-18 under section 32(2)                                                     | 52,000     |            |
| - Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23 under section 35(4)              | 85,000     | 15,52,000  |
| Book Profit                                                                                                       |            | 10,34,000  |

Note: Brought forward business loss of A.Y. 2021-22 is not allowed to be set off while computing book profit.

Remuneration actually paid or payable to working partners = [ ₹50,000 × 12 + ₹40,000 × 12 ] = ₹10,80,000  
Partners' remuneration allowable under section 40(b)

|                                                           |          |
|-----------------------------------------------------------|----------|
| On the first ₹ 6,00,000 of book profit [₹ 6,00,000 × 90%] | 5,40,000 |
| On the balance ₹ 4,34,000 [₹ 4,34,000 × 60%]              | 2,60,400 |
|                                                           | 8,00,400 |

Hence, allowable working partners salary in the hands of AB Light LLP for the A.Y. 2026-27 is ₹ 8,00,400  
Remuneration taxable in the hands of Mr. Anand as business income ₹8,00,400 × ₹6,00,000/10,80,000 = ₹4,44,667

Remuneration taxable in the hands of Mr. Bheem as business income = ₹8,00,400 × 4,80,000/10,80,000 = ₹3,55,733

- Q12. Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2025. The depreciation on these machines is charged @15%. The written down value of these machines as on 1st April, 2025 was ₹7,70,000. Two of the old machines were sold on 15th July, 2025 for ₹10,00,000. A second hand plant was bought for ₹6,10,000 on 30th December, 2025. Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2026:

| Sl. No. | Particulars                                           | ₹ (in lakhs) |
|---------|-------------------------------------------------------|--------------|
| (i)     | Payment made to UV University, an approved University | 15           |
| (ii)    | Payment made to Satyawati College                     | 17           |

Compute the following for Assessment Year 2026-27

- (i) Claim of depreciation  
(ii) Deduction available under section 35 if he has shifted out of the default tax regime.

- Ans. (i) Computation of depreciation for A.Y.2026-27

| Particulars                                                                                                                                                                                                                                                                                                                                                                            | ₹         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| W.D.V. of the block as on 1.4.2025                                                                                                                                                                                                                                                                                                                                                     | 7,70,000  |
| Add: Purchase of second hand plant during the year [in December, 2025]                                                                                                                                                                                                                                                                                                                 | 6,10,000  |
|                                                                                                                                                                                                                                                                                                                                                                                        | 13,80,000 |
| Less: Sale consideration of old machinery during the year [in July, 2025]                                                                                                                                                                                                                                                                                                              | 10,00,000 |
| W.D.V of the block as on 31.03.2026                                                                                                                                                                                                                                                                                                                                                    | 3,80,000  |
| Depreciation @ 15% but restricted to 50% thereon.                                                                                                                                                                                                                                                                                                                                      | 28,500    |
| [Since the value of the block as on 31.3.2026 represents part of actual cost of second hand plant purchased in December, 2025, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000] |           |

- (ii) Computation of deduction allowable under section 35

| Particulars                                                             | Amount<br>(₹ in lakhs) | Section   | % of<br>weighted<br>deduction | Amount of<br>deduction<br>(₹ in lakhs) |
|-------------------------------------------------------------------------|------------------------|-----------|-------------------------------|----------------------------------------|
| Payment for scientific research                                         |                        |           |                               |                                        |
| UV University, an approved University                                   | 15                     | 35(1)(ii) | 100%                          | 15                                     |
| Satyawati College [Since it is not mentioned as an approved University] | 17                     | -         | NIL                           | NIL                                    |
| Deduction allowable under section 35                                    |                        |           |                               | 15                                     |

Q1. Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2025. The manufacturing unit was set up on 1.5.2025. He commenced his manufacturing operations on 1.6.2025. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore. Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Q2. Mr. A, furnishes the following particulars for the P.Y.2025-26. Compute the deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head "Profits and gains of business or profession", if.

(i) he is paying tax under default tax regime under section 115BAC

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

|    | Particulars                                                                                                                                                       | ₹        |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| 1. | Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research                                                                  | 1,00,000 |
| 2. | Amount paid to IIT, Delhi for an approved scientific research programme                                                                                           | 2,50,000 |
| 3. | Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority | 4,00,000 |
| 4. | Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business                     |          |
|    | (a) Revenue expenditure on scientific research                                                                                                                    | 3,00,000 |
|    | (b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research                                                                 | 7,50,000 |

Q3. Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2025, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2025, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2025. This new vehicle could, however, be put to use only on 15th June, 2025.

Compute the total income of Mr. Sukhvinder for the A.Y. 2026-27, taking note of the following data:

| Particulars                            | ₹        | ₹         |
|----------------------------------------|----------|-----------|
| Freight charges collected              |          | 12,70,000 |
| Less: Operational expenses             | 6,25,000 |           |
| Depreciation as per section 32         | 1,85,000 |           |
| Other office expenses                  | 15,000   | 8,25,000  |
| Net Profit                             |          | 4,45,000  |
| Other business and non-business income |          | 70,000    |

Q4. Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

(i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.



- (ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head “Profits and Gains from Business and Profession”.
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2025 is a deductible expenditure under section 36.
- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Q5. Mr. Ramesh constructed a big house (construction completed in Previous Year 2011-12) with 3 independent units. Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 15,000. A sum of ₹ 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Ramesh is occupied by the tenant. Unit - 1 remains vacant for 2 months when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 1,88,000

Fair rent - ₹ 2,48,000

Standard rent under the Rent Control Act - ₹ 2,28,000

Municipal taxes - ₹ 20,000

Repairs - ₹ 5,000

Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent ₹ 6,000 and fire insurance premium paid - ₹ 60,000.

Income of Ramesh from the business is ₹ 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Ramesh?

Assume the assessee opts out of the default scheme under Section 115BAC?

**Solution 1:**

Computation of depreciation allowable for the A.Y. 2026-27  
in the hands of Mr. Gamma

| Particulars                                    | ₹ in crore |       |
|------------------------------------------------|------------|-------|
| Total cost of plant and machinery              | 120.00     |       |
| Less: Used for Scientific Research (Note 1)    | 15.00      |       |
|                                                | 105.00     |       |
| Normal Depreciation at 15% on ₹ 105 crore      |            | 15.75 |
| Additional Depreciation:                       |            |       |
| Cost of plant and machinery                    | 120.00     |       |
| Less: Second-hand plant and machinery (Note 2) | 20.00      |       |

|                                                                                                                                                                      |       |       |       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|-------|
| Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)(ia) (Note 2) | 15.00 | 35.00 |       |
|                                                                                                                                                                      |       | 85.00 |       |
| Additional Depreciation at 20%                                                                                                                                       |       |       | 17.00 |
| Depreciation allowable for A.Y.2025-26                                                                                                                               |       |       | 32.75 |

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, –

- any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

- Second hand plant and machinery;
- New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

#### Solution 2:

- If Mr. A is paying tax under default tax regime under section 115BAC

#### Computation of deduction under section 35 for the A.Y.2026-27

| Particulars                                                            | ₹        | Section             | Allowability                           | Amount of deduction (₹) |
|------------------------------------------------------------------------|----------|---------------------|----------------------------------------|-------------------------|
| Payment for scientific research                                        |          |                     |                                        |                         |
| Indian Institute of Science, Bangalore                                 | 1,00,000 | 35(1)(ii)           | Not allowable under default tax regime | Nil                     |
| IIT, Delhi                                                             | 2,50,000 | 35(2AA)             |                                        | Nil                     |
| X Ltd.                                                                 | 4,00,000 | 35(1)(ia)           |                                        | Nil                     |
| Expenditure incurred on in-house research and development facility     |          |                     |                                        |                         |
| Revenue expenditure                                                    | 3,00,000 | 35(1)(i)            | Allowable under default tax regime     | 3,00,000                |
| Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000) | 2,50,000 | 35(1)(iv)           |                                        | 2,50,000                |
|                                                                        |          | read with 35(2)(ia) |                                        |                         |
| Deduction allowable under section 35                                   |          |                     |                                        | 5,50,000                |

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

Computation of deduction under section 35 for the A.Y.2026-27

| Particulars                                                            | ₹        | Section                       | Allowability | Amount of deduction (₹) |
|------------------------------------------------------------------------|----------|-------------------------------|--------------|-------------------------|
| Payment for scientific research                                        |          |                               |              |                         |
| Indian Institute of Science                                            | 1,00,000 | 35(1)(ii)                     | 100%         | 1,00,000                |
| IIT, Delhi                                                             | 2,50,000 | 35(2AA)                       | 100%         | 2,50,000                |
| X Ltd.                                                                 | 4,00,000 | 35(1)(ia)                     | 100%         | 4,00,000                |
| Expenditure incurred on in-house research and development facility     |          |                               |              |                         |
| Revenue expenditure                                                    | 3,00,000 | 35(1)(i)                      | 100%         | 3,00,000                |
| Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000) | 2,50,000 | 35(1)(iv) read with 35(2)(ia) | 100%         | 2,50,000                |
| Deduction allowable under section 35                                   |          |                               |              | 13,00,000               |

**Solution 3:**

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (See Notes 1 & 2 below) and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

**Notes:**

1. Computation of total income of Mr. Sukhvinder for A.Y. 2026-27

| Particulars                                                       | Presumptive income ₹ | Where books are maintained ₹ |
|-------------------------------------------------------------------|----------------------|------------------------------|
| Income from business of plying goods carriages [See Note 2 Below] | 13,72,500            | 4,45,000                     |
| Other business and non-business income                            | 70,000               | 70,000                       |
| Total Income                                                      | 14,42,500            | 5,15,000                     |



2. Calculation of presumptive income as per section 44AE

| Type of carriage                             | No. of months | Rate per ton per month/<br>per month | Ton            | Amount<br>₹ |
|----------------------------------------------|---------------|--------------------------------------|----------------|-------------|
| (1)                                          | (2)           |                                      | (3)            | (4)         |
| Heavy goods vehicle                          |               |                                      |                |             |
| 1 goods carriage upto 1st May                | 2             | 1,000                                | 15             | 30,000      |
|                                              |               |                                      | (15,000/1,000) |             |
| 5 goods carriage held throughout the year    | 12            | 1,000                                | 15             | 9,00,000    |
|                                              |               |                                      | (15,000/1,000) |             |
| Goods vehicle other than heavy goods vehicle |               |                                      |                |             |
| 1 goods carriage from 6th May                | 11            | 7,500                                | -              | 82,500      |
| 4 goods carriage held throughout the year    | 12            | 7,500                                | -              | 3,60,000    |
|                                              |               |                                      |                |             |
| Total                                        |               |                                      |                | 13,72,500   |

**Solution 4:**

- (i) True: Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) True: As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) True: According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) True: Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) False: Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) False: Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.  
In this case, the individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(ia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution 5:**

**Computation of Taxable Income of Mr. Ramesh**

| Particulars                                                                                                                                                  | Amount<br>(₹) | Amount<br>(₹) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Income from house property                                                                                                                                   |               |               |
| <u>Unit - 1 [50% of floor area - Let out]</u>                                                                                                                |               |               |
| Gross Annual Value, higher of                                                                                                                                |               |               |
| - Expected rent ₹ 1,14,000 [Higher of Municipal Value of ₹ 94,000 p.a. and Fair Rent of ₹ 1,24,000 p.a., but restricted to Standard Rent of ₹ 1,14,000 p.a.] |               |               |
| - Actual rent ₹ 1,47,000 [₹ 15,000 × 10] less unrealized rent <sup>3</sup> of ₹ 3,000                                                                        |               |               |
| Gross Annual Value                                                                                                                                           | 1,47,000      |               |
| (Alternatively, ₹ 1,50,000 can be shown as actual rent and gross annual value, and thereafter, deduct ₹ 3,000 unrealized rent therefrom)                     |               |               |
| Less: Municipal taxes [50% of ₹20,000]                                                                                                                       | 10,000        |               |
| Net annual value                                                                                                                                             | 1,37,000      |               |
| Less: Deductions from Net Annual Value                                                                                                                       |               |               |
| (a) 30% of Net Annual Value                                                                                                                                  | 41,100        |               |
| (b) Interest on loan [50% of ₹ 60,000]                                                                                                                       | 30,000        | 65,900        |
| <u>Unit - 3 [25% of floor area - Self occupied]</u>                                                                                                          |               |               |
| Net Annual Value                                                                                                                                             | -             |               |
| Less: Interest on loan [ 25% of ₹ 60,000]                                                                                                                    | 15,000        | (15,000)      |
| Income from house property                                                                                                                                   |               | 50,900        |
| Profits and gains from business or profession                                                                                                                |               |               |
| Business Income [without deducting expenditure on Unit - 2 25% floor area used for business purposes]                                                        | 1,40,000      |               |
| Less: Expenditure in respect of Unit -2                                                                                                                      |               |               |
| - Municipal taxes [25% of ₹ 20,000 <sup>5</sup> ]                                                                                                            | 5,000         |               |
| - Repairs [25% of ₹ 5,000]                                                                                                                                   | 1,250         |               |
| - Interest on loan [25% of ₹ 60,000]                                                                                                                         | 15,000        |               |
| - Ground rent [ 25% of ₹ 6,000]                                                                                                                              | 1,500         |               |
| - Fire Insurance premium [25% of ₹ 60,000]                                                                                                                   | 15,000        |               |
|                                                                                                                                                              | 37,750        | 1,02,250      |
| Taxable Income                                                                                                                                               |               | 1,53,150      |



## CLASSWORK

Q1. Which of the following assets are capital asset?

| Particulars                                                          | Capital Asset |
|----------------------------------------------------------------------|---------------|
| Motor Car (For Dealer of Motor Car)                                  |               |
| Motor Car (used for family)                                          |               |
| Motor Car (used by Tax Gurucool)                                     |               |
| Jewellery (Kalyan jewellers)                                         |               |
| Gold Ring (Held by ARP)                                              |               |
| Gold Ring (Held by Student)                                          |               |
| Zero coupon bonds                                                    |               |
| Securities held by person other than FII (held as investment)        |               |
| Securities held by person other than FII (held as SIT)               |               |
| Securities held by FII (held as investment)                          |               |
| Securities held by FII (held as SIT)                                 |               |
| Agriculture Land in Rural Area                                       |               |
| Agriculture land in urban area                                       |               |
| Immovable property (held by person engaged in construction business) |               |
| Immovable property (used for residence)                              |               |
| Immovable property (used for office purpose)                         |               |

Q2. Determine Holding Period of following asset

| Particulars                                | Holding Period |
|--------------------------------------------|----------------|
| Listed Equity shares                       |                |
| Unlisted Equity shares                     |                |
| Listed preference shares                   |                |
| Unlisted preference shares                 |                |
| Listed Debentures                          |                |
| Unlisted Debentures                        |                |
| Listed unit of equity oriented MF (UTI)    |                |
| Unlisted unit of equity oriented MF (UTI)  |                |
| Listed unit of debt oriented MF (UTI)      |                |
| Unlisted unit of debt oriented MF (UTI)    |                |
| Listed unit of equity oriented MF (HDFC)   |                |
| Unlisted unit of equity oriented MF (HDFC) |                |
| Listed unit of debt oriented MF (HDFC)     |                |
| Unlisted unit of debt oriented MF (HDFC)   |                |
| Zero Coupon Bonds – Listed                 |                |
| Zero Coupon Bonds – unlisted               |                |
| Land                                       |                |
| Jewellery                                  |                |

Q3. Asset = House property  
 Year of acquisition = PY 2024-25  
 Year of transfer = PY 2025-26  
 Purchase Cost = 10,00,000  
 Selling price = 30,00,000  
 Capital Expenditure incurred after purchase = 5,00,000  
 Brokerage 1% paid at the time of acquisition & transfer  
 Compute Capital Gains?

Ans. Computation of Income from Capital gains

|                                             |             |
|---------------------------------------------|-------------|
| Holding Period – PY 24-25 to 25-26          | STCA        |
| Full Value of consideration                 | 30,00,000   |
| Less – Expenses in connection with transfer | (30,000)    |
| Net Consideration                           | 29,70,000   |
| Less – Cost of acquisition                  | (10,10,000) |
| Less – Cost of Improvement                  | (5,00,000)  |
| Short Term Capital gains                    | 14,60,000   |

Q4. Asset = House property  
 Year of acquisition = PY 2003-04  
 Year of transfer = PY 2025-26  
 Purchase Cost = 1,00,000  
 Selling price = 3,00,00,000  
 Capital Expenditure incurred after purchase  
 PY 2007-08 = 5,00,000  
 PY 2021-22 = 7,00,000  
 Brokerage 1% paid at the time of acquisition & transfer  
 Compute Capital Gains?

Ans. Computation of capital gains

|                                                  |             |
|--------------------------------------------------|-------------|
| Holding period - PY 03-04 to PY 25-26            | LTCA        |
| Full Value of consideration                      | 3,00,00,000 |
| Less – Expenses in connection with transfer      | (3,00,000)  |
| Net Consideration                                | 2,97,00,000 |
| Less – Cost of acquisition                       | (1,01,000)  |
| Less – Cost of Improvement (5,00,000 + 7,00,000) | (12,00,000) |
| Long term capital gains                          | 2,83,99,000 |

Q5. Asset = Any Asset (Movable or Immovable)  
 Year of acquisition = PY 1993-94  
 Year of transfer = PY 2025-26  
 Purchase Cost = 1,00,000  
 Selling price = 3,00,00,000  
 Capital Expenditure incurred after purchase  
 PY 1997-98 = 2,00,000  
 PY 2007-08 = 5,00,000  
 PY 2021-22 = 7,00,000  
 Brokerage 1% paid at the time of acquisition & transfer  
 FMV of Asset as on 01.04.2001 = 8,00,000  
 SDV of Asset as on 01.04.2001 (only in case of immovable asset) = 7,00,000  
 Compute Capital Gains?

| Ans. Computation of Income from capital gains (Assuming property is movable property)                                                           |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Holding Period – PY 93-94 to 25-26                                                                                                              | LTCA        |
| Full Value of consideration                                                                                                                     | 3,00,00,000 |
| Less – Expenses in connection with transfer                                                                                                     | (3,00,000)  |
| Net Consideration                                                                                                                               | 2,97,00,000 |
| Less – Cost of acquisition (COA = Original Cost or FMV as on 01.04.2001<br>whichever is higher. i.e., 1,01,000 or 8,00,000 whichever is higher) | (8,00,000)  |
| Less – Cost of Improvement (5,00,000 + 7,00,000)                                                                                                | (12,00,000) |
| Long term capital gains                                                                                                                         | 2,77,00,000 |

| Computation of Income from capital gains (Assuming property is immovable property)                                                                                                        |             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Holding Period – PY 93-94 to 25-26                                                                                                                                                        | LTCA        |
| Full Value of consideration                                                                                                                                                               | 3,00,00,000 |
| Less – Expenses in connection with transfer                                                                                                                                               | (3,00,000)  |
| Net Consideration                                                                                                                                                                         | 2,97,00,000 |
| Less – Cost of acquisition [COA = Original Cost or FMV as on 01.04.2001 (FMV<br>should not exceed SDV)whichever is higher. i.e., 1,01,000 or 8,00,000<br>(7,00,000) whichever is higher.] | (7,00,000)  |
| Less – Cost of Improvement (5,00,000 + 7,00,000)                                                                                                                                          | (12,00,000) |
| Long term capital gains                                                                                                                                                                   | 2,78,00,000 |

Q6. Asset = Securities  
 Purchase Cost = 5,00,000  
 Brokerage = 5,000  
 STT = 500  
 Selling Price = 15,00,000  
 Brokerage = 12,000  
 STT = 1400  
 Compute income assuming  
 securities are held as Investment  
 Securities are held as SIT

|      |                                |          |       |           |                                                                              |            |
|------|--------------------------------|----------|-------|-----------|------------------------------------------------------------------------------|------------|
| Ans. | Shares held as Stock in trade  |          |       |           | Shares held as Investment                                                    |            |
|      | Purchase Cost                  | 5,00,000 | Sales | 15,00,000 | Full Value of consideration                                                  | 15,00,000  |
|      | Brokerage                      | 17,000   |       |           | Less – Transfer Expenses                                                     | (12,000)   |
|      | STT (As per Section 36(1)(ix)) | 1900     |       |           | Less – COA                                                                   | (5,05,000) |
|      |                                |          |       |           | Capital Gains                                                                | 9,83,000   |
|      | Net Profit                     | 9,81,100 |       |           | STT is not allowed as deduction as per 7 <sup>th</sup> Proviso to Section 48 |            |

Q7. Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of November, 2024. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2025. What will be the tax treatment?

Ans. The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2024-25) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2025-26). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2025-26).

The LTCG and business income for the A.Y.2026-27 are calculated as under:

| Particulars                                                         | ₹        | ₹        |
|---------------------------------------------------------------------|----------|----------|
| Profits and Gains from Business or Profession                       |          |          |
| 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: Cost of acquisition                                           | 50,000   | 4,00,000 |

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered. However, since capital asset is converted on or after 23.7.2024, no indexation benefit is allowed.

Q8. Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident, in December 2025.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2025 (i.e., WDV as on 31.3.2025 after providing depreciation for P.Y. 2024-25) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

|                                           |            |
|-------------------------------------------|------------|
| (i) Towards loss of stock                 | ₹ 4,80,000 |
| (ii) Towards damage of machinery          | ₹ 6,00,000 |
| (iii) Towards gold chain and diamond ring | ₹ 1,80,000 |

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

- Ans. (i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.  
Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.
- (ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.  
Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.
- (iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Q9. The Central Government acquires a house property owned by X on October 17, 2015. This property was purchased on April 10, 2007 for ₹ 3,00,000. The Central Government awards ₹ 16,00,000 as compensation out of which ₹ 1,00,000 is received on May 4, 2025 and ₹ 15,00,000 is received on April 1, 2026. Expenditure incurred by X for getting compensation fixed : ₹ 2,000. Being aggrieved against the award, X files an appeal. The Bombay Court, as per order dated August 1, 2027, enhanced the compensation from ₹ 16,00,000 to ₹ 28,00,000 (legal expenditure incurred in Court’s proceedings: ₹ 10,000). X receives the additional compensation of ₹ 12,00,000 on April 15, 2028. Compute the income under the head “Capital gains”.

Ans. Computation of Income from Capital gains for PY 25-26

|                                                                 |            |
|-----------------------------------------------------------------|------------|
| Holding Period – 10.04.2007 to 16.10.2015                       | LTCA       |
| Full Value of consideration                                     | 16,00,000  |
| Less – Expenses in connection with transfer                     | (2,000)    |
| Net Consideration                                               | 15,98,000  |
| Less – Indexed Cost of acquisition                              | (5,90,698) |
| ICOA = COA * CII (Year of transfer) / CII (Year of Acquisition) |            |
| = 3,00,000 * 254/129                                            |            |
| Long Term Capital gains                                         | 1,007,302  |

Computation of Income from Capital gains for PY 27-28

|                                             |           |
|---------------------------------------------|-----------|
| Holding Period – 10.04.2007 to 16.10.2015   | LTCA      |
| Full Value of consideration                 | 12,00,000 |
| Less – Expenses in connection with transfer | Nil       |
| Net Consideration                           | 12,00,000 |
| Less – Indexed Cost of acquisition          | NIL       |
| Less – Legal Expenses                       | (10,000)  |
| Long Term Capital gains                     | 11,90,000 |



Q10. X purchased a house property on September 18, 2002 for ₹ 1,00,000. On April 4, 2003, he entered into an agreement to sell the house to A for ₹ 6,50,000 (after receiving an advance of ₹ 10,000). On A's failure to pay the balance within the stipulated period of 45 days, X forfeited the advance money. X died on October 12, 2003 and Mrs. X (as per his will) got the property.

Mrs. X enters into an agreement on January 13, 2005 to sell the property to B after receiving advance of ₹ 80,000 and on B's failure to pay the balance within 2 months, as per the agreement, the advance money is forfeited by Mrs. X. Further, Mrs. X enters into an agreement on April 6, 2022 to transfer the property to C after receiving advance of ₹ 1,00,000. C could not pay the balance consideration within the stipulated period of 45 days and Mrs. X forfeits the advance money.

Mrs. X ultimately sells the property to Y on June 26, 2025 for ₹ 42,90,000. Find out the tax consequences in the hands of X and Mrs. X for different assessment years. Also calculate net income of Mrs. X for the assessment year 2026-27, on the assumption that she is a business woman and her income from business is ₹20,00,000.

Ans. Computation of Income from capital gains

|                                             |           |
|---------------------------------------------|-----------|
| Holding Period – 18.09.2002 to 26.6.2025    | LTCA      |
| Full Value of consideration                 | 42,90,000 |
| Less – Expenses in connection with transfer | Nil       |
| Net Consideration                           | 42,90,000 |
| Less – Cost of acquisition                  | (20,000)  |
| COA = Original Cost = 1,00,000              |           |
| Less - Advance Money i.e 80,000             |           |
| Long term capital gains                     | 42,70,000 |

Computation of total Income

|                           |           |
|---------------------------|-----------|
| Income from Capital gains | 42,70,000 |
| Income from Business      | 20,00,000 |
| Total Income              | 62,70,000 |

Q11. Mr. Shiva purchased a house property on February 15, 1979 for 3,24,000. In addition, he has also paid stamp duty @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2025, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2026. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2026-27. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

Ans.

## Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                                                                                                                                      | Amount (₹) | Amount (₹) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Actual sale consideration                                                                                                                                                                                                                                                                                                                                                        | 30,50,000  |            |
| Valuation as per Stamp duty Authority on the date of agreement                                                                                                                                                                                                                                                                                                                   | 39,00,000  |            |
| (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.                           |            |            |
| However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. |            |            |
| In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)                                                                                                                                                                       |            |            |
| Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]                                                                                                                                                                                   |            | 39,00,000  |
| Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)                                                                                                                                                                                                                                                                                                                        |            | 30,500     |
| Net sale consideration                                                                                                                                                                                                                                                                                                                                                           |            | 38,69,500  |
| Less: Cost of acquisition (Note 1)                                                                                                                                                                                                                                                                                                                                               | 9,59,000   |            |
| Less: Cost of improvement                                                                                                                                                                                                                                                                                                                                                        | 3,90,000   | 13,49,000  |
|                                                                                                                                                                                                                                                                                                                                                                                  |            | 25,20,500  |

## Computation of tax liability u/s 112

| Particulars                                                                                                                                                                                                                                         | Amount (₹) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| On LTCG of ₹ 25,20,500 × 12.5%                                                                                                                                                                                                                      | 3,15,063   |
| Add: Health and Education cess @4%                                                                                                                                                                                                                  | 12,603     |
|                                                                                                                                                                                                                                                     | 3,27,666   |
| On LTCG with indexation benefit                                                                                                                                                                                                                     |            |
| Net Sale consideration                                                                                                                                                                                                                              | 38,69,500  |
| Less: Indexed cost of acquisition (₹ 9,59,000 × 376/100)                                                                                                                                                                                            | 36,05,840  |
| Less: Indexed cost of Improvement [₹ 3,90,000 × 376/254]                                                                                                                                                                                            | 5,77,323   |
| Long-term capital loss                                                                                                                                                                                                                              | (3,13,663) |
| 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 indexed cost of acquisition

| Particulars                                                                                               | Amount (₹) | Amount (₹) |
|-----------------------------------------------------------------------------------------------------------|------------|------------|
| Cost of acquisition,                                                                                      |            | 10,70,000  |
| Being the higher of                                                                                       |            |            |
| (i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001 | 10,70,000  |            |
| (ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)              | 3,59,000   |            |
| Less: Advance money taken from Mr. Mohan and forfeited                                                    |            | 1,11,000   |
| Cost of acquisition                                                                                       |            | 9,59,000   |

(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. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

Q12. Calculate the income-tax liability for the assessment year 2026-27 in the following cases:

|                                                | Mr. A<br>(age 45)        | Mrs. B<br>(age 62)                                                          | Mr. C<br>(age 81)                            | Mr. D<br>(age 82) |
|------------------------------------------------|--------------------------|-----------------------------------------------------------------------------|----------------------------------------------|-------------------|
| Status                                         | Non-resident             | Non-resident                                                                | Resident                                     | Non-resident      |
| Total income other than long-term capital gain | 2,40,000                 | 4,10,000                                                                    | 5,90,000                                     | 4,80,000          |
| Long-term capital gain                         | 85,000                   | 10,000                                                                      | 60,000                                       | Nil               |
|                                                | from sale of vacant site | from sale of listed equity shares (STT paid on sale and purchase of shares) | from sale of agricultural land in rural area |                   |

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

Ans. (i) **IF MR. A, MRS. B, MR. C AND MR. D PAY TAX UNDER DEFAULT TAX REGIME U/S 115BAC.**

| Particulars                      | Mr. A<br>(age 45) | Mrs. B<br>(age 62)                                                  | Mr. C<br>(age 81)       | Mr. D<br>(age 82) |
|----------------------------------|-------------------|---------------------------------------------------------------------|-------------------------|-------------------|
| Residential Status               | Non resident      | Non-resident                                                        | Resident                | Non resident      |
| Applicable basic exemption limit | ₹ 4,00,000        | ₹ 4,00,000                                                          | ₹ 4,00,000              | ₹ 4,00,000        |
| Asset sold                       | Vacant site       | Listed equity shares (STT paid on both sale and purchase of shares) | Rural agricultural land | -                 |

|                                                 |                                      |                                                                |                                          |            |
|-------------------------------------------------|--------------------------------------|----------------------------------------------------------------|------------------------------------------|------------|
| Long-term capital gain (on sale of above asset) | ₹ 85,000<br>[Taxable @12.5% u/s 112] | ₹ 10,000<br>[Exempt u/s 112A since it is less than ₹ 1,25,000] | ₹ 60,000<br>(Exempt not a capital asset) | -          |
| Other income                                    | ₹ 2,40,000                           | ₹ 4,10,000                                                     | ₹ 5,90,000                               | ₹ 4,80,000 |
| Tax liability                                   |                                      |                                                                |                                          |            |
| On LTCG                                         | ₹ 10,625                             |                                                                |                                          |            |
| On Other income                                 | Nil                                  | ₹ 500                                                          | ₹ 9,500                                  | ₹ 4,000    |
|                                                 | ₹ 10,625                             | ₹ 500                                                          | ₹ 9,500                                  | ₹ 4,000    |
| Less: Rebate u/s 87A                            | -                                    | -                                                              | ₹ 9,500                                  | -          |
|                                                 | ₹ 10,625                             | ₹ 500                                                          | Nil                                      | ₹ 4,000    |
| Add: Health & education cess (HEC) @4%          | ₹ 425                                | ₹ 20                                                           | Nil                                      | ₹ 160      |
| Total tax liability                             | ₹ 11,050                             | ₹ 520                                                          | Nil                                      | ₹ 4,160    |

Note: Since Mr. C is a resident whose total income does not exceed ₹ 12 lakhs, he is eligible for rebate of ₹ 60,000 or the actual tax payable, whichever is lower, under section 87A.

- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

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

| Particulars                                     | Mr. A<br>(age 45)                    | Mrs. B<br>(age 62)                                                     | Mr. C<br>(age 81)                        | Mr. D<br>(age 82) |
|-------------------------------------------------|--------------------------------------|------------------------------------------------------------------------|------------------------------------------|-------------------|
| Residential Status                              | Non 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<br>(STT paid on both sale and purchase of shares) | Rural<br>agricultural land               | -                 |
| Long-term capital gain (on sale of above asset) | ₹ 85,000<br>[Taxable @12.5% u/s 112] | ₹ 10,000<br>[Exempt u/s 112A since it is less than ₹ 1,25,000]         | ₹ 60,000<br>(Exempt not a capital asset) | -                 |
| Other income                                    | ₹ 2,40,000                           | ₹ 4,10,000                                                             | ₹ 5,90,000                               | ₹ 4,80,000        |
| Tax liability                                   |                                      |                                                                        |                                          |                   |
| On LTCG                                         | ₹ 10,625                             | -                                                                      | -                                        | -                 |
| On Other income                                 | Nil                                  | ₹ 8,000                                                                | ₹ 18,000                                 | ₹ 11,500          |
|                                                 | ₹ 10,625                             | ₹ 8,000                                                                | ₹ 18,000                                 | ₹ 11,500          |
| Less: Rebate u/s 87A                            | -                                    | -                                                                      | -                                        | -                 |
|                                                 | ₹ 10,625                             | ₹ 8,000                                                                | ₹ 18,000                                 | ₹ 11,500          |
| Add: Health & education cess (HEC) @4%          | ₹ 425                                | ₹ 320                                                                  | ₹ 720                                    | ₹ 460             |
| Total tax liability                             | ₹ 11,050                             | ₹ 8,320                                                                | ₹ 18,720                                 | ₹ 11,960          |

Notes: Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate under section 87A even though their total income does not exceed ₹ 5 lakh.

Q13. Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2024. He has also received dividend of ₹ 10 per share on 01.05.2025. He has sold all the shares on 01.10.2025 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%. Compute his total income and tax liability for A.Y. 2026-27 if Mr. Mithun opts out of the default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of each share of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Ans. Computation of total income & tax liability of Mr. Mithun for A.Y. 2026-27

| 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 (100x₹2,000) (Refer Note 1)                                                             | 2,00,000  |
| Long term capital gains                                                                                           | 1,96,000  |
| Short term capital gains on sale of bonus shares                                                                  |           |
| Gross sale consideration (100 x ₹4,000)                                                                           | 4,00,000  |
| Less: Brokerage@1%                                                                                                | 4,000     |
| Net sale consideration                                                                                            | 3,96,000  |
| Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]                       | NIL       |
| Short term capital gains (Since bonus shares are held for less than 12 months before sale)                        | 3,96,000  |
| Income from other sources                                                                                         |           |
| Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share] | 2,000     |
| Other income                                                                                                      | 8,00,000  |
| Total Income                                                                                                      | 13,94,000 |
| Tax Liability                                                                                                     |           |
| Tax on STCG u/s 111A                                                                                              |           |
| 20% of ₹3,96,000                                                                                                  | 79,200    |
| Tax on LTCG u/s 112A                                                                                              |           |
| 12.5% of (₹1,96,000 - ₹1,25,000)                                                                                  | 8,875     |
| Tax on other income of ₹8,02,000                                                                                  |           |
| 2,50,000 to 5,00,000@5%                                                                                           | 12,500    |
| ₹5,00,000 to ₹8,02,000 @20%                                                                                       | 60,400    |
|                                                                                                                   | 1,60,975  |
| Add: Health and education cess @4%                                                                                | 6,439     |
| Tax liability                                                                                                     | 1,67,414  |
| Tax liability (rounded off)                                                                                       | 1,67,410  |

Notes:

- (1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of  
 - Cost of acquisition i.e., ₹ 1,000 per share and  
 - lower of

Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

Securities transaction tax is not allowable as deduction.

Q14. Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2025 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of capital assets of unit 1 on 1.4.2025 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

| Liabilities                                  | Total (₹) | Assets       | Unit 1(₹) | Unit 2 (₹) | Total (₹) |
|----------------------------------------------|-----------|--------------|-----------|------------|-----------|
| Own Capital                                  | 15,00,000 | Building     | 12,00,000 | 2,00,000   | 14,00,000 |
| Revaluation Reserve (for building of unit 1) | 3,00,000  | Machinery    | 3,00,000  | 1,00,000   | 4,00,000  |
| Bank loan (70% for unit 1)                   | 2,00,000  | Debtors      | 1,00,000  | 40,000     | 1,40,000  |
| Trade creditors (25% for unit 1)             | 1,50,000  | Other assets | 1,50,000  | 60,000     | 2,10,000  |
| Total                                        | 21,50,000 | Total        | 17,50,000 | 4,00,000   | 21,50,000 |

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of Unit 1.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Other assets of Unit 1 include patents acquired on 1.7.2023 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain.

Ans. Computation of capital gains on slump sale of Unit 1

| Particulars                                                                                                                   | ₹         |
|-------------------------------------------------------------------------------------------------------------------------------|-----------|
| Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2025 or FMV of monetary consideration received] | 30,00,000 |
| Less: Expenses for transfer                                                                                                   | 28,000    |
|                                                                                                                               | 29,72,000 |
| Less: Net worth (See Note 1 below)                                                                                            | 12,50,625 |
| Long-term capital gain                                                                                                        | 17,21,375 |

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

| Particulars                                              | ₹        | ₹         |
|----------------------------------------------------------|----------|-----------|
| 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 (25% of ₹ 1,50,000)                      | 37,500   |           |
| Bank Loan (70% of ₹ 2,00,000)                            | 1,40,000 | 1,77,500  |
| Net worth                                                |          | 12,50,625 |

2. Written down value of patents as on 1.4.2025

| Value of patents:                                   | ₹      |
|-----------------------------------------------------|--------|
| Cost as on 1.7.2023                                 | 50,000 |
| Less: Depreciation @ 25% for Financial Year 2023-24 | 12,500 |
| Balance as on 1.4.2024                              | 37,500 |
| Less: Depreciation for Financial Year 2024-25       | 9,375  |
| Balance as on 1.4.2025                              | 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 24 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Q15. Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2026 and 15.5.2026
- Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2026.
- Subscribed to NHA capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2025 and for ₹ 40 lakhs on 09-01-2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2026-27. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2025-26 – 376.

Ans. Computation of income chargeable under the head "Capital Gains" of  
Mrs. Yuvika for A.Y.2026-27

| 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   |  |
| Less: Indexed cost of acquisition                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |        | 801.90 |  |
| - Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 88.00  |        |  |
| - Construction cost of residential building                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 100.00 | 188.00 |  |
| Long-term capital gains                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |        | 613.90 |  |
| Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]                                                                                                                                                                                                                                                                                                                                                                                                      |        |        |  |
| Less: Exemption under section 54                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |        | 130.00 |  |
| Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.                                                                                                                                                                                                                                                |        |        |  |
| Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.                                                                                                                                                                                                                                                                    |        |        |  |
| Less: Exemption under section 54EC                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |        | 50.00  |  |
| Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2026), 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 13.1.2026 (i.e., within six months after the date of transfer). |        |        |  |
| Long term capital gains chargeable to tax                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |        | 433.90 |  |

Note:

1. 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.
2. It may be noted that since Yuvika has transferred residential building which was acquired before 23.7.2024, she can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to her while computing her tax liability.

Q16. Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2025 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (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 to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2025 was ₹ 1,70,00,000;
- (b) on 15.12.2025 was ₹ 1,71,00,000; and
- (c) on 14.01.2026 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2026 and another in Delhi for ₹ 35,00,000 on 28.5.2026.

Compute the income chargeable under the head “Capital Gains” of Mr. Sarthak for the Assessment Year 2026-27.

Ans. Computation of income chargeable under the head “Capital Gains” of Mr. Sarthak for A.Y. 2026-27

| 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]                                                                                                                                 |             |
| Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]                                                                                                                                                                                                                     | 1,70,00,000 |
| Less: cost of acquisition of residential house                                                                                                                                                                                                                                                                                                           | 30,00,000   |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |             |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 1,40,00,000 |
| Less: Exemption u/s 54                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 55,00,000   |
| Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively. |             |
| Long term capital gains chargeable to tax                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 85,00,000   |

Note: It may be noted that since Sarthak has transferred residential house which was acquired before 23.7.2024, 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 while computing his tax liability.

Q17. Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2026. She sold 10 flats at ₹ 30 lakhs per flat in March, 2026. The remaining 5 flats were held in stock as on 31st March, 2026.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2026 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2026.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2026-27 indicating clearly the reasons for treatment for each item.

Ans. Computation of capital gains and business income of Harshita for A.Y. 2026-27

| Particulars                                                                                                                     | ₹           |
|---------------------------------------------------------------------------------------------------------------------------------|-------------|
| Business Income                                                                                                                 |             |
| Sale price of flats [10 × 30 lakhs]                                                                                             | 3,00,00,000 |
| Less: Cost of flats                                                                                                             |             |
| Fair market value of land on the date of conversion [210 lakhs × 2/3]                                                           | 1,40,00,000 |
| Cost of construction of flats [10 × 10 lakhs]                                                                                   | 1,00,00,000 |
| Business income chargeable to tax for A.Y.2026-27                                                                               | 60,00,000   |
| 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 [ 35,00,000 × 348/113]                                                                        | 1,07,78,761 |
|                                                                                                                                 | 1,02,21,239 |
| Proportionate capital gains arising during A.Y. 2026-27 [*1,02,21,239 × 2/3]                                                    | 68,14,159   |
| Less: Exemption under section 54EC                                                                                              | 50,00,000   |
| Capital gains chargeable to tax for A.Y.2026-27                                                                                 | 18,14,159   |

# 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) 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) Since the capital asset is converted into stock in trade in P.Y. 2023-24 i.e., before 23.7.2024, the indexation benefit would be available. However, it will be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2025-26).
- (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.2025-26, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2026-27.
- (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 No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.  
Therefore, even though investment of ₹50 lakhs has been made in bonds of NHAI during the P.Y. 2025-26 and investment of ₹50 lakhs has been made in bonds of RECL during the P.Y. 2026-27, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2026-27, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2025-26, is only ₹50 lakhs.

Q18. Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2014 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2022.

Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2022. The said house property was sold on 31.05.2025 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2026. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2022-23 and 2026-27. All workings should form part of your answer: (MTP 7 Marks Sep '23, PYP 6 Marks May '19)

| Ans. | Computation of capital gains chargeable to tax for A.Y. 2022-23 (P.Y.21-22)      |                        |
|------|----------------------------------------------------------------------------------|------------------------|
|      | Particulars                                                                      | ₹                      |
|      | Full value of consideration received on sale of residential house in Noida       | 1,57,00,000            |
|      | Less: Indexed cost of acquisition [₹ 30,00,000 × $\frac{331}{240}$ ] (39,62,500) | <del>41,37,500</del>   |
|      | Long-term capital gain 317                                                       | <del>1,15,62,500</del> |
|      | Less: Exemption under section 54                                                 | 1,17,37,500            |

|                                                                                                                                                                                                                                                                               |                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2022 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain | <del>1,15,62,500</del> |
| Taxable long term capital gain                                                                                                                                                                                                                                                | Nil                    |

(1,17,37,500)

Computation of capital gains chargeable to tax for A.Y. 2026-27 (PY25-26)

| Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | ₹                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| Full value of consideration received on sale of residential house at Panchkula                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 3,25,00,000            |
| Less: cost of acquisition<br>[As per section 54, if the new residential house purchased (i.e., on 20.7.2022, in this case) is transferred within 3 years of its purchase (i.e., on 31.05.2025, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,15,62,500) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] (₹ 89,37,500) | <del>89,37,500</del>   |
| Long-term capital gain [Since the residential house is held for more than 24 months]                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <del>2,35,62,500</del> |
| Less: Exemption under section 54                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <del>2,37,37,500</del> |
| Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2026 i.e., within two years from 31.05.2025, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains                                                                                                                                                                                                                                                             | <del>2,35,62,500</del> |
| Taxable long term capital gain                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Nil                    |

1,17,37,500

87,62,500

(2,37,37,500)

Q19. Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2026-27 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2025-26 in respect of these assesseees:

(i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2025 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

| Particulars           | Amount in ₹ |
|-----------------------|-------------|
| Highest Trading Price | 700         |
| Average Trading Price | 680         |
| Lowest Trading Price  | 660         |

(ii) Mr. Raj purchased 200 units of equity-oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2025 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

| Particulars                  | Fund A             |
|------------------------------|--------------------|
|                              | Amount in ₹        |
| Highest Trading Price        | 750 (on 31.1.2018) |
| Average Trading Price        | 700 (on 31.1.2018) |
| Lowest Trading Price         | 650 (on 31.1.2018) |
| Net Asset Value on 31.1.2018 | 800                |

- Ans. For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of
- (a) cost of acquisition of such asset, i.e., actual cost; and
  - (b) lower of
    - (i) the fair market value of such asset as on 31.1.2018; and
    - (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.
- (i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.
- Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:
- The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., (₹ 1,200 – ₹ 700) × 300 shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@12.5% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @13% would be ₹ 3,250 (₹ 25,000 × 13%)
- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).
- Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).
- The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 (₹ 900 – ₹ 750) × 200 units. Since the long-term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.



## HOMEWORK

Q1. How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

Ans. (1) Shares held in a company in liquidation - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.

(2) Bonus shares - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.

(3) Flat in a co-operative society - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note - Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

Q2. A is the owner of a car. On 1-4-2025, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Ans. 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.

Q3. X converts his capital asset (acquired on June 10, 2006 for ₹ 60,000) into stock-in-trade on March 10, 2025. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2025. Discuss the year of chargeability of capital gain and business income.

Ans. Since the capital asset is converted into stock-in-trade during the previous year 2024-25 relevant to the A.Y. 2025-26, it will be a transfer u/s 2(47) during the P.Y. 2024-25. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2026-27, since the stock-in-trade has been sold only on June 10, 2025. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2025) will be the full value of consideration for computation of capital gains. The business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2026-27. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2026-27.

Q4. X purchases a property on April 1,1996 for ₹ 95,000. He enters into an agreement for sale of the property to A on November 1, 2003 and receives ₹ 10,000 as advance. A could not, however, keep his promise and advance of ₹ 10,000 given by him is forfeited by X. Later on he gifts the property to his friend Y on May 15,2005. The following expenses are incurred by X and Y for renewal of the property :



|                                              | Cost in Rs |
|----------------------------------------------|------------|
| Addition of two rooms by X during 1998-99    | 25,000     |
| Addition of first floor by X during 2003-04  | 40,000     |
| Addition of second floor by Y during 2011-12 | 1,15,000   |

Fair market value of the property on April 1, 2001 is ₹ 1,15,000.

Y enters into an agreement to sell the property for ₹ 8,50,000 to B on April 1, 2006 after receiving an advance of ₹ 50,000. B could not pay the balance within the stipulated time of two months and Y forfeits the advance of ₹ 50,000 as per agreement with B. Y ultimately finds a buyer in C to whom property is transferred for ₹ 18,75,000 on June 1, 2025. Compute the capital gain chargeable to tax in the hands of Y.

Ans. Computation of Income from Capital gains

|                                                                                                                                            |            |
|--------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Holding Period – 01.04.1996 to 01.06.2025                                                                                                  | LTCA       |
| Full Value of consideration                                                                                                                | 18,75,000  |
| Less – Expenses in connection with transfer                                                                                                | (Nil)      |
| Net Consideration                                                                                                                          | 18,75,000  |
| Less – Cost of acquisition = 65,000                                                                                                        | (65,000)   |
| COA = Original Cost or FMV as on 01.04.2001 (FMV should not exceed SDV) whichever is higher. i.e., 95,000 or 1,15,000 whichever is higher. |            |
| Less – Advance Money i.e 50,000                                                                                                            |            |
| Less – Cost of Improvement                                                                                                                 |            |
| 98-99                                                                                                                                      | Nil        |
| 03-04                                                                                                                                      | (40,000)   |
| 11-12                                                                                                                                      | (1,15,000) |
| Long Term Capital gains                                                                                                                    | 16,55,000  |
| Notes                                                                                                                                      |            |
| 1. Transfer of asset by Mr X to Mr Y is by a way of gift which is not regarded as transfer                                                 |            |
| 2. Advance Money received and retained by Mr X is not taxable                                                                              |            |

In case of tax on LTCG shall be:

a. 12.5% of ₹ 16.55 lakhs

b. 20% on ₹ 12.78964 lakhs (refer Q 15A) ↓

Q5. Singhanian & Co., a sole proprietorship owns six machines, put in use for business in March, 2024. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2024-25 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2025 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2025.

You are required to:

- determine the claim of depreciation for Assessment Year 2026-27.
- compute the capital gains liable to tax for Assessment Year 2026-27.
- If Singhanian & Co. had sold the three machines in June, 2025 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

Ans. (i) Computation of depreciation for A.Y.2026-27

| Particulars                                                                                                              | ₹        |
|--------------------------------------------------------------------------------------------------------------------------|----------|
| Opening balance of the block as on 1.4.2025 [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25] | 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 31.03.2026                       | 6,00,000  |

Since the value of the block as on 31.3.2026 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of the block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

(iii) If the three machines are sold in June, 2025 for ₹ 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

| Particulars                                                                  | ₹        | ₹         |
|------------------------------------------------------------------------------|----------|-----------|
| Sale consideration                                                           |          | 21,00,000 |
| Less: Opening balance of the block as on 1.4.2025                            | 8,50,000 |           |
| [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25] |          |           |
| Purchase of second plant during the year                                     | 8,50,000 | 17,00,000 |
| Short term capital gains                                                     |          | 4,00,000  |

Q6. Mr. Cee purchased a residential house on July 20, 2023 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2023. He sold the house property in April 2025 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2025. What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2026-27?

Ans. 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.

Q7. Long term capital gain of ₹ 75 lakh arising from transfer of building on 1.5.2025 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Ans. 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 1.11.2025 (i.e., within six months from the date of transfer).

Q8. Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as “transfer” for the purpose of capital gains.
- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long- term capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

Ans. (i) False: As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as “transfer” for the purpose of capital gains.

(ii) True: Section 2(42A) defines the term ‘short-term capital asset’. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

(iii) True: As per section 2(48), ‘Zero Coupon Bond’ means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Q9. In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2025-26, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2025-26 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2025 by the company.

Ans. We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), gift of a capital asset is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.



- (iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Q10. M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2026. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

Ans. In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

Q11. Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2026-27 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2025-26, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and chess):

- (i) Sold 10,000 shares of Y Ltd. on 05-12-2025 @ ₹ 650 per share Y Ltd. is a listed company. These shares were acquired by Mr. Naveen 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 Y 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 1,000 units of AB Mutual Fund on 20-12-2025 @ ₹ 50 per unit  
AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 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 AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.
- (iii) Sold 100 shares of C Ltd. on 27-09-2025 @ ₹ 200 per share. C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.

Ans. Computation of amount chargeable to tax under the head "Capital Gains" in the hands of Mr. Naveen

|      | Particulars                                                                                                                                                                                                             | ₹           |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| (i)  | Sale of 10,000 shares of Y Ltd. on 5.4.2025 @ 650 per share                                                                                                                                                             |             |
|      | Sales consideration (10,000 × ₹ 650)                                                                                                                                                                                    | 65,00,000   |
|      | Less: Cost of acquisition Higher of:                                                                                                                                                                                    | ₹ 30,00,000 |
|      | - Actual cost (10,000 × ₹ 100)                                                                                                                                                                                          | 10,00,000   |
|      | - Lower of:                                                                                                                                                                                                             | 30,00,000   |
|      | • ₹ 30,00,000 (₹ 300 × 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); 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. Benefit of indexation is, however, not available on LTCG taxable u/s 112A]. | 35,00,000   |
| (ii) | Sale of 1,000 units of AB Mutual Fund on 20.5.2025 @ ₹ 50 per unit                                                                                                                                                      |             |
|      | Sale consideration (1,000 × ₹ 50)                                                                                                                                                                                       | 50,000      |

|       |                                                                                                                               |        |
|-------|-------------------------------------------------------------------------------------------------------------------------------|--------|
|       | Less: Cost of acquisition - Higher of -                                                                                       | 50,000 |
|       | - Actual cost (1,000 x ₹ 10) 10,000                                                                                           |        |
|       | - Lower of: 50,000                                                                                                            |        |
|       | • ₹ 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] | Nil    |
| (iii) | Sale of 100 shares of C Ltd. on 27.9.2025 @ 200 per share                                                                     |        |
|       | Sale consideration (100 x ₹ 200)                                                                                              | 20,000 |
|       | Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) ]                                                       | 5,000  |
|       | Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]                         | 15,000 |

Computation of tax on such capital gains for A.Y. 2026-27

| Particulars                                                                                                                                       | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Tax under section 112A @ 12.5% on long-term capital gains of ₹ 33,75,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of Y Ltd. | 4,21,875 |
| Tax under section 112 @ 12.5% on long-term capital gains of ₹ 15,000 arising on sale of unlisted shares of C Ltd.                                 | 1,875    |
| Total tax payable                                                                                                                                 | 4,23,750 |

- Q12. Mr. Ramesh sold a house plot to Mr Vikas for ₹ 45 lakhs on 10-07-2025. The valuation determined by the stamp valuation authority was ₹ 53 lakhs. Mr. Vikas has sold this plot to Ms. Bali on 21-3-2026 for ₹ 55 lakhs. The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2026. Discuss the tax consequences of above, in the hands of each one of them, visa, Mr. Ramesh, Mr. Vikas & compute the capital gain in the hands of Mr. Vikas.  
Note: None of the party's visa Mr. Ramesh, Mr. Vikas & Ms. Bali are related to each other; the transactions are between outside (MTP 7 Marks, May'20)

|      |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ans. | I  | <u>Tax consequences in the hands of Mr. Ramesh</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|      |    | As per section 50C, the stamp duty value of immovable property, being land or building or both, would be deemed to be the full value of consideration arising on transfer of such property, if the same is higher than actual consideration. However, where the stamp duty value does not exceed 110% of the sale consideration received or accruing as a result of transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2026-27, taking the stamp duty value of ₹ 53 lakh of house plot as the full value of consideration arising on transfer of such house plot, since the same exceeds 110% of the actual consideration of ₹ 45 lakhs.<br>Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA |
|      | II | <u>Tax consequences in the hands of Mr. Vikas</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|      |    | In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |



Therefore, in this case, ₹ 8 lakhs (₹ 53 lakhs – ₹ 45 lakh) would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2026-27 since the difference exceeds ₹4,50,000 being the higher of ₹50,000 and 10% of consideration.

At the time of subsequent sale of property by Mr. Vikas to Ms. Bali (on 21.3.2026), short-term capital gains would arise in the hands of Mr. Vikas in A.Y.2026-27, since the property is held by him for less than 24 months.

| Particulars                                                                                                       | ₹       |
|-------------------------------------------------------------------------------------------------------------------|---------|
| Full value of consideration (Since actual consideration of ₹55 lakhs is higher than stamp duty value of ₹54 lakh) | 55 lakh |
| Less: Cost of acquisition (Value taken into account for the purpose of section 56(2)(x))                          | 53 lakh |
| Short-term capital gains                                                                                          | 2 lakh  |

Q13. Mr. Suresh entered into an agreement with Mr. Mukesh to sell his residential house located at New Delhi on 25.08.2025 for ₹ 80,00,000. Mr. Mukesh was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026.

Mr. Mukesh had paid the sale proceeds in the following manner;

- (i) 25% through account payee bank draft on the date of agreement.
- (ii) 50% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title of the property.

The value determined by the Stamp Duty Authority on 25.08.2025 was ₹ 92,00,000 whereas on 14.01.2026 it was ₹ 94,50,000.

Mr. Suresh had acquired the property on 01.04.2003 for ₹ 21,00,000. After recovering the sale proceeds from Mukesh, he purchased another residential house property in Kanpur for ₹ 22,00,000.

Cost Inflation Index for Financial Year(s)

|         |     |
|---------|-----|
| 2003-04 | 109 |
| 2025-26 | 376 |

Compute the capital gain arising in the hands of Mr. Suresh for the Assessment Year 2026-27.

Ans. Computation of Capital Gain of Mr. Suresh for A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | ₹          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Capital Gains on sale of residential house                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |            |
| Actual sale consideration                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | ₹ 80 lakhs |
| Value adopted by Stamp Valuation Authority                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | ₹ 92 lakhs |
| [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 25% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration] |            |

|                                                                                                                                                                                                                                                                                              |           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Full value of consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]                                                                                                                                                              | 92,00,000 |
| Less: cost of acquisition of residential house                                                                                                                                                                                                                                               | 21,00,000 |
| Long-term capital gains [Since the residential house property was held by Mr. Suresh for more than 24 months immediately preceding the date of its transfer]                                                                                                                                 | 71,00,000 |
| Less: Exemption under section 54                                                                                                                                                                                                                                                             | 22,00,000 |
| 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 residential house property in India within one year before or two years after the date of transfer of original asset. |           |
| Long-term capital gains chargeable to tax                                                                                                                                                                                                                                                    | 49,00,000 |

In case of tax on LTCG shall be:

a. 12.5% of ₹ 49 lakhs

b. 20% on ₹ Nil (refer note 1)



Note 1

$$\text{ICOA} = ₹21 \text{ lakhs} \times \frac{376}{109} = ₹72,44,037$$

$$\therefore \text{LTCG shall be } ₹ 49\text{lakhs} + ₹ 21 \text{ lakhs} - ₹72,44,037 = (2,44,037)$$



Q1. Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2025. The fair market value as on 31.3.2025 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2026.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2025-26: 376 ; F.Y. 2024-25:363

Q2. 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?

Q3. Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2025, he has transferred Unit 2, which he started in 2005-06, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2025 is as under:

| Liabilities                      | ₹         | Assets    | Unit 1 ₹  | Unit 2 ₹  | Total     |
|----------------------------------|-----------|-----------|-----------|-----------|-----------|
| Own Capital                      | 20,50,000 | Land      | 12,75,000 | 7,50,000  | 20,25,000 |
| Revaluation reserve              | 2,50,000  | Furniture | 2,00,000  | 5,00,000  | 7,00,000  |
| Bank Loan (70% for Unit 1)       | 8,50,000  | Debtors   | 2,00,000  | 3,50,000  | 5,50,000  |
| Trade Creditors (20% for Unit 2) | 4,50,000  | Patents   | -         | 7,25,000  | 7,25,000  |
| Unsecured Loan (30% for Unit 2)  | 4,00,000  |           |           |           |           |
|                                  | 40,00,000 |           | 16,75,000 | 23,25,000 | 40,00,000 |

Other Information:

- Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2005 and revalued at ₹ 7,50,000 as on 31.3.2025.
- No individual value of any asset is considered in the transfer deed.
- Patents were acquired on 01-12-2023 on which no depreciation has been provided.
- Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2024 on which no depreciation has been provided.
- Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹ 18,10,000.

Compute the capital gain.

Q4. Examine the taxability of capital gains in the following scenario for the Assessment Year 2026-27, determine the taxable amount and rate of tax applicable:

On 28th February, 2026 10,000 shares of XY Ltd., a listed company are sold by Mr. B @ 550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th April, 2017 @ ₹ 395 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of XY Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 390 per Share.

Q5. Aggarwal & Sons, HUF purchased a house property in the year 1950 for ₹50,000. On 31.10.2025, the HUF was totally partitioned & the aforesaid house property was given to Mr. Subhash Aggarwal, a member of the HUF. FMV of the house as on 31.10.2025 was ₹21,00,000. FMV of the house as on 1.4.2001 was ₹3,50,000. What will be the tax implications in the hands of Mr. Subhash Aggarwal & the HUF?

Q6. Mr. Yusuf bought a vacant land for ₹ 80 lakhs in March 2009. 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 2010-11.

He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in August 2025. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf 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 10-2-2026 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received. Subsequent to sale, Mr. Yusuf made following investments:

- (i) Acquired a residential house at Delhi for ₹ 80 lakhs.
- (ii) Acquired a residential house at London for ₹ 40 lakhs.
- (iii) Subscribed to NHA bond: ₹ 45 lakhs on 29-5-2026 and ₹ 15 lakhs on 12-7-2026.

Compute the income chargeable under the head “Capital Gains” for A.Y. 2026-27. The choice of exemption must be in the manner most beneficial to the assessee. (MTP Oct 20, 7 Marks, RTP May 18)

|                       |              |     |
|-----------------------|--------------|-----|
| Cost Inflation Index: | F.Y. 2008-09 | 137 |
|                       | F.Y. 2010-11 | 167 |
|                       | F.Y. 2025-26 | 376 |

- Q7. (i) Examine the taxability of capital gains in the following scenarios for the Assessment Year 2026-27, determine the taxable amount and rate of tax applicable:

On 20th December, 2025 5,000 shares of AB Ltd., a listed company are sold by Mr. Kumar @ 500 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th June, 2017 @ ₹ 425 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of AB Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 450 per share. (MTP 2Marks Sep'22)

- (ii) Mr. Satish is the owner of a residential house which was purchased on 1st July, 2017 for ₹ 10,50,000. He sold the said house on 14th October, 2025 for ₹ 25,00,000. Valuation as per stamp valuation authorities was ₹ 45,00,000. He invested ₹ 15,00,000 in RECL Bonds on 20th March, 2025.

The Cost Inflation index for- F.Y. 2017-18 272 F.Y. 2025-26 376  
(MTP 2 Marks Sep'22, PYP 4 Marks July 21)

#### Solution 1:

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.

∴ in this problem, both capital gains and business income would be charged to tax in the A.Y. 2026-27.

| Particulars                                                               | ₹        |
|---------------------------------------------------------------------------|----------|
| Capital Gains                                                             |          |
| Full value of consideration (Fair market value on the date of conversion) | 3,00,000 |
| Less: Indexed cost of acquisition                                         | 80,000   |
| Long-term capital gain                                                    | 2,20,000 |
| 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   |

Computation of taxable income of Mr. Aarav for A.Y.2025-26

| Particulars                                   | ₹        |
|-----------------------------------------------|----------|
| Profits and gains from business or profession | 25,000   |
| Long term capital gains                       | 2,20,000 |
| Taxable Income                                | 2,45,000 |

**Solution 2:**

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

**Solution 3:**

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 24 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Computation of capital gain on slump sale of Unit 2

| Particulars                                                                                                                                                                                                                                                                            | ₹                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹ 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹ 18,00,000) whichever is higher] | 18,10,000        |
| Less: Expenses on sale [professional fees & brokerage]                                                                                                                                                                                                                                 | <u>78,000</u>    |
| Net full value of consideration                                                                                                                                                                                                                                                        | 17,32,000        |
| Less: Cost of acquisition, being the net worth of Unit 2 (Note 1)                                                                                                                                                                                                                      | <u>13,35,781</u> |
| Long term capital gains arising on slump sale<br>(The capital gains is long-term as the Unit 2 is held for more than 24 months)                                                                                                                                                        | <u>3,96,219</u>  |

**Notes**

1. Computation of net worth of Unit 2

| Particulars                                                      | ₹        |
|------------------------------------------------------------------|----------|
| (1) Book value of non-depreciable assets                         |          |
| (i) Land (Revaluation not to be considered)                      | 5,00,000 |
| (ii) Debtors                                                     | 3,50,000 |
| (2) Written down value of depreciable assets under section 43(6) |          |

|                                     |          |                  |
|-------------------------------------|----------|------------------|
| (i) Furniture (See Note 2)          |          | 4,75,000         |
| (ii) Patents (See Note 3)           |          | <u>4,75,781</u>  |
| Aggregate value of total assets     |          | 18,00,781        |
| Less: Current liabilities of Unit 2 |          |                  |
| Bank Loan [₹ 8,50,000 × 30%]        | 2,55,000 |                  |
| Trade Creditors [₹ 4,50,000 × 20%]  | 90,000   |                  |
| Unsecured Loan [₹ 4,00,000 × 30%]   | 1,20,000 | 4,65,000         |
| Net worth of unit 2                 |          | <u>13,35,781</u> |

2. Written down value of furniture as on 1.4.2025

| Value of furniture                                        | ₹             |
|-----------------------------------------------------------|---------------|
| Cost as on 1.12.2025                                      | 5,00,000      |
| Less: Depreciation @ 10% × 50% for Financial Year 2024-25 | <u>25,000</u> |
| WDV as on 1.4.2025                                        | 4,75,000      |

3. Written down value of patents as on 1.4.2025

| Value of patents                                          | ₹               |
|-----------------------------------------------------------|-----------------|
| Cost as on 1.12.2023                                      | 7,25,000        |
| Less: Depreciation @ 25% × 50% for Financial Year 2023-24 | <u>90,625</u>   |
| WDV as on 1.4.2024                                        | 6,34,375        |
| Less: Depreciation @ 25% for Financial Year 2024-25       | <u>1,58,594</u> |
| WDV as on 1.4.2025                                        | 4,75,781        |

**Solution 4:**

| Particulars                                                                                                                   | Amount<br>₹      |
|-------------------------------------------------------------------------------------------------------------------------------|------------------|
| Long-term capital gain on transfer of 10,000 shares of XY Ltd.<br>[taxable u/s 112A @12.5% on amount exceeding ₹ 1,25,000]    |                  |
| Full value of consideration [10,000 × ₹ 550]                                                                                  | 55,00,000        |
| Less: Cost of acquisition                                                                                                     |                  |
| Higher of                                                                                                                     |                  |
| Cost of acquisition [10,000 × ₹ 395]    39,50,000                                                                             |                  |
| Lower of fair market value per share as on<br>31.1.2018 i.e., ₹ 390 per share and sale<br>consideration i.e., ₹ 550 per share | <u>39,50,000</u> |
| Long term capital gain taxable u/s 112A                                                                                       | <u>15,50,000</u> |
| Long-term capital gain exceeding ₹ 1,25,000 i.e., ₹ 14,25,000 would be taxable<br>@12.5%                                      |                  |

**Solution 5:**

Tax implications in the hands of HUF

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Aggarwal & Sons, HUF transferred the asset to Mr. Subhash Aggarwal, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Subhash Aggarwal

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.

#### Solution 6:

#### Computation of income chargeable under the head “Capital Gains” for A.Y.2026-27

| Particulars                                                                                                                                                                                                                                                                                                                                                                             | ₹<br>(in lakhs) | ₹<br>(in lakhs) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Capital Gains on sale of residential building                                                                                                                                                                                                                                                                                                                                           |                 |                 |
| Actual sale consideration ₹ 600 lakhs                                                                                                                                                                                                                                                                                                                                                   |                 |                 |
| Value adopted by Stamp Valuation Authority ₹ 650 lakhs                                                                                                                                                                                                                                                                                                                                  |                 |                 |
| Gross Sale consideration                                                                                                                                                                                                                                                                                                                                                                |                 | 600.00          |
| [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.                                 |                 |                 |
| (As per amendment in section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as 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 any other prescribed electronics mode on or before the date of agreement.             |                 |                 |
| In this case, since advance of ₹20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 110% of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]                                  |                 |                 |
| Less: Brokerage@1% of sale consideration (1% of ₹ ₹600 lakhs)                                                                                                                                                                                                                                                                                                                           |                 | <u>6.00</u>     |
| Net Sale consideration                                                                                                                                                                                                                                                                                                                                                                  |                 | 594             |
| Less: cost of acquisition                                                                                                                                                                                                                                                                                                                                                               |                 |                 |
| - Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land                                                                                                                                                                                                                                                                | 88              |                 |
| - Construction cost of residential building                                                                                                                                                                                                                                                                                                                                             | 100             | <u>188</u>      |
| Long-term capital gains before exemption                                                                                                                                                                                                                                                                                                                                                |                 | 406             |
| Less: Exemption under section 54                                                                                                                                                                                                                                                                                                                                                        |                 | 80.00           |
| Since the amount of capital gain does not exceed ₹ Rs 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 two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee. |                 |                 |

|                                                                                                                                                                                                                                                                  |  |       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-------|
| However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India |  |       |
| 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 09.08.2020) 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 09.08.2026 (i.e., within six months from the date of transfer).                                |  |       |
| Long term capital gains chargeable to tax                                                                                                                                                                                                                        |  | 276   |

Note: Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain

In case of tax on LTCG shall be:

a. 12.5% of ₹ 276 lakhs

b. 20% on ₹2,66,795 (refer note 1)



Note 1

$$\text{ICOA} = ₹88 \text{ lakhs} \times \frac{376}{137} = ₹2,41,51,825$$

$$\text{ICOI} = ₹100 \text{ lakhs} \times \frac{376}{167} = ₹2,25,14,970$$

$$\therefore \text{LTCG shall be } ₹ 2,76,00,000 + ₹ 88,00,000 + ₹1,00,00,000 - ₹2,41,51,825 - ₹2,25,14,970 = (₹2,66,795)$$

Solution 7:

|      |                                                                                                                        |           |
|------|------------------------------------------------------------------------------------------------------------------------|-----------|
| (i)  | Long-term capital gain on transfer of 5,000 shares of AB Ltd. [taxable u/s 112A @12.5% on amount exceeding ₹ 1,25,000] |           |
|      | Full value of consideration [5,000 x ₹ 500]                                                                            | 25,00,000 |
|      | Less: Cost of acquisition                                                                                              |           |
|      | Higher of                                                                                                              |           |
|      | Cost of acquisition [5,000 x ₹ 425]                                                                                    | 21,25,000 |
|      | Lower of fair market value per share as on 31.1.2018                                                                   | 22,50,000 |
|      | i.e., ₹ 450 per share and sale consideration i.e., ₹ 500 per share [5,000 x ₹ 450]                                     | 22,50,000 |
|      | Long term capital gain taxable u/s 112A                                                                                | 2,50,000  |
|      | Long-term capital gain exceeding ₹ 1,25,000 i.e., ₹ 1,25,000 would be taxable @10%                                     |           |
| (ii) | Sale of residential house [long-term capital asset, since held for more than 24 months]                                |           |
|      | Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]                     | 45,00,000 |
|      | Less: Indexed cost of acquisition                                                                                      | 10,50,000 |
|      |                                                                                                                        | 34,50,000 |
|      | Less: Deduction under section 54EC                                                                                     | 15,00,000 |
|      | Since ₹ 15,00,000 is invested in RECL bonds on 20th March 2025 i.e., before six months from the date of transfer       |           |
|      | Long-term capital gain taxable u/s 112 @ 12.5%                                                                         | 19,50,000 |

**CLASSWORK**

Q1. Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

Ans. Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e., a company in which the public are not substantially interested), which is a not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted. The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Q2. Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2025-26 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2025.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2025.
- (3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2025, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.

Further, on 1st November, 2025, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2026, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2026-27.



Ans. Computation of "Income from other sources" of Mr. A for the A.Y. 2026-27

| Particulars               |                                                                                                                                                                                                                                                                                                                                                     | ₹        |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| (1)                       | Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000                                                                                                                                                                                                                                                                              | 75,000   |
| (2)                       | Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000                                                                                                                                                     | 60,000   |
| (3)                       | Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)                                                                                                                                                                                                                                         | 5,00,000 |
| (4)                       | Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A. | -        |
| (5)                       | Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration                                                                                         | 3,00,000 |
| Income from Other Sources |                                                                                                                                                                                                                                                                                                                                                     | 9,35,000 |

Computation of "Capital Gains" of Mr. A for the A.Y.2026-27

| Particulars                                                                                                              | ₹        |
|--------------------------------------------------------------------------------------------------------------------------|----------|
| Sale Consideration                                                                                                       | 7,00,000 |
| Less: Cost of acquisition [deemed to be the stamp duty 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.

- Q3. Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2026, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2024.  
Would your answer be different if Hari was a share broker instead of a property dealer?

Ans. 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 | 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 |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. | 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. |
| 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                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

#### Case 2: Tax implications if Mr. Hari is a share broker

| In the hands of the seller, Mr. Hari                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | In the hands of the buyer, Mr. Rajesh                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.                                                                                                                                                                                                                                                                                                                                                                                                       | 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.                                                                                                                                                                                           |
| 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.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 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 on or before the date of agreement. |
| 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. | Aadhar Pay.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

- Q4. Examine under which heads the following incomes are taxable:
- Rental income in case property held as stock-in-trade for 3 years
  - Salary received by a partner from his partnership firm
  - Rental income of machinery
  - Winnings from lotteries by a person having the same as business activity
  - Salaries received by a Member of Parliament
  - Receipts without consideration
  - In case of retirement, interest on employee's contribution if provident fund is unrecognized.
  - Rental income in case of a person engaged in the business of letting out of properties.

Ans. Head under which following incomes are taxable:

|        | Particulars                                                                                  | Head of Income                                                                                                |
|--------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| (i)    | Rental income in case property held as stock-in trade for 3 years                            | Income from house property                                                                                    |
| (ii)   | Salary by partner from his partnership firm                                                  | Profits and gains of business or profession                                                                   |
| (iii)  | Rental income of machinery (See Note below)                                                  | Profits and gains of business or profession/Income from other sources                                         |
| (iv)   | Winnings from lotteries by a person having the same as business activity                     | Income from other sources                                                                                     |
| (v)    | Salaries payable to a Member of Parliament                                                   | Income from other sources                                                                                     |
| (vi)   | Receipts without consideration                                                               | Income from other sources                                                                                     |
| (vii)  | In case of retirement, interest on employee's contribution if provident fund is unrecognized | Income from other sources                                                                                     |
| (viii) | Rental income in case of a person engaged in the business of letting out of properties       | Profits and gains from business or profession. However, if properties are Residential House, then under IFHP. |

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

- Q5. Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹ 27,00,000 and standard rent of ₹ 29,80,000. Market rent of similar property is ₹ 30,00,000. Annual rent was ₹ 40,00,000 which includes ₹ 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is ₹ 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property: Municipal taxes of ₹ 4,00,000 for the financial year 2025-26 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2020 -21 paid during the year of ₹ 1,40,000 which includes interest on arrears of ₹ 25,000. Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash. Salary of ₹ 88,000 paid to staff for collecting house rent and other charges. Compute the total income of Mr. Ravi.



Ans. Computation of total income of Mr. Ravi for A.Y. 2026-27 under the regular provisions of the Act

| Particulars                                                                                                                                                                                                                                                                         | Amount (₹) | Amount (₹) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| <u>Income from house property</u>                                                                                                                                                                                                                                                   |            |            |
| Gross Annual Value                                                                                                                                                                                                                                                                  |            |            |
| - Expected rent ₹ 29,80,000 [Higher of Municipal Value of ₹ 27,00,000 p.a. and Fair Rent of ₹ 30,00,000 p.a., but restricted to Standard Rent of ₹ 29,80,000 p.a.]                                                                                                                  |            |            |
| - Actual rent ₹ 29,40,000 [₹ 30,00,000, being annual rent for house property less rent of ₹ 60,000 ( $\text{₹ } 2,40,000 \times 4/12 \times 3/4$ ) due to vacancy]                                                                                                                  | 29,40,000  |            |
| Gross Annual Value                                                                                                                                                                                                                                                                  |            |            |
| In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of ₹ 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent. |            |            |
| Less: Municipal taxes actually paid during the year:                                                                                                                                                                                                                                |            |            |
| [₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000                                                                                                                                                                                                                                      |            |            |
| [₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000                                                                                                                                                                                                                               | 4,75,000   |            |
| Net Annual Value                                                                                                                                                                                                                                                                    | 24,65,000  |            |
| Less: Deduction                                                                                                                                                                                                                                                                     |            |            |
| Standard deduction - 30% of Net Annual Value                                                                                                                                                                                                                                        | 7,39,500   |            |
|                                                                                                                                                                                                                                                                                     |            | 17,25,500  |
| <u>Income from Other Sources/Profits and gains from business or profession</u>                                                                                                                                                                                                      |            |            |
| Rent for amenities                                                                                                                                                                                                                                                                  | 10,00,000  |            |
| Less: Loss due to vacancy [ $\text{₹ } 2,40,000 \times 4/12 \times 1/4$ ]                                                                                                                                                                                                           | 20,000     |            |
|                                                                                                                                                                                                                                                                                     | 9,80,000   |            |
| Less: Expenditure in respect thereof                                                                                                                                                                                                                                                |            |            |
| - Lift maintenance expenses 2,10,000<br>[excluding cash payment of ₹ 30,000 disallowed] = ₹ 2,40,000 – ₹ 30,000                                                                                                                                                                     |            |            |
| - Salary to staff [ $\text{₹ } 88,000 \times 1/4$ , being the proportion pertaining to amenities] 22,000                                                                                                                                                                            | 2,32,000   | 7,48,000   |
| Total Income                                                                                                                                                                                                                                                                        |            | 24,73,500  |

**Q1.** 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.

| Ans.  | Taxable/<br>Non-<br>taxable | Amount<br>liable to tax<br>(₹) | Reason                                                                                                                                                                                                                                                                                                                                                                                              |
|-------|-----------------------------|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i)   | Taxable                     | 75,000                         | Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.                                                                                                                                                                        |
| (ii)  | Non-<br>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-<br>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.                                                                                                                                                                                                                                                                    |

**Q2.** On 10.10.2025, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17.

Out of this interest, ₹ 1,50,000 relates to the financial year 2017-18; ₹ 1,65,000 to the financial year 2018-19; and ₹ 1,85,000 to the financial year 2019-20. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2026-27?

**Ans.** 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 "Income from other sources"

for the A.Y 2026-27:

| Particulars                                               | ₹        |
|-----------------------------------------------------------|----------|
| Interest on enhanced compensation taxable u/s 56(2)(viii) | 5,00,000 |
| Less: Deduction under section 57(iv) (50% × ₹ 5,00,000)   | 2,50,000 |
| Taxable interest on enhanced compensation                 | 2,50,000 |

Q3. The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2026:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaphtha 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 21.2.2026, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as "Income from other sources" for A.Y.2026-27.

- Ans. (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, being a relative, 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 Shastiaphtha 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).



- Q1. Interest on enhanced compensation received by Mr. G during the previous year 2025-26 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2019-20, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2026-27.
- Q2. 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 12-3-2026 for acquisition of urban land, of which 40% relates to P.Y.2024-25.
- Q3. Examine the following transactions in the context of Income-tax Act, 1961:
- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2025 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.  
Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.
  - (ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2025 for meeting his medical expenses.  
Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?
- Q4. Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

**Solution 1:**

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2025-26.

| 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 |

**Solution 2:**

**Taxability of Receipts**

| S. No. | Taxable/ Not Taxable | Answer Amount liable to tax (₹) | Reason                                                                                                                                                                                                                                                                                                                                                                   |
|--------|----------------------|---------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i)    | Taxable              | 1,20,000                        | The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x). |





|      |         |        |                                                                                                                                                                                                                                                                                   |
|------|---------|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (ii) | Taxable | 48,000 | As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee.                                                       |
|      |         |        | Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 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”. |

### Solution 3:

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.
- Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.
- As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.
- The full value of consideration (₹ 5,00,000) less the cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.
- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

### Solution 4:

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.



## CLASSWORK

- Q1. Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2026-27.

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

### Computation of Gross total income of Mr. B

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

### Computation of Gross total income of Mrs. B

| Particulars                                           | ₹      | ₹      |
|-------------------------------------------------------|--------|--------|
| Income from Salary<br>[Clubbed in the hands of Mr. B] |        | Nil    |
| Income from house property                            |        |        |
| Gross Annual Value [₹ 6,000 × 12]                     | 72,000 |        |
| Less: Municipal taxes paid                            | -      |        |
| Net Annual Value (NAV)                                | 72,000 |        |
| Less: Deductions under section 24                     |        |        |
| - 30% of NAV i.e., 30% of ₹ 72,000                    | 21,600 |        |
| - Interest on loan                                    | -      | 50,400 |
| Gross total income                                    |        | 50,400 |

- Q2. Mr. Vaibhav started a proprietary business on 01.04.2024 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2024-25. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2025, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2025-26. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

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

In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2025 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27 is computed as under:

| Particulars                                                                                                         | Mr. Vaibhav's capital contribution (₹)     | Capital contribution out of gift from Mrs. Vaishaly (₹) | Total (₹) |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------------------------------------------|-----------|
| Capital as on 1.4.2025                                                                                              | 3,00,000                                   | 5,00,000                                                | 8,00,000  |
|                                                                                                                     | (5,00,000 – 2,00,000)                      |                                                         |           |
| Profit for P.Y.2025-26                                                                                              | 1,50,000                                   | 2,50,000                                                | 4,00,000  |
| to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2025 (3:5) | $\left(4,00,000 \times \frac{3}{8}\right)$ | $\left(4,00,000 \times \frac{5}{8}\right)$              |           |

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2026-27 is ₹ 2,50,000.

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

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

- Q3. Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.  
Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

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

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

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

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

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

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

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

Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs.

B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

- Q4. Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A):

|     | Particulars                                                                | ₹        |
|-----|----------------------------------------------------------------------------|----------|
| (a) | Salary income (computed) of Mrs. A                                         | 2,30,000 |
| (b) | Income from profession of Mr. A                                            | 3,90,000 |
| (c) | Income of minor son B from company deposit                                 | 15,000   |
| (d) | Income of minor daughter C from special talent                             | 32,000   |
| (e) | Interest from bank received by C on deposit made out of her special talent | 3,000    |
| (f) | Gift received by C on 30.09.2025 from friend of Mrs. A                     | 2,500    |

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

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

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

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

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

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

| Particulars                                                                                                                        | ₹      | ₹        |
|------------------------------------------------------------------------------------------------------------------------------------|--------|----------|
| Income from profession                                                                                                             |        | 3,90,000 |
| Income of minor son B from company deposit                                                                                         | 15,000 |          |
| Less: Exemption under section 10(32)                                                                                               | 1,500  | 13,500   |
| Income of minor daughter C                                                                                                         |        |          |
| From special talent – not to be clubbed                                                                                            | -      |          |
| Interest from bank                                                                                                                 | 3,000  |          |
| Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000 | Nil    |          |
|                                                                                                                                    | 3,000  |          |
| Less : Exemption under section 10(32)                                                                                              | 1,500  | 1,500    |
| Gross Total Income                                                                                                                 |        | 4,05,000 |

- Q5. During the previous year 2025-26, the following transactions occurred in respect of Mr. A.

- (a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2025 to 31-3-2026 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- (b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.

- (c) Mr. A gifted a flat to Mrs. A on April 1, 2025. During the previous year 2025-26, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
- (d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

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

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

| Ans. | Particulars                                                                                                             | Mr. A<br>(₹) |          | Mrs. A (₹) | Minor Son (₹) |
|------|-------------------------------------------------------------------------------------------------------------------------|--------------|----------|------------|---------------|
|      | Income under the head "Salaries"                                                                                        |              |          |            |               |
|      | Salary income (of Mrs. A)                                                                                               |              | -        | 2,40,000   | -             |
|      | Pension income (of Mr. A)                                                                                               |              |          |            |               |
|      | (₹ 10,000×12)                                                                                                           |              | 1,20,000 | -          |               |
|      | Less: Standard deduction under section 16(ia)                                                                           |              | 50,000   | 50,000     |               |
|      |                                                                                                                         |              | 70,000   | 1,90,000   |               |
|      | Income from House Property [See Note (3) below]                                                                         |              | 52,000   | -          | -             |
|      | Income from other sources                                                                                               |              |          |            |               |
|      | Interest on Mr. A' fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]                                | 45,000       |          | -          | -             |
|      | Commission received by Mrs. A from a partnership firm, in which Mr. A has Substantial interest [See Note (2) below]     | 25,000       | 70,000   |            |               |
|      | Income before including income of minor son under section 64(1A)                                                        |              | 1,92,000 | 1,90,000   | -             |
|      | Income of the minor son from the investment made in The business out of the Amount gifted by Mr. A [See Note (4) below] |              | 18,500   | -          | -             |
|      | Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]  |              | -        | -          | 20,000        |
|      | Total Income                                                                                                            |              | 2,10,500 | 1,90,000   | 20,000        |

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

(2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

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

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

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

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

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

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

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

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

Q6. Mr. B is the Karta of a HUF, whose members derive income as given below:

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

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

Ans. Clubbing of income and other tax implications

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

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

Tax implications

(i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".

(ii) Salary of ₹ 1,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 75,000) shall be taxable as "Salaries" in the hands of Mrs. B.

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

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

(iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

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

Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

Q7. Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2025. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2025-26. Discuss the tax implications under the provisions of the Income- tax Act, 1961.

Ans. In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2025 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted<sup>2</sup>.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total





income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received)

₹ 72,900 would be includible in the hands of Mr. Karan.

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

Q8. Mr. Vasudevan gifted a sum of 6 lakhs to his brother's wife on 14-06-2025. On 12-07-2025, his brother gifted a sum of 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-08-2025 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

Ans. In the given case, Mr. Vasudevan gifted a sum of 6 lakhs to his brother's wife on 14.06.2025 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2025. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142. Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs

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

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

Q1. Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

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

Q2. Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2026-27, If paying Tax Under Default Tax Regime.

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

## Computation of Gross total income of Mr. A

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

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

Q3. Will your answer be different if Mrs. A was qualified for the job?

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

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

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

Q4. Mr. Sharma has four minor children - 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified under section 80U.

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

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

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

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

|      | Particulars                                            | ₹      |
|------|--------------------------------------------------------|--------|
| (i)  | Income of one daughter                                 | 9,000  |
|      | Less: Income exempt under section 10(32)               | 1,500  |
|      | Total (A)                                              | 7,500  |
| (ii) | Income of two sons (₹ 6,200 + ₹ 4,300)                 | 10,500 |
|      | Less: Income exempt under section 10(32)               |        |
|      | (₹ 1,500 + ₹ 1,500)                                    | 3,000  |
|      | Total (B)                                              | 7,500  |
|      | Total Income to be clubbed as per section 64(1A) (A+B) | 15,000 |

Note: It has been assumed that:

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

Q5. Details of Income of Mr. R and his wife Mrs. R for the previous year 2025-26 are as under:

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2025-26 the HUF earned an income of ₹50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2006 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2025-26, she earned interest @ 11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2025-26 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.
- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2016 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2017. On 04.03.2026, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000.

Compute Gross Total income of Mr. R and Mrs. R. Assume the assessee opts out of the default scheme under Section 115BAC?

| Ans. | Particulars                                                                                                                                                                           | Mr. R      | Mrs. R |
|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|
|      |                                                                                                                                                                                       | Amount (₹) |        |
| I.   | Income from house property                                                                                                                                                            |            |        |
|      | Income from property transferred to HUF without consideration                                                                                                                         |            |        |
|      | Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 from such property would be included in the total income of Mr. R as per section 64(2). | 50,000     |        |

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |          |           |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| II.  | Capital Gains                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |          |           |
|      | Income from equity shares transferred by Mrs. R to Mr. R without consideration                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |          |           |
|      | Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 × 5,000/8,000]                                                                                                                                                                                                                                                                                                                                                                                     |          | 3,25,000  |
|      | Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 × 3,000/8,000]'                                                                                                                                                                                    | 1,95,000 |           |
| III. | Income from Other Sources                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |          |           |
|      | Income from commission                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 4,00,000 |           |
|      | Interest income                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |          | 3,30,000  |
|      | Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |          |           |
|      | Income of ₹ 44,000, i.e., 11% of ₹ 4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R                                                                                                                                                                                                                                                                                                                                                          | 44,000   |           |
|      | Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R                                                                                                                                                                                                   | 6,89,000 | 38,500    |
|      | Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]                                                                                                                                                                                                                                                                                                                                                                                         |          | 6,93,500  |
| IV.  | Salary income from a company in which both Mr. R and Mrs. R have substantial interest                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |          |           |
|      | Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R. |          | 2,70,000  |
|      | Salary income of Mr. R = ₹ 3,20,000 – ₹ 50,000 (standard deduction)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |          | 2,20,000  |
|      | Salary income of Mrs. R = ₹ 2,70,000 – ₹ 50,000 (standard deduction) (Gross Total Income higher. income, is higher. salary income, is higher. such salary income, is higher.)                                                                                                                                                                                                                                                                                                                                                                             |          |           |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 6,89,000 | 11,83,500 |



**Q6.** Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on 1st January, 2025. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2025 for six months on which she received interest of 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2025, which were sold for ₹ 75,000 on 30th December, 2025. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2025. She suffered loss of ₹ 15,000 in the business in Financial Year 2025-26.

In whose hands the above income and loss shall be included in Assessment Year 2026-27? Support your answer with brief reasons.

**Ans.** As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly to the spouse of such individual from assets transferred directly or indirectly to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Since the capital was invested in business by Ms. Nisha on 1st April, 2025, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

The short-term capital gain of ₹25,000 (₹75,000, being the sale consideration less ₹50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@20% in the hands of Ms. Nisha.

**Q7.** Mrs. and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2026:

(i) Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.

(ii) Nonu won a prize money of ₹ 3,00,000 in National Sports competition.

This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year. Mr. Naresh's income before considering clubbing provisions is higher than that of his wife and he has opted out of the default tax regime.

Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required.

**Ans.**

(i) Gift received from non-relative by minor daughter Mahi

Gift of ₹85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)

(ii) Prize money of ₹3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu  
Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize

money of ₹3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.

However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.

Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

Q8. Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2026-27.

|   |                                                                                                                                                                | ₹        |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| 1 | Income of Mr. Mahadev-professional bhajan singer (computed)                                                                                                    | 5,65,000 |
| 2 | Salary income of Mrs. Dariya (computed)                                                                                                                        | 3,80,000 |
| 3 | Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back) | 2,50,000 |
| 4 | Income of their minor son Golu from winning singing reality show on T.V.                                                                                       | 2,50,000 |
| 5 | Cash gift received by Golu from friend of Mr. Mahadev on winning the show                                                                                      | 21,000   |
| 6 | Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.                                                                 | 40,000   |

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2026-27 if both of them are paying tax under default tax regime.

Ans. Computation of Taxable income of Mr. Mahadev for A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                                                                 | ₹        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Professional income (bhajan singer)                                                                                                                                                                                                                                                                         | 5,65,000 |
| Income of minor son - Golu                                                                                                                                                                                                                                                                                  |          |
| - Income from winning singing reality show on T.V.                                                                                                                                                                                                                                                          | Nil      |
| Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, 2,50,000 earned by minor son Golu from reality show on TV would not be included in the income of either parent. |          |
| - Cash gift received by Golu from friend of Mr. Mahadev on winning the show                                                                                                                                                                                                                                 | Nil      |
| The cash gift received by his minor son Golu (not on account of her skill) from his friends would not be taxable, since its value does not exceed 50,000.                                                                                                                                                   |          |
| Income of minor married daughter - Gudia                                                                                                                                                                                                                                                                    |          |
| Interest income on deposit with Ramu & Jay Pvt Ltd.                                                                                                                                                                                                                                                         | 40,000   |
| Less: Exemption under section 10(32) [Not allowable]                                                                                                                                                                                                                                                        | Nil      |
|                                                                                                                                                                                                                                                                                                             | 40,000   |
| [Income of minor daughter would be included in the hands of Mr. Mahadev, since his income, before including minor daughter's income, is higher than his wife's income.]                                                                                                                                     |          |
| Taxable Income                                                                                                                                                                                                                                                                                              | 6,05,000 |

Computation of Taxable income of Mrs. Dariya for A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                                                                                                    | ₹        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Salary income (computed)                                                                                                                                                                                                                                                                                                                       | 3,80,000 |
| Loan received from Ramu & Jay (Pvt) Ltd.                                                                                                                                                                                                                                                                                                       | Nil      |
| [Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Dariya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception] |          |
| Taxable Income                                                                                                                                                                                                                                                                                                                                 | 3,80,000 |



- Q1. A proprietary business was started by Smt. Rani in the year 2023. As on 1.4.2024 her capital in business was ₹ 3,00,000.  
Her husband gifted ₹ 2,00,000 on 10.4.2024 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2024-25, ₹ 1,50,000 and Financial year 2025-26 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2026-27 with reasons.
- Q2. Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.  
Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.  
Examine with reasons whether the contention of Mrs. Kasturi is valid in law.
- Q3. Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2025 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).
- Q4. Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

| S. No. | Particulars                                                                                                                  | Amount (₹) |
|--------|------------------------------------------------------------------------------------------------------------------------------|------------|
| (i)    | Salary income (computed) of Mrs. Anandi                                                                                      | 9,60,000   |
| (ii)   | Income of minor son "A" who suffers from disability specified in section 80U                                                 | 3,08,000   |
| (iii)  | Income of minor daughter "C" from script writing for Television Serials                                                      | 1,86,000   |
| (iv)   | Income from garment trading business of Mr. Dharmesh                                                                         | 17,50,000  |
| (v)    | Cash gift received by minor daughter "C" on 02-10-2025 from friend of Mrs. Anandi, on winning of a story writing competition | 45,000     |
| (vi)   | Income of minor son "B" form scholarship received from his school                                                            | 1,00,000   |
| (vii)  | Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship             | 5,000      |

Assume assessee opts out of default scheme u/s 115BAC

**Solution 1:**

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is computed as under:



| Particulars                                                                                                                        | Smt. Rani's Capital Contribution (₹) | Capital Contribution Out of gift from husband (₹) | Total (₹) |
|------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------------------------------|-----------|
| Capital as at 1.4.2024                                                                                                             | 3,00,000                             | -                                                 | 3,00,000  |
| Investment on 10.04.2024 out of gift received from her husband                                                                     |                                      | 2,00,000                                          | 2,00,000  |
|                                                                                                                                    | 3,00,000                             | 2,00,000                                          | 5,00,000  |
| Profit for F.Y. 2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2024 | 1,50,000                             |                                                   | 1,50,000  |
| Capital employed as at 1.4.2025                                                                                                    | 4,50,000                             | 2,00,000                                          | 6,50,000  |
| Profit for F.Y.2025-26 to be apportioned on the basis of Capital employed as at 1.4.2025 (i.e., 45 : 20)                           | 2,70,000                             | 1,20,000                                          | 3,90,000  |

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is ₹ 1,20,000.

#### Solution 2:

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

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

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

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

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

#### Solution 3:

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

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

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

**Solution 4:****Computation of Total Income of Mr. Dharmesh and Mrs. Anandi**

| Particulars                                                                                                                                                                                                                                                                                       | Mr. Dharmesh | Mrs. Anandi |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|
|                                                                                                                                                                                                                                                                                                   | Amount (₹)   |             |
| Salary income (computed)                                                                                                                                                                                                                                                                          |              | 9,60,000    |
| Income from garment trading business                                                                                                                                                                                                                                                              | 17,50,000    |             |
| Total Income before including income of minor children                                                                                                                                                                                                                                            | 17,50,000    | 9,60,000    |
| <u>Income of minor son "A"</u>                                                                                                                                                                                                                                                                    |              |             |
| Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child] | -            | -           |
| <u>Income of minor son "B"</u>                                                                                                                                                                                                                                                                    |              |             |
| Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]                                                                                                                                                                                                                                         | -            |             |
| Income from fixed deposit with PNB 5,000                                                                                                                                                                                                                                                          |              |             |
| [Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship] |              |             |
| Less: Exemption under section 10(32) 1,500                                                                                                                                                                                                                                                        | 3,500        |             |
| <u>Income of minor daughter "C"</u>                                                                                                                                                                                                                                                               |              |             |
| Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]                                         |              |             |
|                                                                                                                                                                                                                                                                                                   | Nil          |             |
| Hence, clubbing provisions will not apply in this case/no adjustment is required.                                                                                                                                                                                                                 |              |             |
| Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]                                                                                                                                       |              |             |
| Hence, clubbing provisions will not apply in this case / no adjustment is required.                                                                                                                                                                                                               | Nil          |             |
| Gross Total Income/ Total Income                                                                                                                                                                                                                                                                  | 17,53,500    | 9,60,000    |

**Note -** As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16).  
 Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.



## CLASSWORK

Q1. Mr. Soohan submits the following details of his income for the A.Y.2026-27:

| Particulars                                                                 | ₹            |
|-----------------------------------------------------------------------------|--------------|
| Income from salary (computed)                                               | 3,00,000     |
| Loss from let out house property                                            | (-) 40,000   |
| Income from sugar business                                                  | 50,000       |
| Loss from iron ore business for P.Y. 2020-21 (discontinued in P.Y. 2021-22) | (-) 1,20,000 |
| Short term capital loss                                                     | (-) 60,000   |
| Long term capital gain                                                      | 40,000       |
| Dividend                                                                    | 5,000        |
| Income received from lottery winning (Gross)                                | 50,000       |
| Winnings from card games (Gross)                                            | 6,000        |
| Agricultural income                                                         | 20,000       |
| Short-term capital loss under section 111A                                  | (-) 10,000   |
| Bank interest on Fixed deposit                                              | 5,000        |

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of Gross Total Income of Mr. Soohan for the A.Y.2026-27

| Particulars                                                                                                             | ₹        | ₹        |
|-------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Salaries                                                                                                                |          |          |
| Income from salary                                                                                                      | 3,00,000 |          |
| Less: Loss from house property set-off against salary income as per section 71                                          | (40,000) | 2,60,000 |
| Profits and gains of business or profession                                                                             |          |          |
| Income from sugar business                                                                                              | 50,000   |          |
| Less: Brought forward loss of ₹ 1,20,000 from iron- ore business set-off as per section 72(1) to the extent of ₹ 50,000 | (50,000) | Nil      |
| Balance business loss of ₹ 70,000 of P.Y.2020-21 to be carried forward to A.Y.2027-28                                   |          |          |
| Capital gains                                                                                                           |          |          |
| Long term capital gain                                                                                                  | 40,000   |          |
| Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000                                             | (40,000) | Nil      |
| Balance short-term capital loss of ₹ 20,000 to be carried forward                                                       |          |          |
| Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward                                                 |          |          |
| Income from other sources                                                                                               |          |          |
| Dividend (fully taxable in the hands of shareholders)                                                                   | 5,000    |          |
| Winnings from lottery                                                                                                   | 50,000   |          |
| Winnings from card games                                                                                                | 6,000    |          |
| Bank FD interest                                                                                                        | 5,000    | 66,000   |
| Gross Total Income                                                                                                      |          | 3,26,000 |
| Losses to be carried forward to A.Y.2027-28                                                                             |          |          |
| Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)                                                                       | 70,000   |          |
| Short term capital loss (₹ 20,000 + ₹ 10,000)                                                                           | 30,000   |          |

Q2.

Mr. Batra furnishes the following details for year ended 31.03.2026:

| Particulars                                                                | ₹        |
|----------------------------------------------------------------------------|----------|
| Short term capital gain                                                    | 1,40,000 |
| Loss from speculative business                                             | 60,000   |
| Long term capital gain on sale of land                                     | 30,000   |
| Long term capital loss on sale of unlisted shares                          | 1,00,000 |
| Income from business of textile (after allowing current year depreciation) | 50,000   |
| Income from activity of owning and maintaining race horses                 | 15,000   |
| Income from salary (computed)                                              | 1,00,000 |
| Loss from house property                                                   | 40,000   |

Following are the brought forward losses:

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2023-24 - ₹ 25,000.  
(ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2018-19.

Compute gross total income of Mr. Batra for the Assessment Year 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2027-28.

Ans.

Computation of Gross Total Income of Mr. Batra for the A.Y. 2026-27

| Particulars                                                                                                                        | ₹        | ₹        |
|------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Salaries                                                                                                                           | 1,00,000 |          |
| Less: Current year loss from house property                                                                                        | (40,000) | 60,000   |
| [Since Mr. Batra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]             |          |          |
| Profit and gains of business or profession                                                                                         |          |          |
| Income from textile business                                                                                                       | 50,000   |          |
| Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2018-19 set-off to the extent of ₹ 50,000                               | 50,000   | NIL      |
| Income from the activity of owning and maintaining race horses                                                                     | 15,000   |          |
| Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2023-24 set-off to the extent of ₹ 15,000 | 15,000   | NIL      |
| Balance loss of ₹ 10,000 to be carried forward to A.Y. 2027-28 [See Note 2]                                                        |          |          |
| Capital Gain                                                                                                                       |          |          |
| Short term capital gain                                                                                                            |          | 1,40,000 |
| Long term capital gain on sale of land                                                                                             | 30,000   |          |
| Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000                            | 30,000   | NIL      |
| Balance loss of ₹ 70,000 to be carried forward to A.Y. 2027-28 [See Note 3]                                                        |          |          |
| Gross Total Income                                                                                                                 |          | 2,00,000 |

Losses to be carried forward to A.Y. 2027-28

| Particulars                                                                          | ₹      |
|--------------------------------------------------------------------------------------|--------|
| Current year loss from speculative business [See Note-4]                             | 60,000 |
| Current year long term capital loss on sale of unlisted shares                       | 70,000 |
| Loss from activity of owning and maintaining of race horse pertaining to A.Y.2023-24 | 10,000 |

Notes:-

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2018-19 expired in the A.Y. 2026-27, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2027-28.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Q3. Mr. A furnishes you the following information for the year ended 31.03.2026:

|       |                                                                                                                                                                                                                                                                                                                                                                                                                          | (₹ )     |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| (i)   | Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)                                                                                                                                                                                                                                                                                                              | 3,20,000 |
| (ii)  | Income from retail trade of garments<br>(Computed as per books) (Sales turnover ₹ 1,35,70,000)<br>Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2026-27. Assume 10% of the turnover during the P.Y.2025-26 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card. | 7,50,000 |
| (iii) | He has brought forward depreciation relating to A.Y. 2024-25                                                                                                                                                                                                                                                                                                                                                             | 1,00,000 |

Compute taxable income of Mr. A and his tax liability for the A.Y. 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of total income and tax liability of Mr. A for the A.Y. 2026-27

| Particulars                                                      | ₹         |
|------------------------------------------------------------------|-----------|
| Income from retail trade – as per books (See Note 1 below)       | 7,50,000  |
| Income from plying of vehicles – as per books (See Note 2 below) | 3,20,000  |
|                                                                  | 10,70,000 |
| Less : Set off of b/f depreciation relating to A.Y. 2024-25      | 1,00,000  |
| Total income                                                     | 9,70,000  |
| Tax liability                                                    | 1,06,500  |
| Add: Health and Education cess@4%                                | 4,260     |
| Total tax liability                                              | 1,10,760  |

Note:

1. Income from retail trade: Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is

₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not declare profits as per presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence, tax audit is mandatory. It may further be noted that he cannot declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.

2. Income from plying of light goods vehicles: Income calculated under section 44AE(1) would be ₹  $7,500 \times 12 \times 5$  which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If income is declared as per presumptive provisions, his total income would be as under:

| Particulars                                                                                                       | ₹         |
|-------------------------------------------------------------------------------------------------------------------|-----------|
| Income from retail trade under section 44AD [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]                              | 8,41,340  |
| Income from plying of light goods vehicles under section 44AE [₹ 7,500 × 12 × 5]                                  | 4,50,000  |
|                                                                                                                   | 12,91,340 |
| Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off | Nil       |
| Total income                                                                                                      | 12,91,340 |
| Tax thereon                                                                                                       | 1,99,902  |
| Add : Health and Education cess @4%                                                                               | 7,996     |
| Total tax liability                                                                                               | 2,07,898  |
| Total tax liability (rounded off)                                                                                 | 2,07,900  |

Q4. Mr. Aditya furnishes the following details for the year ended 31-03-2026:

| Particulars                                                                                                                           | Amount (₹) |
|---------------------------------------------------------------------------------------------------------------------------------------|------------|
| Loss from speculative business A                                                                                                      | 25,000     |
| Income from speculative business B                                                                                                    | 5,000      |
| Loss from specified business covered under section 35AD                                                                               | 20,000     |
| Income from salary (computed)                                                                                                         | 3,00,000   |
| Loss from let out house property                                                                                                      | 2,50,000   |
| Income from trading business                                                                                                          | 45,000     |
| Long-term capital gain from sale of urban land                                                                                        | 2,00,000   |
| Long-term capital loss on sale of shares (STT not paid)                                                                               | 75,000     |
| Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares) | 1,02,000   |

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2024-25 ₹ 2,000.

(2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2021- 22.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

| Particulars                                                                                                                                                                                                                                                                   | ₹          | ₹        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------|
| Salaries                                                                                                                                                                                                                                                                      |            |          |
| Income from Salary                                                                                                                                                                                                                                                            | 3,00,000   |          |
| Less: Loss from house property set-off against salary income as per section 71(3A) [Loss from house property to the extent of ₹23,000 can be set off first against remaining capital gain of and then balance ₹1,77,000 against Salaries]                                     | (1,77,000) | 1,23,000 |
| Loss from house property to the extent not set off i.e. ₹ 50,000 (₹2,50,000- ₹2,00,000) to be carried forward to A.Y. 2027-28                                                                                                                                                 |            |          |
| Profits and gains of business or profession                                                                                                                                                                                                                                   |            |          |
| Income from trading business                                                                                                                                                                                                                                                  | 45,000     |          |
| Less: Brought forward loss from trading business of A.Y. 2021-22 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired. | (5,000)    | 40,000   |
| Income from speculative business B                                                                                                                                                                                                                                            | 5,000      |          |
| Less: Loss of 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000                                                                                                                                                                        | (5,000)    | Nil      |
| Balance loss of 20,000 from speculative business A to be carried forward to A.Y.2027-28 as per section 73(2)                                                                                                                                                                  |            |          |
| Loss of ₹20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.                                                                                                               |            |          |
| Capital Gains                                                                                                                                                                                                                                                                 |            |          |
| Long term capital gain on sale of urban land                                                                                                                                                                                                                                  | 2,00,000   |          |
| Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]                                                                                                                                                                                   | (75,000)   |          |
| Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A                                                                     | (1,02,000) |          |
| Less: Set-off of loss from house property to the extent of                                                                                                                                                                                                                    | (23,000)   |          |
| Total Income                                                                                                                                                                                                                                                                  |            | 1,63,000 |

Items eligible for carried forward to A.Y.2027-28

| Particulars                                                                                                                | ₹      |
|----------------------------------------------------------------------------------------------------------------------------|--------|
| Loss from House property                                                                                                   | 50,000 |
| As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 |        |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).                                                                                                                                                                                                                                                                                                                                                                                                      |        |
| As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2034-35, in this case.                                                                                                                                                                                                                                                                   |        |
| Loss from speculative business A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 20,000 |
| Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2030-31, in this case, as specified under section 73(4).                                                                                                                |        |
| Loss from specified business                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 20,000 |
| Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.                                                                                                          |        |
| Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.                                                                                                                                                                                                                           |        |
| Loss from the activity of owning and maintaining race horses                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 2,000  |
| Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2028-29, in this case, as specified under section 74A(3). |        |

- Q5. Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2025-26.

|     | Particulars                            | ₹      |
|-----|----------------------------------------|--------|
| (1) | Income from Salary (computed)          | 15,000 |
| (2) | Income from business                   | 66,000 |
| (3) | Long term capital gain on sale of land | 10,800 |
| (4) | Loss on maintenance of race horses     | 15,000 |
| (5) | Loss from gambling                     | 9,100  |

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y. 2025-26 are as follows:

|     | Particulars                    | ₹      |
|-----|--------------------------------|--------|
| (1) | Unabsorbed depreciation        | 11,000 |
| (2) | Loss from Speculative business | 22,000 |
| (3) | Short term capital loss        | 9,800  |

Compute the Gross total income of Mr. Garg for the A.Y. 2026-27 and the amount of loss, if any that can be carried forward or not.



Ans. Computation of Gross Total Income of Mr. Garg for the A.Y. 2026-27

| Particulars                                                                                                                                                                   | ₹        | ₹      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------|
| (i) Income from salary                                                                                                                                                        |          | 15,000 |
| (ii) Profits and gains of business or profession                                                                                                                              | 66,000   |        |
| Less: Unabsorbed depreciation brought forward from A.Y.2025-26<br>(Unabsorbed depreciation can be set-off against any head of income other than "salary")                     | (11,000) | 55,000 |
| (iii) Capital gains                                                                                                                                                           |          |        |
| Long-term capital gain on sale of land                                                                                                                                        | 10,800   |        |
| Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)] | (9,800)  | 1,000  |
| Gross Total Income                                                                                                                                                            |          | 71,000 |

Amount of loss to be carried forward to A.Y.2027-28

| Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | ₹      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| (1) Loss from speculative business [to be carried forward as per section 73]<br>[Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2025-26 has to be carried forward to A.Y. 2027-28 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2029-30] | 22,000 |
| (2) Loss on maintenance of race horses [to be carried forward as per section 74A]<br>[As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2030-31]                                                                                                                                                    | 15,000 |
| (3) Loss from gambling can neither be set-off nor be carried forward.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |        |

Q6. The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2026:

| Particulars                                                  | ₹        |
|--------------------------------------------------------------|----------|
| Income from salaries (computed)                              | 2,20,000 |
| Loss from house property                                     | 1,90,000 |
| Loss from cloth business                                     | 2,40,000 |
| Income from speculation business                             | 30,000   |
| Loss from specified business covered by section 35AD         | 20,000   |
| Long-term capital gains from sale of urban land              | 2,50,000 |
| Loss from card games                                         | 32,000   |
| Income from betting (Gross)                                  | 45,000   |
| Life Insurance Premium paid (10% of the capital sum assured) | 45,000   |

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

| Particulars                                                                   | ₹          | ₹        |
|-------------------------------------------------------------------------------|------------|----------|
| Salaries                                                                      |            |          |
| Income from salaries                                                          | 2,20,000   |          |
| Less: Set off of balance loss of ₹1,50,000 from house property                | (1,50,000) | 70,000   |
| Profits and gains of business or profession                                   |            |          |
| Income from speculation business                                              | 30,000     |          |
| Less: Loss from cloth business of ₹2,40,000 set off to the extent of ₹ 30,000 | (30,000)   | Nil      |
| Capital gains                                                                 |            |          |
| Long-term capital gains from sale of urban land                               | 2,50,000   |          |
| Less: Set-off of balance loss of ₹ 2,10,000 from cloth business               | (2,10,000) |          |
| Less: Set-off of loss from house property to the extent of                    | (40,000)   | Nil      |
| Income from other sources                                                     |            |          |
| Income from betting                                                           |            | 45,000   |
| Gross Total Income                                                            |            | 1,15,000 |
| Less: Deduction under section 80C (life insurance premium paid)               |            | 45,000   |
| Total income                                                                  |            | 70,000   |

Losses to be carried forward:

| Particulars                                                       | ₹      |
|-------------------------------------------------------------------|--------|
| (1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000) | Nil    |
| (2) Loss from specified business covered by section 35AD          | 20,000 |

Notes:

- (i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of ₹20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.
- (ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹2,10,000 (₹2,40,000-₹30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Q7. Mr. Rajat submits the following information for the financial year ending 31st March, 2026. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

- (a) Compute the total income; and
- (b) Ascertain the amount of losses that can be carried forward.



| Particulars                                                        | ₹        |
|--------------------------------------------------------------------|----------|
| (i) He has two let out house property:                             |          |
| (a) House No. I – Income after all statutory deductions            | 72,000   |
| (b) House No. II – Current year loss                               | (30,000) |
| (ii) He has three proprietary businesses:                          |          |
| (a) Textile Business:                                              |          |
| (i) Discontinued from 31st October, 2025 – Current year loss       | 40,000   |
| (ii) Brought forward business loss of A.Y.2021-22                  | 95,000   |
| (b) Chemical Business:                                             |          |
| (i) Discontinued from 1st March, 2023 – hence no profit/loss       | Nil      |
| (ii) Bad debts allowed in earlier years recovered during this year | 35,000   |
| (iii) Brought forward business loss of A.Y. 2022-23                | 50,000   |
| (c) Leather Business: Profit for the current year                  | 1,00,000 |
| (d) Share of profit in a firm in which he is partner since 2009    | 16,550   |
| (iii) (a) Short-term capital gain                                  | 60,000   |
| (b) Long-term capital loss                                         | 35,000   |
| (iv) Contribution to LIC towards premium                           | 10,000   |

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

| Particulars                                                                                                                 | ₹          | ₹        |
|-----------------------------------------------------------------------------------------------------------------------------|------------|----------|
| 1. Income from house property                                                                                               |            |          |
| House No.1                                                                                                                  | 72,000     |          |
| House No.2                                                                                                                  | (-) 30,000 | 42,000   |
| 2. Profits and gains of business or profession                                                                              |            |          |
| Profit from leather business                                                                                                | 1,00,000   |          |
| Bad debts recovered taxable under section 41(4)                                                                             | 35,000     |          |
|                                                                                                                             | 1,35,000   |          |
| Less: Current year loss of textile business                                                                                 | (-) 40,000 |          |
|                                                                                                                             | 95,000     |          |
| Less: Brought forward business loss of textile business for A.Y.2020-21 set off against the business income of current year | (-) 95,000 | Nil      |
| 3. Capital Gains                                                                                                            |            |          |
| Short-term capital gain                                                                                                     |            | 60,000   |
| Gross Total Income                                                                                                          |            | 1,02,000 |
| Less: Deduction under Chapter VI-A                                                                                          |            |          |
| Under section 80C – LIC premium paid (not available since he is paying tax under the default tax regime)                    |            | -        |
| Total Income                                                                                                                |            | 1,02,000 |

Statement of losses to be carried forward to A.Y. 2027-28

| Particulars                                                                         | ₹      |
|-------------------------------------------------------------------------------------|--------|
| Brought forward chemical business loss of A.Y. 2022-23 to be carried forward u/s 72 | 50,000 |
| Long term capital loss of A.Y. 2026-27 to be carried forward u/s 74                 | 35,000 |

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

- Q8. Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2026:
- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
  - (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
  - (iii) Long-term capital gain on sale of land ₹ 5,00,000.
  - (iv) ₹ 51,000 received in cash from friends in party.
  - (v) ₹ 55,000, being dividend income on listed equity shares of domestic companies.
  - (vi) Brought forward business loss of A.Y. 2024-25 ₹ 12,50,000.
- Compute gross total income of Ms. Geeta for the A.Y. 2026-27 and ascertain the amount of loss that can be carried forward.

Ans. Computation of Gross Total Income of Ms. Geeta for the A.Y. 2026-27

| Particulars                                                                                                                   | ₹          |
|-------------------------------------------------------------------------------------------------------------------------------|------------|
| Profits and gains of business and profession                                                                                  |            |
| Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession" | 7,50,000   |
| Less: B/f business loss of A.Y. 2024-25 ₹ 12,50,000 to be set- off to the extent of ₹ 7,50,000                                | (7,50,000) |
|                                                                                                                               | Nil        |
| (Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)                                             |            |
| Capital Gains                                                                                                                 |            |
| Long term capital gain on sale of land                                                                                        | 5,00,000   |
| Less: Long-term capital loss on shares on STT paid<br>(See Note 2 below)                                                      | 3,00,000   |
|                                                                                                                               | 2,00,000   |
| Income from other sources                                                                                                     |            |
| Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable                    | 51,000     |
| Dividend income from a domestic company is fully taxable in the hands of shareholders                                         | 55,000     |
|                                                                                                                               | 1,06,000   |
| Gross Total Income                                                                                                            | 3,06,000   |

Notes:

1. Balance brought forward business loss of assessment year 2024-25 of ₹ 5,00,000 has to be carried forward to the next year.
2. Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

Q1. Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2026-27:

| Particulars                   | ₹            |
|-------------------------------|--------------|
| Income from salary (computed) | 4,00,000     |
| Loss from let-out property    | (-) 2,20,000 |
| Business loss                 | (-) 1,00,000 |
| Bank interest (FD) received   | 80,000       |

Compute the total income of Mr. A for the A.Y.2026-27, assuming that

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

Ans. (i) Computation of total income of Mr. A for the A.Y.2026-27 under normal provisions of the Act

| Particulars                                                                                                     | Amount (₹)   | Amount (₹) |
|-----------------------------------------------------------------------------------------------------------------|--------------|------------|
| Income from salary                                                                                              | 4,00,000     |            |
| Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)          | (-) 2,00,000 | 2,00,000   |
| Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year                      |              |            |
| Income from other sources (interest on fixed deposit with bank)                                                 | 80,000       |            |
| Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000                                             | (-) 80,000   | -          |
| Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year |              |            |
| Gross total income [See Note below]                                                                             |              | 2,00,000   |
| Less: Deduction under Chapter VI-A                                                                              |              | Nil        |
| Total income                                                                                                    |              | 2,00,000   |

Notes:

- Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) Computation of total income of Mr. A for the A.Y.2026-27 under default tax regime

| Particulars                                                                                                     | Amount (₹) | Amount (₹) |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|
| Income from salary                                                                                              |            | 4,00,000   |
| Income from other sources (interest on fixed deposit with bank)                                                 | 80,000     |            |
| Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000                                             | (-) 80,000 | -          |
| Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year |            |            |
| Gross total income/ Total Income                                                                                |            | 4,00,000   |

Notes:

- Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of ₹ 2,20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Q2. Mr. B, a resident individual, furnishes the following particulars for the P.Y.2025-26:

| Particulars                             | ₹        |
|-----------------------------------------|----------|
| Income from salary (computed)           | 45,000   |
| Income from house property              | (24,000) |
| Income from non-speculative business    | (22,000) |
| Income from speculative business        | (4,000)  |
| Short-term capital losses               | (25,000) |
| Long-term capital gains taxable u/s 112 | 19,000   |

What is the total income chargeable to tax for the A.Y.2026-27, assuming that he pays tax under section 115BAC?

Ans. Total income of Mr. B for the A.Y. 2026-27

| Particulars                                                                                                    | Amount (₹) | Amount (₹) |
|----------------------------------------------------------------------------------------------------------------|------------|------------|
| Income from salaries                                                                                           |            | 45,000     |
| Income from house property                                                                                     |            |            |
| Loss from house property to be carried forward [Note (i)]                                                      | (24,000)   |            |
| Profits and gains of business and profession                                                                   |            |            |
| Business loss to be carried forward [Note (ii)]                                                                | (22,000)   |            |
| Speculative loss to be carried forward [Note (iii)]                                                            | (4,000)    |            |
| Capital Gains                                                                                                  |            |            |
| Long term capital gain taxable u/s 112                                                                         | 19,000     |            |
| Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iv)] | (19,000)   |            |
|                                                                                                                | Nil        |            |
| Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iv)]                                   |            |            |
| Taxable income                                                                                                 |            | 45,000     |

Notes:

- (i) Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any.
- (ii) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- (iii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- (iv) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.





Q3. During the P.Y. 2025-26, Mr. C has the following income and the brought forward losses:

| Particulars                                | ₹        |
|--------------------------------------------|----------|
| Short term capital gains on sale of shares | 1,50,000 |
| Long term capital loss of A.Y.2024-25      | (96,000) |
| Short term capital loss of A.Y.2025-26     | (37,000) |
| Long term capital gain u/s 112             | 75,000   |

What is the capital gain taxable in the hands of Mr. C for the A.Y.2026-27?

Ans. Taxable capital gains of Mr. C for the A.Y. 2026-27

| Particulars                                                      | Amount (₹) | Amount (₹) |
|------------------------------------------------------------------|------------|------------|
| Short term capital gains on sale of shares                       | 1,50,000   |            |
| Less: Brought forward short-term capital loss of the A.Y.2025-26 | (37,000)   | 1,13,000   |
| Long term capital gain                                           | 75,000     |            |
| Less: Brought forward long-term capital loss of A.Y.2024-25      |            |            |
| ₹ 96,000 set off to the extent of ₹ 75,000                       |            |            |
| [See Note below]                                                 | (75,000)   | Nil        |
| Taxable short-term capital gains                                 |            | 1,13,000   |

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2024-25 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

Q4. Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2025-26.

| Particulars                                                                                                                           | ₹          |
|---------------------------------------------------------------------------------------------------------------------------------------|------------|
| Income from Salary                                                                                                                    | 3,40,000   |
| Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale                  | (1,15,000) |
| Loss from let out property in Delhi                                                                                                   | (75,000)   |
| Interest on self-acquired property in Mumbai                                                                                          | (50,000)   |
| Winnings from lottery tickets                                                                                                         | 40,000     |
| Cost of acquisition of lottery tickets                                                                                                | 10,000     |
| Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000) | 96,000     |
| Long term capital gains on sale of house property                                                                                     | 1,40,000   |

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2025-26 are as follow:

|                                                                                  |          |
|----------------------------------------------------------------------------------|----------|
| Brought forward business loss from manufacturing business                        | (35,000) |
| Unabsorbed normal depreciation                                                   | (10,000) |
| Brought forward loss from the activity of owning and maintaining the race horses | (50,000) |

Compute the Gross total income of Mr. Rajesh and the amount of loss, if any, that can be carried forward.

Ans. Computation of gross total income of Mr. Rajesh

| Particulars                                                                                                                                                                                | Amount (₹) | Amount (₹) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Income from Salary                                                                                                                                                                         | 3,40,000   |            |
| Less: Loss under the head "Income from house property" [Loss from house property is not allowed to be set off with any other head of income since Mr. Rajesh is opting for section 115BAC] |            |            |

|                                                                                                                                                                                                         |                   |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|
| Income from house property                                                                                                                                                                              | -                 | 3,40,000 |
| Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Rajesh is opting for section 115BAC]                                                              |                   |          |
| Loss from let out property [Carried forward to A.Y. 2027-28]                                                                                                                                            |                   |          |
|                                                                                                                                                                                                         | <u>(75,000)</u>   | -        |
| Profit and gains from business or profession                                                                                                                                                            |                   |          |
| Profit and gains from manufacturing business                                                                                                                                                            | 96,000            |          |
| Add: Additional depreciation not allowable in case of section 115BAC                                                                                                                                    | 4,000             |          |
|                                                                                                                                                                                                         | 1,00,000          |          |
| Less: Brought forward loss from manufacturing business                                                                                                                                                  |                   |          |
|                                                                                                                                                                                                         | 35,000            |          |
| Less: Unabsorbed normal depreciation                                                                                                                                                                    | <u>10,000</u>     | 55,000   |
| Capital Gains                                                                                                                                                                                           |                   |          |
| Long term capital gains on sale of house property                                                                                                                                                       | 1,40,000          |          |
| Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A |                   |          |
|                                                                                                                                                                                                         | <u>(1,15,000)</u> | 25,000   |
| Income from Other Sources                                                                                                                                                                               |                   |          |
| Winnings from lottery tickets                                                                                                                                                                           |                   | 40,000   |
| Gross Total Income                                                                                                                                                                                      |                   | 4,60,000 |

Losses to be carried forward

| Particulars                                                      | Amount (₹) |
|------------------------------------------------------------------|------------|
| Loss from let out property in Delhi                              | 75,000     |
| Loss from the activity of owning and maintaining the race horses | 50,000     |

**Notes –**

- As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
- As per section 58, no expenditure is allowed from the lottery winnings.

Q5. Mr. Krishan, residing in Indore, provides the following information for the financial year 2025-26:

| Particulars                                                                           | ₹        |
|---------------------------------------------------------------------------------------|----------|
| Income from textile business                                                          | 4,60,000 |
| Income from speculation business                                                      | 25,000   |
| Loss from gambling                                                                    | 12,000   |
| Loss on maintenance of race horse                                                     | 15,000   |
| Current year depreciation of textile business not adjusted in the income given above. | 5,000    |
| Unabsorbed depreciation of assessment year 2024-25                                    | 10,000   |
| Speculation business loss of assessment year 2025-26                                  | 30,000   |

Computer the Gross Total Income of Mr. Krishan for the Assessment year 2026-27 and also state the losses eligible for carry forward and period upto which such losses can be carried forward.

Assume the assessee opts out of the default scheme under Section 115BAC?

Ans.

## Computation of Gross Total Income of Mr. Krishan

| Particulars                                                                                     | ₹        | ₹        |
|-------------------------------------------------------------------------------------------------|----------|----------|
| Profits and gains of business or profession                                                     |          |          |
| Income from Textile business                                                                    | 4,60,000 |          |
| Less: Current year depreciation allowable under section 32(1)                                   | 5,000    |          |
|                                                                                                 | 4,55,000 |          |
| Less: Unabsorbed depreciation brought forward from A.Y.2024-25 as per section 32(2)             | 10,000   |          |
|                                                                                                 |          | 4,45,000 |
| Income from speculation business                                                                |          |          |
| Current year income from speculation business                                                   | 25,000   |          |
| Less: Speculation business loss for A.Y. 2025-26 set-off as per the provisions of section 73(2) | 30,000   |          |
| Speculation business loss to be carried forward                                                 | (5,000)  |          |
|                                                                                                 |          | Nil      |
| Gross Total Income                                                                              |          | 4,45,000 |

## Losses eligible for carry forward

|    | Particulars                                                                                                                                                                                                                                                                                                                                                                                                                         | ₹      |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 1. | Loss from speculation business to be carried forward as per section 73<br>Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2029-30 | 5,000  |
| 2. | Loss on maintenance of race horses to be carried forward as per section 74A(3)<br>Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2030-31 | 15,000 |
| 3. | Loss from gambling can neither be set-off nor be carried forward.                                                                                                                                                                                                                                                                                                                                                                   |        |

Q6. Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2026:

| S. No. | Particulars                                                                                                                        | (₹)      |
|--------|------------------------------------------------------------------------------------------------------------------------------------|----------|
| 1.     | Income from salary (Computed)                                                                                                      | 8,20,000 |
| 2.     | Income from house property (let out) (Net Annual Value)                                                                            | 1,20,000 |
| 3.     | Share of profit from firm in which she is partner                                                                                  | 48,000   |
| 4.     | Loss from specified business covered under section 35AD                                                                            | 67,000   |
| 5.     | Income from textile business before adjusting the following items:                                                                 | 3,30,000 |
|        | (a) Current year depreciation                                                                                                      | 53,000   |
|        | (b) Unabsorbed depreciation of earlier year                                                                                        | 1,85,000 |
|        | (c) Brought forward loss of textile business of the A.Y. 2023-24                                                                   | 1,90,000 |
| 6.     | Long-term capital gain on sale of debentures (unlisted)                                                                            | 1,50,000 |
| 7.     | Long-term capital loss on sale of equity shares (STT not paid)                                                                     | 1,50,000 |
| 8.     | Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale) | 2,50,000 |

|     |                                                                                                                                                |          |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| 9.  | Dividend from units of UTI                                                                                                                     | 1,15,000 |
| 10. | Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal. | 4,85,000 |

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. Assume the assessee opts out of the default scheme under Section 115BAC?

**Solution :** Computation of gross total income of Ms. Aarti

| Particulars                                                                                                                                                                                                                                                                                                                                            | ₹               | ₹        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------|
| Salary Income (computed)                                                                                                                                                                                                                                                                                                                               | 8,20,000        |          |
| Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of                                                                                                                                                                                                                                                   | <u>2,00,000</u> | 6,20,000 |
| Income from House Property                                                                                                                                                                                                                                                                                                                             |                 |          |
| Net Annual Value of House Property                                                                                                                                                                                                                                                                                                                     | 1,20,000        |          |
| Less: Deduction u/s 24                                                                                                                                                                                                                                                                                                                                 |                 |          |
| (a) 30% of NAV 36,000                                                                                                                                                                                                                                                                                                                                  |                 |          |
| (b) Interest on housing loan <u>3,28,000</u>                                                                                                                                                                                                                                                                                                           | <u>3,64,000</u> |          |
| Loss from house property                                                                                                                                                                                                                                                                                                                               | (2,44,000)      |          |
| Less: Loss eligible for set-off against salary income restricted to                                                                                                                                                                                                                                                                                    | 2,00,000        |          |
| Loss to be carried forward to A.Y. 2027-28 for set-off against income from house property, if any, in that year.                                                                                                                                                                                                                                       | (44,000)        |          |
| Profits and gains of business or profession                                                                                                                                                                                                                                                                                                            |                 |          |
| Share of profit from firm [Exempt u/s 10(2A)]                                                                                                                                                                                                                                                                                                          | -               |          |
| Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2026-27]                                                                                                                                                                                    | -               |          |
| Income from textile business                                                                                                                                                                                                                                                                                                                           | 3,30,000        |          |
| Less: Current year depreciation                                                                                                                                                                                                                                                                                                                        | 53,000          |          |
|                                                                                                                                                                                                                                                                                                                                                        | 2,77,000        |          |
| Less: Brought forward loss of textile business                                                                                                                                                                                                                                                                                                         | 1,90,000        |          |
|                                                                                                                                                                                                                                                                                                                                                        | 87,000          |          |
| Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income                                                                                                                                                                                                                                                             | <u>87,000</u>   | Nil      |
| Capital Gains                                                                                                                                                                                                                                                                                                                                          |                 |          |
| Long-term capital gains on sale of listed equity shares (STT paid)                                                                                                                                                                                                                                                                                     | 2,50,000        |          |
| Less: Balance unabsorbed depreciation of ₹ 98,000 set-off                                                                                                                                                                                                                                                                                              | 98,000          |          |
| Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @ 12.5% on the amount exceeding ₹ 1,00,000]                                                                                                                                                                                                                           | 1,52,000        | 1,52,000 |
| Long-term capital gains on sale of debentures                                                                                                                                                                                                                                                                                                          | 1,50,000        |          |
| Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid) [Since long-term capital gain on sale of unlisted debentures are taxable @12.5% and long-term term capital gain on sale of listed shares in excess of ₹1,00,000 taxable @12.5%, it is beneficial to set-off long-term capital loss against LTCG on sale of debentures] | <u>1,50,000</u> | Nil      |



|                                                                      |  |          |
|----------------------------------------------------------------------|--|----------|
| Income from Other Sources                                            |  |          |
| Dividend from units of UTI [Taxable in the hands of the unitholders] |  | 1,15,000 |
| Gross Total Income                                                   |  | 8,87,000 |

| Losses to be carried forward to A.Y.2027-28 |                                                                                                                                      | ₹      |
|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|--------|
| (i)                                         | Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]          | 67,000 |
| (ii)                                        | Loss from house property [can be carried forward up to 8 successive assessment years for set-off against income from house property] | 44,000 |

Q7. Mr. Prakash furnishes the following information for the financial year 2025-26:

| Particulars                                                                   | ₹        |
|-------------------------------------------------------------------------------|----------|
| Loss from speculation business-X                                              | 85,000   |
| Profit from speculation business-Y                                            | 45,000   |
| Interest on borrowings in respect of self-occupied house property             | 3,18,000 |
| Income from let out house property                                            | 1,20,000 |
| Presumptive Income from trading and manufacturing business under section 44AD | 1,00,000 |
| Salary from XYZ (P) Ltd.                                                      | 5,25,000 |
| Interest on PPF deposit                                                       | 75,000   |
| Long term capital gain on sale of Vacant site                                 | 1,25,000 |
| Short term capital loss on sale of Jewellery                                  | 65,000   |
| Investment in tax saver deposit on 31-03-26                                   | 60,000   |
| Brought forward loss of business of assessment year 2020-21                   | 1,00,000 |

Compute the total income of Mr. Prakash for the assessment year 2026-27 also show the loss eligible to be carried forward. Assume that he has opted out of the default tax regime.

Ans. Computation of total Income of Mr. Prakash for A.Y, 2026-27

| Particulars                                                                                                                                   | ₹          | ₹        |
|-----------------------------------------------------------------------------------------------------------------------------------------------|------------|----------|
| Salary from XYZ (P) Ltd.                                                                                                                      | 5,25,000   |          |
| Less: Standard Deduction u/s 16(ia)                                                                                                           | 50,000     |          |
|                                                                                                                                               | 4,75,000   |          |
| Less: Loss from house property of ₹20,000 [₹80,000-₹60,000, being the loss set-off against long-term capital gains]                           | (20,000)   | 4,55,000 |
| Income from house property                                                                                                                    |            |          |
| Income from let out house property                                                                                                            | 1,20,000   |          |
| Less: Loss from self-occupied house property to the extent of ₹2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings | (2,00,000) |          |
|                                                                                                                                               | (80,000)   |          |
| Profits and gains from business or profession                                                                                                 |            |          |
| Profit from speculation business Y                                                                                                            | 45,000     |          |
| Less: Loss of ₹85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit             | (45,000)   |          |
| Presumptive Income from trading and manufacturing business                                                                                    | 1,00,000   |          |
| Less: Brought forward business loss of A.Y. 2020-21 set-off since the period of eight assessment years has not expired                        | (1,00,000) | Nil      |
| Capital Gains                                                                                                                                 |            |          |
| Long term capital gain on sale of vacant site                                                                                                 | 1,25,000   |          |
| Less: Short term capital loss on sale of jewellery                                                                                            | (65,000)   |          |

|                                                                    |          |          |
|--------------------------------------------------------------------|----------|----------|
|                                                                    | 60,000   |          |
| Less: Loss from house property to be set-off to the extent of LTCG | (60,000) | Nil      |
| Income from Other Sources                                          |          |          |
| Interest on PPF deposit                                            | 75,000   |          |
| Less: Exempt                                                       | 75,000   | Nil      |
| Gross Total Income                                                 |          | 4,55,000 |
| Less: Deduction under Chapter VI-A                                 |          |          |
| Deduction under section 80C                                        |          |          |
| Investment in tax saver deposit on 31.3.2026                       | 60,000   | 60,000   |
| Total Income                                                       |          | 3,95,000 |

Losses to be carried forward to A.Y.2027-28

| Particulars                                                                                                                                                                                                                                                               | ₹      |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Loss from speculation business X (₹85,000 - ₹45,000)                                                                                                                                                                                                                      | 40,000 |
| Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year. |        |

- Q8. Mr. Jaji is a chartered accountant and his income from profession for the year 2025-26 is ₹10,00,000. He provides you with the following information for the year 2025-26

| Particulars                                                                              | ₹         |
|------------------------------------------------------------------------------------------|-----------|
| Income of minor son Biju from company deposit                                            | 1,50,000  |
| Income of minor daughter Chitra (professional dancer)                                    | 20,00,000 |
| Interest from SBI received by Chitra on deposit made in 2024 out of her special talent   | 20,000    |
| Gift received by Chitra on 30-09-2025 from friends of Mr. Jaji on winning National award | 45,000    |
| Short term capital loss of Mr. Jaji                                                      | 6,00,000  |
| Long term capital gain of Mr. Jaji                                                       | 4,00,000  |
| Long term capital gains from shares (STT paid) of Mr. Jaji                               | 10,00,000 |
| Short term capital loss under section 111A of Mr. Jaji                                   | 10,00,000 |

Compute the Total Income of Mr. Jaji for A.Y.2026-27 under optional Tax Regime.

Ans.

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

| Particulars                                                                                                      | ₹ | ₹          | ₹         |
|------------------------------------------------------------------------------------------------------------------|---|------------|-----------|
| Profits and gains from business and profession                                                                   |   |            |           |
| Income from chartered accountancy profession                                                                     |   |            | 10,00,000 |
| Income from chartered accountancy profession                                                                     |   |            |           |
| Long term capital gains from STT paid shares                                                                     |   | 10,00,000  |           |
| Long term capital gain (other than above)                                                                        |   | 4,00,000   |           |
|                                                                                                                  |   | 14,00,000  |           |
| Less: Short term capital loss set off against long-term capital gain as per section 74                           |   | (6,00,000) |           |
| Less: Short term capital loss u/s 111A set off against long-term capital gain as per section 74 to the extent of |   | (8,00,000) | Nil       |
| Income from other sources                                                                                        |   |            |           |
| Income of minor son Biju                                                                                         |   |            |           |



|                                                                                                                                                                                                                                 |          |          |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|-----------|
| Income from company deposit includible in the hands of Mr. Jaji as per section 64(1A)                                                                                                                                           | 1,50,000 |          |           |
| Less: Exemption in respect of income of minor child u/s 10(32)                                                                                                                                                                  | 1,500    | 1,48,500 |           |
| Income of minor daughter Chitra                                                                                                                                                                                                 |          |          |           |
| Income of 20,00,000 of minor daughter Chitra (professional dancer) not includible in the hands. of parent, since such income is earned on account of her special skills                                                         | NIL      |          |           |
| Interest received on deposit with SBI made out of amount earned on account of her special talent is includible as per section 64(1A), since interest income arises out of deposit made and not on account of her special skills | 20,000   |          |           |
| Less: Exemption in respect of income of minor child u/s 10(32)                                                                                                                                                                  | 1,500    | 18,500   |           |
| Other incomes:                                                                                                                                                                                                                  |          |          |           |
| Gift of 45,000 received by her from friends of Mr. Jaji is not taxable under section 56(2)(x), since the aggregate amount from non-relatives does not exceed 50,000                                                             |          | NIL      | 1,67,000  |
| Total Income                                                                                                                                                                                                                    |          |          | 11,67,000 |

#### Losses to be carried forward to A.Y.2027-28

| Particulars                                | ₹        |
|--------------------------------------------|----------|
| Short term capital loss under section 111A | 2,00,000 |

Note - Short-term capital loss under section 111A can be set-off against long-term capital gains first. In such a case, the losses to be carried forward to .2027-28 would be as under -

| Particulars                                    | ₹        |
|------------------------------------------------|----------|
| Short term capital loss (other than u/s 111A)s | 2,00,000 |



Q1. Mr. D has the following income for the P.Y.2025-26:

| Particulars                                                                                                | ₹      |
|------------------------------------------------------------------------------------------------------------|--------|
| Income from the activity of owning and maintaining the race horses                                         | 75,000 |
| Income from textile business                                                                               | 85,000 |
| Brought forward textile business loss (relating to A.Y. 2025-26)                                           | 50,000 |
| Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2023-24) | 96,000 |

What is the total income in the hands of Mr. D for the A.Y. 2026-27?

Q2. Mr. E has furnished his details for the A.Y.2026-27 as under:

| Particulars                           | ₹        |
|---------------------------------------|----------|
| Income from salaries (computed)       | 1,50,000 |
| Income from speculation business      | 60,000   |
| Loss from non-speculation business    | (40,000) |
| Short term capital gain               | 80,000   |
| Long term capital loss of A.Y.2024-25 | (30,000) |
| Winning from lotteries (Gross)        | 20,000   |

Compute the total income of Mr. E for the A.Y.2026-27.

Q3. Compute the gross total income of Mr. F for the A.Y. 2026-27 from the information given below –

| Particulars                                                                      | ₹        |
|----------------------------------------------------------------------------------|----------|
| Income from house property (computed)                                            | 1,25,000 |
| Income from business (before providing for depreciation)                         | 1,35,000 |
| Short term capital gains on sale of unlisted shares                              | 56,000   |
| Long term capital loss from sale of property (brought forward from A.Y. 2025-26) | (90,000) |
| Income from tea business                                                         | 1,20,000 |
| Dividends from Indian companies carrying on agricultural operations (Gross)      | 80,000   |
| Current year depreciation                                                        | 26,000   |
| Brought forward business loss (loss incurred six years ago)                      | (45,000) |

Q4. Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2025-26:

| Sl. No. | Particulars                            | ₹      |
|---------|----------------------------------------|--------|
| (i)     | Income from salary (computed)          | 18,000 |
| (ii)    | Net annual value of house property     | 70,000 |
| (iii)   | Income from business                   | 80,000 |
| (iv)    | Income from speculative business       | 12,000 |
| (v)     | Long term capital gain on sale of land | 15,800 |
| (vi)    | Loss on maintenance of race horse      | 9,000  |
| (vii)   | Loss on gambling                       | 8,000  |

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2024-25) are:

| Sl. No. | Particulars                    | ₹      |
|---------|--------------------------------|--------|
| (i)     | Unabsorbed depreciation        | 9,000  |
| (ii)    | Loss from speculative business | 16,000 |
| (iii)   | Short term capital loss        | 7,800  |

Compute the gross total income of Mr. P for the A.Y. 2026-27, and the amount of loss that can or cannot be carried forward.

Q5. Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2026:

| S. No. | Particulars                                   | Amount (₹)   |
|--------|-----------------------------------------------|--------------|
| (i)    | Income from Salary (Computed)                 | 2,22,000     |
| (ii)   | Income from House Property                    |              |
|        | - House in Delhi                              | 22,000       |
|        | - House in Chennai                            | (-) 2,60,000 |
|        | - House in Mumbai (self-occupied)             | (-) 20,000   |
| (iii)  | Profit and gains from business or profession  |              |
|        | - Textile business                            | 18,000       |
|        | - Cosmetics business                          | (-) 22,000   |
|        | - Speculative business- 1                     | (-) 74,000   |
|        | - Speculative business-2                      | 46,000       |
| (iv)   | Capital gains                                 |              |
|        | Short term capital loss from sale of property | (-) 16,000   |
|        | Long term capital gains from sale of property | 15,400       |
| (v)    | Income from other sources (Computed)          |              |
|        | - Income from betting                         | 34,000       |
|        | - Income from card games                      | 46,000       |
|        | - Loss on maintenance of race horses          | (-)14,600    |

Determine the gross total income of Mr. X for the assessment year 2026-27.

Assume the assessee opts out of the default scheme under Section 115BAC?

**Solution 1:**

Total income of Mr. D for the A.Y. 2026-27

| Particulars                                                                                                                            | ₹        | ₹      |
|----------------------------------------------------------------------------------------------------------------------------------------|----------|--------|
| Income from the activity of owning and maintaining race horses                                                                         | 75,000   |        |
| Less: Brought forward loss of ₹96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹75,000         | (75,000) |        |
|                                                                                                                                        | Nil      |        |
| Balance loss of ₹21,000 (₹96,000-₹75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2027-28 |          |        |
| Income from textile business                                                                                                           | 85,000   |        |
| Less: Brought forward business loss from textile business                                                                              | (50,000) | 35,000 |
| Total income                                                                                                                           |          | 35,000 |

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

**Solution 2:**

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

| Particulars                               | ₹        | ₹        |
|-------------------------------------------|----------|----------|
| Income from salaries                      |          | 1,50,000 |
| Income from speculation business          | 60,000   |          |
| Less : Loss from non-speculation business | (40,000) | 20,000   |
| Short-term capital gain                   |          | 80,000   |
| Winnings from lotteries                   |          | 20,000   |
| Taxable income                            |          | 2,70,000 |

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

**Solution 3:**

## Gross Total Income of Mr. F for the A.Y. 2026-27

| Particulars                                            | ₹        | ₹        |
|--------------------------------------------------------|----------|----------|
| Income from house property (Computed)                  |          | 1,25,000 |
| Income from business                                   |          |          |
| Profits before depreciation                            | 1,35,000 |          |
| Less: Current year depreciation                        | 26,000   |          |
| Less: Brought forward business loss                    | (45,000) |          |
|                                                        | 64,000   |          |
| Income from tea business (40% is business income)      | 48,000   | 1,12,000 |
| Capital gains                                          |          |          |
| Short-term capital gains                               |          | 56,000   |
| Income from Other Sources                              |          |          |
| Dividend income (taxable in the hands of shareholders) |          | 80,000   |
| Gross Total Income                                     |          | 3,73,000 |

## Notes:

- (1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2025-26 cannot be set-off in the A.Y.2026-27, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2027-28.

**Solution 4:**

## Computation of Gross Total Income of Mr. P for the A.Y. 2026-27

| Particulars                                        | ₹        | ₹      |
|----------------------------------------------------|----------|--------|
| (i) Income from salary                             |          | 18,000 |
| (ii) Income from House Property                    |          |        |
| Net Annual Value                                   | 70,000   |        |
| Less: Deduction under section 24 (30% of ₹ 70,000) | (21,000) | 49,000 |
| (iii) Income from business and profession          |          |        |
| (a) Income from business                           | 80,000   |        |
| Less : Current year depreciation                   | (8,000)  |        |



|                                                                                              |          |          |
|----------------------------------------------------------------------------------------------|----------|----------|
|                                                                                              | 72,000   |          |
| Less : Unabsorbed depreciation                                                               | (9,000)  | 63,000   |
| (b) Income from speculative business                                                         | 12,000   |          |
| Less : B/f loss of ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000          | (12,000) | Nil      |
| (Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000) can be carried forward to the next year) |          |          |
| (iv) Income from capital gain                                                                |          |          |
| Long-term capital gain on sale of land                                                       | 15,800   |          |
| Less: Brought forward short-term capital loss                                                | (7,800)  | 8,000    |
| Gross total income                                                                           |          | 1,38,000 |

**Amount of loss to be carried forward to the next year**

| Particulars                                                                   | ₹     |
|-------------------------------------------------------------------------------|-------|
| Loss from speculative business (to be carried forward as per section 73)      | 4,000 |
| Loss on maintenance of race horses (to be carried forward as per section 74A) | 9,000 |

**Notes:**

- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2027-28. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

**Solution 5:**

**Computation of Gross Total Income of Mr. X**

| Particulars                                                                                                   | Amount     | Amount |
|---------------------------------------------------------------------------------------------------------------|------------|--------|
| Salaries                                                                                                      |            |        |
| Income from salary (computed)                                                                                 | 2,22,000   |        |
| Less: Set-off of loss from house property of ₹2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A) | 2,00,000   | 22,000 |
| Income from house property                                                                                    |            |        |
| - House in Delhi                                                                                              | 22,000     |        |
| - House in Chennai                                                                                            | (2,60,000) |        |
| - House in Mumbai (self-occupied)                                                                             | (20,000)   |        |
|                                                                                                               | (2,58,000) |        |
| Loss upto ₹ 2 lakhs can be set off against income from salary.                                                |            |        |
| Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2027-28.                        |            |        |
| Profits and gains from business or profession                                                                 |            |        |
| Profits from Speculative business – 2                                                                         | 46,000     |        |

|                                                                                                                                                                                                                                                                                                                      |                 |                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| Less: Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business.                           | <u>(46,000)</u> |                 |
| Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2027-28.                                                                                                                                                                                                              |                 |                 |
| Profits from textile business                                                                                                                                                                                                                                                                                        | 18,000          |                 |
| Less: Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70(1).                                                                                                                                                                          |                 |                 |
|                                                                                                                                                                                                                                                                                                                      | (18,000)        | -               |
| Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2027-28, since the same cannot be set-off against salary income.                                                                                                                                                                     |                 |                 |
| Capital Gains                                                                                                                                                                                                                                                                                                        |                 |                 |
| Long term capital gain from sale of property                                                                                                                                                                                                                                                                         | 15,400          |                 |
| Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against longterm capital gains to the extent of ₹ 15,400 as per section 74(1).                                                                           | (15,400)        | -               |
| Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2027-28                                                                                                                                                                                                                                      |                 |                 |
| Income from Other Sources                                                                                                                                                                                                                                                                                            |                 |                 |
| Income from betting [No loss is allowed to be set off against such income]                                                                                                                                                                                                                                           | 34,000          |                 |
| Income from card games [No loss is allowed to be set off against such income]                                                                                                                                                                                                                                        | 46,000          |                 |
| Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2027-28] | <u>Nil</u>      |                 |
|                                                                                                                                                                                                                                                                                                                      |                 | <u>80,000</u>   |
| Gross Total Income                                                                                                                                                                                                                                                                                                   |                 | <u>1,02,000</u> |



## CLASSWORK

- Q1. An individual assessee, resident in India, has made the following deposit/payment during the previous year 2025-26:

| Particulars                                                                                            | ₹        |
|--------------------------------------------------------------------------------------------------------|----------|
| Contribution to the public provident fund                                                              | 1,50,000 |
| Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value ₹ 2,00,000) | 25,000   |

What is the deduction allowable under section 80C for A.Y.2026-27 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

- Ans. Computation of deduction under section 80C for A.Y.2026-27

| Particulars                                                                                                                                  | ₹        |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Deposit in public provident fund                                                                                                             | 1,50,000 |
| Insurance premium paid on the life of the spouse<br>(Maximum 10% of the assured value ₹ 2,20,000, as the policy is<br>taken after 31.3.2012) | 22,000   |
| Total                                                                                                                                        | 1,72,000 |
| However, the maximum permissible deduction u/s 80C is restricted to                                                                          | 1,50,000 |

- Q2. 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?

- Ans. (i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

- Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- 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%           | 1,44,000  |

|                                                                                                         |        |
|---------------------------------------------------------------------------------------------------------|--------|
| of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000) |        |
| As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable.                            | 36,000 |
| Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).                     |        |

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

(c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime under section 115BAC  
Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of ₹ 1,80,000 u/s 80CCD(2) in respect of employer's contribution to pension scheme. (Actual Contribution at 14 % of BS+DA(T) Whichever is level.

Q3. The gross total income of Mr. X for the A.Y.2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2025-26

|     | Particulars                                                                                         | ₹        |
|-----|-----------------------------------------------------------------------------------------------------|----------|
| (1) | Contribution to PPF                                                                                 | 1,10,000 |
| (2) | Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI | 45,000   |
| (3) | Repayment of housing loan taken from Standard Chartered Bank                                        | 25,000   |
| (4) | Contribution to approved pension fund of LIC                                                        | 1,05,000 |

Compute the eligible deduction under Chapter VI-A for the A.Y.2026-27 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Computation of deduction under Chapter VI-A for the A.Y.2026-27

| Particulars                                                                                                            | ₹        |
|------------------------------------------------------------------------------------------------------------------------|----------|
| Deduction under section 80C                                                                                            |          |
| - Contribution to PPF                                                                                                  | 1,10,000 |
| - Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI                  | 45,000   |
| - Repayment of housing loan                                                                                            | 25,000   |
|                                                                                                                        | 1,80,000 |
| Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C                                              | 1,50,000 |
| Deduction under section 80CCC                                                                                          |          |
| - Contribution to approved pension fund of LIC                                                                         | 1,05,000 |
|                                                                                                                        | 2,55,000 |
| As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000 |          |
| Deduction allowable under Chapter VIA for the A.Y. 2026-27                                                             | 1,50,000 |



Q4. Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Deduction allowable under section 80D for the A.Y.2026-27

|       | Particulars                                                                      | Actual Payment<br>₹ | Maximum deduction allowable<br>₹ |
|-------|----------------------------------------------------------------------------------|---------------------|----------------------------------|
| 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)   | Mediclaim 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:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Q5. Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a “dependant” disabled person. Grandfather does not come within the meaning of “dependant” as defined under section 80DD.

Q6. What will be the deduction if Mr. X had made this deposit for his dependant father?

Ans. Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

Q7. Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2026 and he does not own any other house property.

| Ans. | Particulars                                                                                | ₹        |
|------|--------------------------------------------------------------------------------------------|----------|
|      | Interest deduction for A.Y.2026-27                                                         |          |
|      | (i) Deduction allowable while computing income under the head "Income from house property" |          |
|      | Deduction under section 24(b) ₹ 3,85,000 [₹ 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   |

Q8. The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2026-27

| Particulars                        | Mr. A                                                         | Mr. B                                                         | Mr. C                                         | Mr. D                                         |
|------------------------------------|---------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Amount of loan taken               | ₹ 43 lakhs                                                    | ₹ 45 lakhs                                                    | ₹ 20 lakhs                                    | ₹ 15 lakhs                                    |
| Loan taken from                    | HFC                                                           | Deposit taking NBFC                                           | Deposit taking NBFC                           | Public sector bank                            |
| Date of sanction of loan           | 1.4.2021                                                      | 1.4.2020                                                      | 1.4.2020                                      | 30.3.2019                                     |
| Date of disbursement of loan       | 1.5.2021                                                      | 1.5.2020                                                      | 1.5.2020                                      | 1.5.2019                                      |
| Purpose of loan                    | Acquisition of residential house property for self-occupation | Acquisition of residential house property for self-occupation | Purchase of electric vehicle for personal use | Purchase of electric vehicle for personal use |
| Stamp duty value of house property | ₹ 45 lakhs                                                    | ₹ 48 lakhs                                                    | -                                             | -                                             |
| Cost of electric vehicle           | -                                                             | -                                                             | ₹ 22 lakhs                                    | ₹ 18 lakhs                                    |
| Rate of interest                   | 9% p.a.                                                       | 9% p.a.                                                       | 10% p.a.                                      | 10% p.a.                                      |

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2026-27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2026.

| Ans. | Particulars                                                                                                                                                                                | ₹        |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
|      | Mr. A                                                                                                                                                                                      |          |
|      | Interest deduction for A.Y.2026-27                                                                                                                                                         |          |
|      | (i) Deduction allowable while computing income under the head "Income from house property"                                                                                                 |          |
|      | Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%]                                                                                                                                          |          |
|      | Restricted to                                                                                                                                                                              | 2,00,000 |
|      | (ii) Deduction under Chapter VI-A from Gross Total Income                                                                                                                                  |          |
|      | Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000)                                                                                                                                   |          |
|      | Restricted to                                                                                                                                                                              | 1,50,000 |
|      | Mr. B                                                                                                                                                                                      |          |
|      | Interest deduction for A.Y.2026-27                                                                                                                                                         |          |
|      | (i) Deduction allowable while computing income under the head "Income from house property"                                                                                                 |          |
|      | Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%]                                                                                                                                          |          |
|      | Restricted to                                                                                                                                                                              | 2,00,000 |
|      | (ii) Deduction under Chapter VI-A from Gross Total Income                                                                                                                                  |          |
|      | Deduction u/s 80EEA is not permissible since:                                                                                                                                              | Nil      |
|      | (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 from Gross Total Income                                                                                                                                       |          |
|      | Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction] | 1,50,000 |
|      | Mr. D                                                                                                                                                                                      |          |
|      | Deduction under Chapter VI-A from Gross Total Income                                                                                                                                       |          |
|      | Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.                                                                                                          | Nil      |
| Q9.  | Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:                     |          |
|      | (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.                                                                |          |
|      | (ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.                                                                                                                     |          |
|      | (iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.                                                                                                               |          |
|      | (iv) LIC Pension Fund – ₹ 60,000.                                                                                                                                                          |          |
|      | (v) Donation to National Children's Fund – ₹ 25,000 by way of cheque                                                                                                                       |          |
|      | (vi) Donation to Prime Minister's Drought Relief Fund – ₹ 25,000 by way of cheque                                                                                                          |          |
|      | (vii) Donation to approved institution for promotion of family planning – ₹ 40,000 by way of cheque                                                                                        |          |
|      | (viii) Deposit in PPF – ₹ 1,00,000                                                                                                                                                         |          |
|      | Compute the total income of Mr. Shiva for A.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).                             |          |

Ans. Computation of Total Income of Mr. Shiva for A.Y. 2026-27

| Particulars                                                                                                                                       | ₹        | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Gross Total Income                                                                                                                                |          | 7,75,000 |
| Less: Deduction under section 80C                                                                                                                 |          |          |
| Deposit in PPF                                                                                                                                    | 1,00,000 |          |
| Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012) | 18,000   |          |
|                                                                                                                                                   | 1,18,000 |          |
| Deduction under section 80CCC in respect of LIC pension fund                                                                                      | 60,000   |          |
|                                                                                                                                                   | 1,78,000 |          |
| As per section 80CCE, deduction under section 80C & 80CCC is restricted to                                                                        |          | 1,50,000 |
| Deduction under section 80D                                                                                                                       |          |          |
| Medical Insurance premium in respect of self and spouse                                                                                           | 26,000   |          |
| Restricted to                                                                                                                                     |          | 25,000   |
| Deduction under section 80G (See Working Note below)                                                                                              |          | 87,500   |
| Total income                                                                                                                                      |          | 5,12,500 |

Working Note: Computation of deduction under section 80G

|       | Particulars of donation                               | Amount donated (₹) | % of deduction                                   | Deduction u/s 80G (₹) |
|-------|-------------------------------------------------------|--------------------|--------------------------------------------------|-----------------------|
| (i)   | National Children's Fund                              | 25,000             | 100%                                             | 25,000                |
| (ii)  | Prime Minister's Drought Relief Fund                  | 25,000             | 50%                                              | 12,500                |
| (iii) | Approved institution for promotion of family planning | 40,000             | 100%, subject to qualifying limit                | 40,000                |
| (iv)  | Public Charitable Trust                               | 50,000             | 50% subject to qualifying limit (See Note below) | 10,000                |
|       |                                                       |                    |                                                  | 87,500                |

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case ₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case. Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Q10. Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. The deduction under section 80GG will be computed as follows:

|     |                                                                  |
|-----|------------------------------------------------------------------|
| (i) | Actual rent paid less 10% of total income                        |
|     | ₹ 1,44,000 (-) $\frac{(10 \times 4,60,000)}{100}$ = ₹ 98,000 (A) |

(ii) 25% of total income =  $\frac{25 \times 4,60,000}{100} = ₹ 1,15,000$  (B)

(iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Q11. Mr. A has commenced the business of manufacture of computers on 1.4.2025. He employed 350 new employees during the P.Y. 2025-26, the details of whom are as follows –

|       | No. of employees | Date of employment | Regular/ Casual | Total monthly emoluments per employee (₹) |
|-------|------------------|--------------------|-----------------|-------------------------------------------|
| (i)   | 75               | 1.4.2025           | Regular         | 24,000                                    |
| (ii)  | 125              | 1.5.2025           | Regular         | 26,000                                    |
| (iii) | 50               | 1.8.2025           | Casual          | 24,500                                    |
| (iv)  | 100              | 1.9.2025           | Regular         | 24,000                                    |

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for

A.Y. 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2025?

Ans. Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2026-27 and he has employed “additional employees” during the P.Y. 2025-26.

I If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

| Particulars                                                                                                     | No. of workmen |     |
|-----------------------------------------------------------------------------------------------------------------|----------------|-----|
| Total number of employees employed during the year                                                              |                | 350 |
| Less: Casual employees employed on 1.8.2025 who do not participate in recognized provident fund                 | 50             |     |
| Regular employees employed on 1.5.2025, since their total monthly emoluments exceed ₹ 25,000                    | 125            |     |
| Regular employees employed on 1.9.2025 since they have been employed for less than 240 days in the P.Y.2025-26. | 100            | 275 |
| Number of “additional employees”                                                                                |                | 75  |

Notes –

(i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2025 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2025 do not qualify as additional employees for the P.Y.2025-26, since they are employed for less than 240 days in that year. Therefore, only 75 employees employed on 1.4.2025 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2025-26 is deemed to be the additional employee cost.

(ii) As regards 100 regular employees employed on 1.9.2025, they would be treated as additional employees for previous year 2026-27, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such

employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2027-28.

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

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2025, since they have been employed for more than 150 days in the previous year 2025-26.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000 Deduction under section 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000.

Q12. Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2026 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2027. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder –

| Particulars                                                                          | ₹        |
|--------------------------------------------------------------------------------------|----------|
| Royalty ₹ 2,88,000 × 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                                                                  | 1,90,000 |

Q13. For the A.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹15,18,240 which includes long-term capital gain of ₹2,45,000 taxable under section 112 and Short-term capital gain of ₹58,000. The Gross total income also includes interest income of ₹12,000 from savings bank deposits with banks and ₹40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹1,20,000 and also paid a medical insurance premium ₹51,000. Mr. Chaturvedi also contributed ₹50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2026, in a tax efficient manner.

Ans. Computation of total income and tax liability of  
Mr. Chaturvedi for the A.Y. 2026-27 under default tax regime

| Particulars                                                         | ₹         |
|---------------------------------------------------------------------|-----------|
| Gross total income incl. long term capital gain                     | 15,18,240 |
| Less: Deductions under Chapter VI-A                                 |           |
| No deduction would be available under default tax regime u/s 115BAC |           |
| Total income                                                        | 15,18,240 |
| Tax on total income                                                 |           |
| LTCG ₹2,45,000 × 12.5%                                              | 30,625    |
| Balance total income ₹12,73,240                                     | 70,986    |
|                                                                     | 1,01,611  |
| Add: Health and Education cess @4%                                  | 4,064     |
| Total tax liability                                                 | 1,05,675  |
| Total tax liability (Rounded off)                                   | 1,05,680  |

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2026-27  
under the optional tax regime (i.e., the normal provisions of the Act)

| Particulars                                                                                                                                                                          | ₹        | ₹         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Gross total income incl. long term capital gain                                                                                                                                      |          | 15,18,240 |
| Less: Long term capital gain                                                                                                                                                         |          | 2,45,000  |
|                                                                                                                                                                                      |          | 12,73,240 |
| 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)                                                                                                                                            | 25,000   |           |
| Under section 80TTB (See Note 3 below)                                                                                                                                               | 50,000   | 2,45,000  |
| Total income (excluding long term capital gains)                                                                                                                                     |          | 10,28,240 |
| Total income (including long term capital gains)                                                                                                                                     |          | 12,73,240 |
| Tax on total income (including long-term capital gains of ₹2,45,000)                                                                                                                 |          |           |
| LTCG ₹2,45,000 × 12.5%                                                                                                                                                               |          | 30,625    |
| Balance total income ₹8,28,240 (See Note 4 below)                                                                                                                                    |          | 1,18,472  |
|                                                                                                                                                                                      |          | 1,49,097  |
| Add: Health and Education cess @4%                                                                                                                                                   |          | 5,964     |
| Total tax liability                                                                                                                                                                  |          | 1,55,061  |
| Total tax liability (Rounded off)                                                                                                                                                    |          | 1,55,060  |

Since the tax liability is lower under the default tax regime as compared to the optional tax regime, Mr. Chaturvedi should not 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) | 12,73,240 |
| Less: Deduction under section 80C, 80D & 80TTB         | 2,20,000  |
|                                                        | 10,53,240 |
| 10% of the above                                       | 1,05,324  |
| Contribution made                                      | 50,000    |
| Lower of the two eligible for deduction under section  | 50,000    |
| Deduction under section 80G-50% of ₹50,000             | 25,000    |

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 a higher basic exemption of ₹ 3,00,000.



- Q1. Compute the eligible deduction under section 80C for A.Y.2026-27 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2025-26, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) –

|       | Date of issue of policy | Person insured                           | Actual capital sum assured (₹) | Insurance premium paid during 2025-26 (₹) |
|-------|-------------------------|------------------------------------------|--------------------------------|-------------------------------------------|
| (i)   | 30/3/2012               | Self                                     | 8,00,000                       | 48,000                                    |
| (ii)  | 1/5/2019                | Spouse                                   | 1,50,000                       | 20,000                                    |
| (iii) | 1/6/2022                | Handicapped son (section 80U disability) | 4,00,000                       | 80,000                                    |

Ans.

|       | Date of issue of policy | Person insured                           | Actual capital sum assured (₹) | Insurance premium paid during 2025-26 (₹) | Deduction u/s 80C for A.Y.2026-27 (₹) | Remark (restricted to % of sum assured) (₹) |
|-------|-------------------------|------------------------------------------|--------------------------------|-------------------------------------------|---------------------------------------|---------------------------------------------|
| (i)   | 30/3/2012               | Self                                     | 8,00,000                       | 48,000                                    | 48,000                                | 20%                                         |
| (ii)  | 1/5/2019                | Spouse                                   | 1,50,000                       | 20,000                                    | 15,000                                | 10%                                         |
| (iii) | 1/6/2022                | Handicapped son (section 80U disability) | 4,00,000                       | 80,000                                    | 60,000                                | 15%                                         |
|       | Total                   |                                          |                                |                                           | 1,23,000                              |                                             |

- Q2. What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

Ans. If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

- Q3. Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Deduction allowable under section 80D for the A.Y.2026-27

| Particulars                                                                                                | ₹      | ₹      |
|------------------------------------------------------------------------------------------------------------|--------|--------|
| (i) Medical insurance premium paid for self, spouse and dependent children                                 | 22,000 |        |
| (ii) Contribution to CGHS                                                                                  | 6,000  |        |
|                                                                                                            | 28,000 |        |
| restricted to                                                                                              |        | 25,000 |
| (iii) Mediclaim premium paid for mother, who is over 60 years of age                                       | 33,000 |        |
| (iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance | 20,000 |        |
|                                                                                                            | 53,000 |        |
| restricted to                                                                                              |        | 50,000 |
|                                                                                                            |        | 75,000 |



Q4. Mr. B has taken three education loans on April 1, 2025, the details of which are given below:

|                                    | Loan 1   | Loan 2   | Loan 3        |
|------------------------------------|----------|----------|---------------|
| For whose education loan was taken | B        | Son of B | Daughter of B |
| Purpose of loan                    | MBA      | B. Sc.   | B.A.          |
| Amount of loan (₹)                 | 5,00,000 | 2,00,000 | 4,00,000      |
| Annual repayment of loan (₹)       | 1,00,000 | 40,000   | 80,000        |
| Annual repayment of interest (₹)   | 20,000   | 10,000   | 18,000        |

Compute the amount deductible under section 80E for the A.Y.2026-27 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Ans. Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination. Therefore, interest repayment in respect of all the above loans would be eligible for deduction.  
Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Q5. During the P.Y. 2025-26, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

Ans. An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party. Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party. It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Q6. Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

Ans. (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.

Q7. Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

| Particulars                                  | ₹        |
|----------------------------------------------|----------|
| Pension                                      | 6,60,000 |
| Interest from bank on fixed deposits (Gross) | 55,000   |

Compute the total income of Mr. Prakash for the assessment year 2026-27 under normal provisions of the Act from the following particulars:

- Life insurance premium paid by cheque ₹22,500 for insurance of his life. The insurance policy was taken on 08-09-2019 and the sum assured is ₹2,00,000.
- Premium of ₹26,000 paid by cheque for health insurance of self and his wife.
- ₹1,500 paid in cash for his health check-up and ₹,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.
- Paid interest of ₹6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

Ans. Computation of total income of Mr. Prakash for A.Y.2026-27

| Particulars                                                                                                                                         | ₹        | ₹      | ₹        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------|--------|----------|
| Income under the head "Salaries"                                                                                                                    |          |        |          |
| Pension                                                                                                                                             | 6,60,000 |        |          |
| Less: Standard deduction u/s 16(ia) Lower of ₹50,000 or actual salary/pension                                                                       | 50,000   |        | 6,10,000 |
| Income from Other Sources                                                                                                                           |          |        |          |
| Interest from bank on fixed deposit (Gross)                                                                                                         |          |        | 55,000   |
| Gross Total Income                                                                                                                                  |          |        | 6,65,000 |
| Less: Deduction under Chapter VI-A                                                                                                                  |          |        |          |
| Deduction under section 80C                                                                                                                         |          |        |          |
| LIC premium of ₹22,500 (restricted to 10% of ₹2,00,000, being the sum assured, as the policy is taken after 31.3.2012)                              |          | 20,000 |          |
| Deduction under section 80D                                                                                                                         |          |        |          |
| Premium for health insurance for self and his wife paid by cheque, allowed upto ₹50,000 since Mr. Prakash is a senior citizen                       | 26,000   |        |          |
| Preventive health check-up for self, ₹1,500, and for his parents, ₹4,500, restricted to ₹5,000 (deduction allowed even if the same is paid in cash) | 5,000    |        |          |
|                                                                                                                                                     |          | 31,000 |          |
| Deduction under section 80E                                                                                                                         |          |        |          |
| Interest on loan taken from bank for MBA course pursued by his daughter                                                                             |          | 6,500  |          |
| Deduction under section 80G                                                                                                                         |          |        |          |
| Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹2,000 is paid in cash                     |          |        | Nil      |
| Deduction under section 80TTB                                                                                                                       |          |        |          |
| Interest on fixed deposit with bank allowable as deduction upto ₹50,000, since Mr. Prakash is a senior citizen                                      |          | 50,000 | 1,07,500 |
| Total Income                                                                                                                                        |          |        | 5,57,500 |



Q8. Ms. Jyoti purchased a house property costing ₹42 lakhs on 1st May, 2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of ₹35 lakhs bearing interest @ 14% p.a. on 1st April, 2021. She does not own any other house.

State with brief reasons the deductions that can be claimed by Ms. Jyoti in respect of interest on loan for Assessment Year 2026-27 if she has opted out of the default tax regime. No repayment of loan has been made so far.

Ans. Ms. Jyoti can claim the following deductions for the A.Y. 2026-27 in respect of the interest of ₹4,90,000 (₹35,00,000 × 14%) payable on loan taken for acquisition of residential house property for self-occupation:

| Particulars                                                                                                                                                                                                                      | ₹        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Deduction under section 24 while computing income under the head "Income from house property":                                                                                                                                   | 2,00,000 |
| Interest on housing loan taken for acquisition of residential house property for self-occupation, would be eligible for deduction under section 24 while computing income from house property, subject to a maximum of ₹2,00,000 |          |
| Deduction under section 80EEA (while computing deduction under Chapter VI-A from gross total income):                                                                                                                            | 1,50,000 |
| Interest payable on housing loan taken by Ms. Jyoti qualifies for deduction under section 80EEA, subject to a maximum of ₹1,50,000, since -                                                                                      |          |
| (i) The loan is sanctioned by the Financial Institution between 1.4.2019 to 31.3.2022                                                                                                                                            |          |
| (ii) Stamp duty value of the house (₹42 lakhs) does not exceed ₹45 lakhs                                                                                                                                                         |          |
| (iii) She is not eligible to claim deduction u/s 80EE                                                                                                                                                                            |          |
| (iv) She does not own any residential house on the date of sanction of loan                                                                                                                                                      |          |
| Therefore, out of the interest of ₹ 4,90,000, ₹ 2 lakhs is allowable as deduction under section 24; and out of the balance of ₹ 2,90,000, ₹ 1,50,000 is allowable as deduction under section 80EEA from gross total income.      |          |

Q9. Mr. Rajmohan whose gross total income was ₹6,40,000 for the financial year 2025-26, furnishes you the following information:

- (i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) - ₹50,000.
- (ii) Five year post office time deposit ₹20,000.
- (iii) Donation to a recognized charitable trust ₹25,000 which is eligible for deduction under section 80G at the applicable rate.
- (iv) Interest on loan taken for higher education of spouse paid during the year ₹10,000.

Compute the total income of Mr. Rajmohan for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

| Particulars                                                              | ₹      | ₹        |
|--------------------------------------------------------------------------|--------|----------|
| Gross Total Income                                                       |        | 6,40,000 |
| Less: Deduction under Chapter VI-A                                       |        |          |
| Under section 80C                                                        |        |          |
| Repayment of loan taken for acquisition of residential house             | 50,000 |          |
| Five year time deposit with Post Office                                  | 20,000 |          |
|                                                                          | 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.

Q10. Compute the eligible deduction under Chapter VI-A for the A.Y. 2026-27 of Ms. Roma, aged 40 years, who has a gross total income of ₹15,00,000 for the A.Y. 2026-27 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2025-26:

| Sl. No. | Particulars                                                                           | Amount (₹) |
|---------|---------------------------------------------------------------------------------------|------------|
| 1       | Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹4,70,000) | 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     |

Ans. Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2026-27

| Particulars                                                                                                                                                   | ₹        | ₹        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Deduction under section 80C                                                                                                                                   |          |          |
| Life insurance premium paid ₹35,000<br>(allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012) | 35,000   |          |
| Public Provident Fund                                                                                                                                         | 1,50,000 |          |
| Repayment of housing loan to Bhartiya Mahila Bank, Bangalore                                                                                                  | 20,000   |          |
|                                                                                                                                                               | 2,05,000 |          |
| Restricted to a maximum of ₹1,50,000                                                                                                                          | 1,50,000 |          |
| Deduction under section 80CCC for payment towards LIC pension fund                                                                                            | 1,40,000 |          |
|                                                                                                                                                               | 2,90,000 |          |
| As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to                                                          |          | 1,50,000 |
| Deduction under section 80D                                                                                                                                   |          |          |
| Payment of medical insurance premium of ₹30,000 towards medical policy taken for self, wife and dependent children restricted to                              | 25,000   |          |
| Medical insurance premium paid ₹52,000 for parents, being senior citizens, restricted to                                                                      | 50,000   | 75,000   |
| Eligible deduction under Chapter VI-A                                                                                                                         |          | 2,25,000 |

- Q1. Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2025-26. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?
- Q2. Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2026. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2026-27 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):
- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is ₹ 2,00,000.
  - (ii) Life insurance premium of ₹ 19,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
  - (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is ₹ 2,00,000.
  - (iv) Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
  - (v) ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
  - (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
  - (vii) A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.
- Q3. Examine the following statements with regard to the provisions of the Income- tax Act, 1961:
- (i) During the financial year 2025-26, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
  - (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
  - (iii) In order to be eligible to claim deduction under section 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
  - (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.
  - (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2025, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2026-27.
  - (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- Q4. 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):
- Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
  - Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
  - Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.

**Solution 1:**

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

| 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: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

**Solution 2:**

Computation of total income of Mr. Gurnam for the Assessment Year 2026-27

| 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)                                                       |        |        |          |
| - major son                                                                          | 19,500 |        |          |
| - self ₹ 22,500 restricted to 10% of ₹ 2,00,000                                      | 20,000 | 39,500 |          |
| 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 | 85,500   |
| Total Income                                                                   |  |        | 4,79,000 |

Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of ₹ 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam.  
In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.  
Therefore, in the present case, deduction of ₹ 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of ₹ 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of ₹ 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.
- (2) 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.
- (3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of ₹ 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- (4) 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.

### Solution 3:

- (i) The statement is correct. The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education, if he exercises the option of shifting out of the default tax regime provided under

section 115BAC(1A). It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

- (ii) The statement is correct. Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (iii) The statement is not correct. There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) The statement is not correct. An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of ₹ 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (v) The statement is not correct. The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26.
- (vi) The statement is not correct. Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

#### Solution 4:

- (i) The deduction of ₹ 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.



## CLASSWORK

- Q1.** Paras aged 55 years is a resident of India. During the F.Y. 2025-26, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?  
What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

**Ans.** An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2026-27).

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

| Particulars                                                                                                           | ₹      |
|-----------------------------------------------------------------------------------------------------------------------|--------|
| Income from other sources                                                                                             |        |
| Interest earned from Non-resident (External) Account ₹ 2,88,000                                                       | NIL    |
| [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account] |        |
| Interest on fixed deposit with SBI                                                                                    | 30,000 |
| Interest on savings bank account                                                                                      | 3,000  |
| Gross Total Income                                                                                                    | 33,000 |
| Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)                  | -      |
| Total Income                                                                                                          | 33,000 |

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2026-27, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2026-27.

**Note:** In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y.2026-27.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

- Q2.** Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on

12-07-2026 for A.Y. 2026-27 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 21-12-2026, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2027?

Ans. Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y. 2025-26 under section 139(1), in his case, is 31st July, 2026. Since Mr. Vineet had submitted his return only on 12.7.2026, the said return is a belated return under section 139(4). As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2025, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2026. However, he cannot revise return had he discovered this omission only on 21-03-2027, since it is beyond 31.12.2026.

Q3. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Ans. (i) True: Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) False: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Q4. In the following cases relating to P.Y. 2025-26, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y. 2026-27 in each of the following independent situations:

- (i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- (ii) Mrs. Archana was born in Germany and married in India. Her residential status under section 6(6) of the Income-tax Act, 1961 is ‘resident and ordinarily resident’. She owns a car in Germany which she uses for her personal purposes during her visit to her parents’ place in that country.
- (iii) Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

Ans. (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2026-27 on or before the due date under section 139(1).



- (ii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the previous year on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India.

In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of “capital asset” as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for A.Y. 2025-26 on account of owning a car for personal purposes in Germany.

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

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

- (iii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the P.Y. 2025-26 towards consumption of electricity, he has to file his return of income for A.Y. 2026-27 on or before the due date under section 139(1).

Q5. Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2015. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long term capital gain is taxable. She does not have any source of income in India during the P.Y. 2025-26. Is she required to furnish her return of income? If yes, can she furnish a belated return?

Ans. An individual whose total income without giving effect to, inter alia, section 54EC exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2026.

Every person, being a resident other than not ordinarily resident in India, would be required to file a return of income or loss for the previous year, even if his total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2026-27 since she has been staying in India since the year 2015. Total income of Mrs. Shivani without giving effect to, inter alia, section 54EC is ₹ 2 lakhs, which is below the basic exemption limit. However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2026-27 on or before 31.07.2026.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2026, at any time before the –

- (i) Three months prior to the end of the relevant assessment year i.e., 31.12.2025; or
- (ii) Completion of the assessment whichever is earlier.

**Q1.** Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

**Ans.** Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

**Q2.** State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2026 whether or not declaring presumptive income under section 44AD, is 31st October, 2026.

**Ans.** (a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2026, shall be 31st July, 2026.

In case, Mr. A wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2026.

**Q3.** Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date.

**Ans.** As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1) for filing return of income.

As per section 80, certain losses which have not been determined in pursuance of a return filed under



section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head “Capital Gains”,
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and
- loss from specified business.

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head “Income from house property” and
- Unabsorbed depreciation.

Q4. Rishi, a 34 years resident individual, did not file his return of income for the A.Y. 2020-21, 2021-22 and 2022-23. For A.Y. 2023-24, he has filed his return of income on 31.07.23. He filed updated return u/s 139(8A) on 30.04.25 for A.Y. 2024-25. He gives the following information regarding each of the A.Y. -

| Particulars                                                                 | A.Y. 2020-21 | A.Y. 2021-22 | A.Y. 2022-23 | A.Y. 2023-24 | A.Y. 2024-25 |
|-----------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Declared Income u/s 139(1)/139(8A)                                          | -            | -            | -            | (₹3,50,000)  | (₹7,50,000)  |
| Tax liability on total income before TDS/TCS/ Interest /Self-Assessment tax | ₹14,50,000   | ₹5,60,000    | 6,30,000     | -            | -            |
| TDS deducted                                                                | ₹5,00,000    | ₹10,00,000   | ₹2,00,000    | -            | -            |
| Interest u/s 234A/B/C                                                       | ₹2,90,000    | -            | ₹90,000      | -            | -            |
| Self-Assessment Tax Paid                                                    | -            | -            | ₹1,00,000    | -            | -            |

In May 2025, Rishi came to know about loss from house property of ₹2,00,000 which he forgets to claim while filing the return of income for A.Y. 2023-24. Moreover, in A.Y. 2024-25, he has earned dividend income of ₹4,500 and ₹4,150 from A Ltd. & B Ltd., respectively, which he has not reported in his return of income u/s 139(8A). He approaches you on 16.5.2025 to file updated return for all the assessment years under section 139(8A) in order to clear his income-tax records. You are required to prepare a suggestion for which of the assessment years Rishi can file an updated return and tax payable at the time of filing updated return.

Ans. An updated return can be furnished for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rishi with respect to updated return on 16.5.2025 for A.Y. 2020-21, A.Y. 2021-22, A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25 and tax payable at the time of filing updated return:

A.Y. 2020-21: Since the period of 48 months from the end of A.Y. 2020-21 expired on 31.3.2025, updated return cannot be furnished on 16.5.2025 for A.Y. 2020-21.

A.Y. 2021-22: Since the period of 48 months from the end of A.Y. 2021-22 expired on 31.3.2026, updated return can be furnished on 16.5.2025 for A.Y. 2021-22. However, the amount of tax payable of ₹5,60,000 is before adjusting TDS of ₹10,00,000. In such a case, since the refund of ₹4,40,000 would arise, an updated



return cannot be furnished for A.Y. 2021-22.

A.Y.2022-23: Since the period of 48 months from the end of A.Y. 2022-23 expired on 31.3.2027, updated return can be furnished on 16.5.2025 for A.Y. 2022-23. Since updated return would be furnished after the expiry of 24 months from the end of the relevant assessment year but before completion of the period of 36 months from the end of the relevant assessment year, additional income tax would be payable @60% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable u/s 234A/B/C. Rishi is required to pay additional income-tax of ₹2,52,000 i.e., 60% of ₹4,20,000 [₹3,30,000 (₹6,30,000 ₹2,00,000 ₹1,00,000) + ₹90,000] in addition to tax payable of ₹3,30,000, interest payable of ₹90,000 and late fees of ₹5,000.

A.Y.2023-24: Since the period of 48 months from the end of A.Y. 2023-24 expired on 31.3.2028, updated return can be furnished on 16.5.2025 for A.Y. 2023-24. However, Rishi has declared loss of ₹3,50,000 in his original return of income and he wishes to claim additional loss from house property of ₹2,00,000 which he forgot to claim while filing the return of income u/s 139(1). In such case, since his loss will increase from ₹3,50,000 to ₹5,50,000, an updated return cannot be furnished for A.Y. 2023-24.

A.Y.2024-25: Since Rishi has already furnished an updated return u/s 139(8A) for A.Y. 2024-25, he cannot again furnish an updated return u/s 139(8A) for A.Y.2024-25.

Q1. Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2026 audited under section 44AB. Her total income for the A.Y. 2026-27 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2026-27 through a tax return preparer. Can she do so?

Q2. Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

Q3. Mr. Aakash has undertaken certain transactions during the FY.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

| S. No. | Transaction                                                                                                                         |
|--------|-------------------------------------------------------------------------------------------------------------------------------------|
| 1.     | Payment of life insurance premium of ₹ 45,000 in the FY.2025-26 by account payee cheque to LIC for insuring life of self and spouse |
| 2.     | Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash                  |
| 3.     | Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company                           |
| 4.     | Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives                        |
| 5.     | Applied to SBI for issue of credit card.                                                                                            |

Q4. Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to FY. 2025-26.

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

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the Assessment Year 2026-27.

What will be your answer, if he has incurred ₹ 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada?

Assume the assessee opts out of the default scheme under Section 115BAC?

**Solution 1:**

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2026-27 through a Tax Return Preparer.

**Solution 2:**

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2), in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

### Solution 3:

|    | Transaction                                                                                                                         | Is quoting of PAN mandatory in related documents?                                                                               |
|----|-------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| 1. | Payment of life insurance premium of ₹ 45,000 in the FY.2025-26 by account payee cheque to LIC for insuring life of self and spouse | No, since the amount paid does not exceed ₹ 50,000 in the FY.2025-26.                                                           |
| 2. | Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash                  | Yes, since the amount paid in cash exceeds ₹ 50,000                                                                             |
| 3. | Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company                         | Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.             |
| 4. | Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives                        | No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000 |
| 5. | Applied to SBI for issue of credit card.                                                                                            | Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.                        |

### Solution 4:

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000.

#### Computation of total income of Mr. Hari

| Particulars                                                                                                                                             | ₹             |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| <u>Income from other sources</u>                                                                                                                        |               |
| Interest earned from Non-resident (External) Account ₹3,55,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account as per RBI stipulations] | NIL           |
| Interest on savings bank account                                                                                                                        | 8,000         |
| Interest on fixed deposit with Punjab National Bank                                                                                                     | 40,000        |
| <u>Gross Total Income</u>                                                                                                                               | <u>48,000</u> |
| Less: Deduction u/s 80TTA (Interest on saving bank account)                                                                                             | 8,000         |
| <u>Total Income</u>                                                                                                                                     | <u>40,000</u> |



Since the total income of Mr. Hari for A.Y.2026-27, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for A.Y.2026-27.

However, if he has incurred expenditure exceeding ₹ 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of ₹ 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2026-27, he has to mandatorily file his return of income for A.Y. 2026-27 on or before the due date under section 139(1).



## CLASSWORK

Q1. Calculate Advance Tax Payable By Ms ARP on the basis of following Estimated Income.

Basic Salary = 5,80,000

Rent from House property = 3,60,000

Interest on government securities = 25,000

Interest on Savings Account = 8,000

Income from Winnings = 14,000 (Net)

Agriculture Income = 3,00,000

TDS on Salary = 40,000

Assume assessee opts out of default scheme u/s 115BAC.

Ans. Computation of Total Estimated Income

|                                   |            |          |
|-----------------------------------|------------|----------|
| <u>Income From Salary</u>         |            |          |
| Gross Salary                      | 5,80,000   |          |
| Less – Standard Deduction         | (50,000)   | 5,30,000 |
| <u>Income From House Property</u> |            |          |
| Rent Received                     | 3,60,000   |          |
| Less – Standard Deduction         | (1,08,000) | 2,52,000 |
| <u>Income from Other Sources</u>  |            |          |
| Interest on government securities | 25,000     |          |
| Interest on Savings account       | 8,000      |          |
| Winnings                          | 20,000     | 53,000   |
| Gross Total Income                |            | 8,35,000 |
| Less: Deduction u/s 80TTA         |            | 8,000    |
| Net Total Income                  |            | 8,27,000 |

Computation of Advance Tax payable

|                                                                                                          |           |          |
|----------------------------------------------------------------------------------------------------------|-----------|----------|
| <u>Step 1</u>                                                                                            |           |          |
| Agriculture Income                                                                                       | 3,00,000  |          |
| (+) Non-Agriculture Income [NTI Excluding winnings]                                                      | 8,07,000  |          |
| Total                                                                                                    | 11,07,000 |          |
| <u>Basic Tax</u>                                                                                         |           |          |
| On winnings (On 20,000 @ 30%)                                                                            | 6,000     |          |
| On other Income (On 11,07,000 @ Slab Rates )                                                             | 1,44,600  | 150,600  |
| <u>Step 2</u>                                                                                            |           |          |
| Agriculture Income                                                                                       | 3,00,000  |          |
| (+) Non-Agriculture Income                                                                               | 2,50,000  |          |
| Total                                                                                                    | 5,50,000  |          |
| Basic Tax                                                                                                |           | 22,500   |
| <u>Step 3</u>                                                                                            |           |          |
| Basic Tax at Step 1                                                                                      | 1,50,600  |          |
| Less – Basic Tax at Step 2                                                                               | (22,500)  | 1,28,100 |
| Basic Tax                                                                                                |           | 1,28,100 |
| (+) HEC                                                                                                  |           | 5,124    |
| Total                                                                                                    |           | 1,33,224 |
| Less – TDS on Salary & Winnings (40,000 + 6000)                                                          |           | 46,000   |
| Estimated Tax                                                                                            |           | 87,224   |
| Estimated tax Payable > 10,000 therefore assessee is liable to pay tax in advance of 87,220 (Round off). |           |          |

Q2. Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2025-26.

|                                                        |          |
|--------------------------------------------------------|----------|
| Estimated tax liability for the financial year 2025-26 | ₹ 80,000 |
| Tax deducted at source for this year                   | ₹ 12,000 |

Ans.

| Particulars                                            | ₹             |
|--------------------------------------------------------|---------------|
| Estimated tax liability for the financial year 2025-26 | 80,000        |
| Less: Tax deducted at source                           | <u>12,000</u> |
| Tax payable                                            | <u>68,000</u> |

| Due Date of installment           | Amount payable                                                                        | ₹                                                 |
|-----------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------|
| On or before 15th June, 2025      | Not less than 15% of advance tax liability                                            | 10,200                                            |
| On or before 15th September, 2025 | Not less than 45% of advance tax liability less amount paid in earlier installment    | 20,400<br>(₹30,600, being 45% of ₹68,000-10,200)  |
| On or before 15th December, 2025  | Not less than 75% of advance tax liability less amount paid in earlier installment(s) | 20,400<br>(₹51,000, being 75% of ₹68,000-₹30,600) |
| On or before 15th March, 2026     | Whole of the advance tax liability less amount paid in earlier installment(s)         | 17,000 (₹68,000, being 100% of ₹ 68,000-₹51,000)  |

**Q1.** Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

**Ans.** The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is ₹10,000 or more.

**Q2.** Mr. Jay having total income of ₹ 8,70,000, did not pay any advance tax during the previous year 2025-26. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2026. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2026? Assume the assessee opts out of the default scheme under Section 115BAC?

**Ans.** Obligation to pay advance tax arises in every case, where the advance tax payable is ₹ 10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest for default in payment of advance tax [under section 234B] and interest for deferment of advance tax [under section 234C] before filing of his return.

Total tax due on returned income of ₹ 8,70,000 is ₹ 89,960 [(20% of ₹ 3,70,000 + ₹ 12,500) + cess@4%]

Interest under section 234B

Interest under section 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest under section 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2024 till the time he deposits the whole tax under self-assessment.

Interest will be levied on tax liability of ₹ 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest under section 234B amount to ₹ 3,596

Interest under section 234C

Assessee, other than assessee who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year.

Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non- payment of each instalment.



In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest under section 234C is calculated as under –

| Date of Instalment                | Specified<br>% of estimated tax | Amount due and unpaid<br>(rounded off to nearest ₹ 100,<br>ignoring fraction) | Period   | Interest<br>@ 1% |
|-----------------------------------|---------------------------------|-------------------------------------------------------------------------------|----------|------------------|
| 15th June 2025                    | 15%                             | 13,400                                                                        | 3 months | 402              |
| 15th September 2025               | 45%                             | 40,400                                                                        | 3 months | 1,212            |
| 15th December 2025                | 75%                             | 67,400                                                                        | 3 months | 2,022            |
| 15th March 2026                   | 100%                            | 89,900                                                                        | 1 month  | 899              |
| Total interest under section 234C |                                 |                                                                               |          | 4,535            |

Mr. Jay needs to pay ₹ 98,091 as total of tax and interest on or before filing of return in the month of July, 2026.



## CLASSWORK

**Q1.** Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee, if Tax on non-monetary perquisites are to be paid by Mr. A, Employer?

|                                                                                                                                                                                                                                                                                           |                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>Ans.</b>                                                                                                                                                                                                                                                                               | ₹               |
| Gross salary, allowances and monetary perquisites                                                                                                                                                                                                                                         | 7,30,000        |
| Non-Monetary perquisites                                                                                                                                                                                                                                                                  | <u>1,20,000</u> |
|                                                                                                                                                                                                                                                                                           | 8,50,000        |
| Less: Standard deduction under section 16(ia)                                                                                                                                                                                                                                             | <u>50,000</u>   |
|                                                                                                                                                                                                                                                                                           | <u>8,00,000</u> |
| Tax Liability                                                                                                                                                                                                                                                                             | 75,400          |
| Average rate of tax ( $\text{₹ } 75,400 / \text{₹ } 8,00,000 \times 100$ )                                                                                                                                                                                                                | 9.425%          |
| Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.                                                                                                                                                                                        |                 |
| Mr. A is paying tax on non-monetary perquisites as under –                                                                                                                                                                                                                                |                 |
| Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310                                                                                                                                                                                                                         |                 |
| Balance to be deducted from salary = ₹ 64,090 i.e. [ ₹ 75,400 – ₹ 11,310]                                                                                                                                                                                                                 |                 |
| If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC). |                 |

**Q2.** Examine the TDS implications under section 194A in the cases mentioned hereunder–

- On 1.10.2025, Mr. Harish made a six-month fixed deposit of ₹ 15 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2026.
- On 1.6.2025, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest @ 9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2026.
- On 1.10.2025, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026.

**Ans.**

- ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹ 67,500 ( $9\% \times \text{₹ } 15\text{ lakh} \times \frac{1}{2}$ ) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 6,750.
- XYZ Bank has to deduct tax at source @ 10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [ $3,00,000 \times 3 \times 9\% \times 9/12$ ], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 50,000, tax has to be deducted @ 10% u/s 194A.
- No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2026 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 50,000.

Q3. ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2025-26-  
 ₹ 20,000 on 1.5.2025  
 ₹ 25,000 on 1.8.2025  
 ₹ 28,000 on 1.12.2025  
 On 1.3.2026, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.  
 Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr.X.

Ans. In this case, the individual contract payments made to Mr. X does not exceed ₹30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2025-26 exceeds ₹1,00,000 (on account of the last payment of ₹30,000, due on 1.3.2026, taking the total from ₹73,000 to ₹1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted@1% on the entire amount of ₹1,03,000 from the last payment of ₹30,000 and the balance of ₹28,970 (i.e., ₹30,000 – ₹1,030) has to be paid to Mr. X.

Q4. XYZ Ltd. entered into a lease agreement to take a building on rent from Mr. Kishore on 1st May 2024, for a monthly rent of ₹46,000, with a 10% escalation in rent applicable from the second year. Discuss the applicability of TDS provisions under section 194-1 for the P.Y. 2025-26.

Ans. Section 194-1, which governs the deduction of tax at source on payment of rent exceeding ₹50,000 per month or part of the month, is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed 1 crore in case of business and ₹50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

For April 2025, the rent is ₹46,000. However, as per the agreement, the rent from May 2025 onwards is ₹50,600 per month (₹46,000 × 110%).

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹50,000 per month from 1st May 2025 to 31st March, 2026, the provisions of section 194-1 for deduction of tax at source attracted. However, tax is not required to be deducted for the rent paid for April 2025.

The rate applicable for deduction at source under section 194-1 on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source = ₹50,600 × 10% × 11 months = ₹55,660

Q4. Mr. X, a salaried individual, pays rent of ₹55,000 per month to Mr. Y from June, 2025. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2025?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Ans. Since Mr. X pays rent exceeding ₹50,000 per month in the F.Y. 2025-26, he is liable to deduct tax at source @2%. The tax is to be deducted in the last month of the P.Y. 2025-26 i.e., March 2026 or in the last month of tenancy, if the property is vacated during the year. Since property is not vacated during the year, ₹11,000 [(₹55,000 × 2% × 10)] has to be deducted from rent payable for March, 2026.

If Mr. X vacated the premises in December, 2025, then tax of ₹7,700 [(₹55,000 × 2% × 7)] has to be deducted from rent payable for December, 2025.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible@20%, instead of 2%.

In case 1 above, this would amount to ₹1,10,000 [₹55,000 × 20% × 10], but the same has to be restricted to ₹55,000, being rent for March, 2026.

In case 2 above, this would amount to ₹77,000 [₹55,000 × 20% × 7], but the same has to be restricted to ₹55,000, being rent for December, 2025.



Q6. Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

|    | Particulars of the payer                                                                               | Nature of payment                                                                                              | Aggregate of payments made in the FY.2025-26                                      |
|----|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| 1. | Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25 | Contract Payment for repair of residential house<br>Payment of commission to Mr. Vallish for business purposes | ₹ 5 lakhs<br>₹ 80,000                                                             |
| 2. | Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2024-25.                          | Contract Payment for reconstruction of residential house (made during the period January- March, 2026)         | ₹ 20 lakhs in January, 2026, ₹ 15 lakhs in Feb 2026 and ₹ 20 lakhs in March 2026. |
| 3. | Mr. Satish, a salaried individual                                                                      | Payment of brokerage for buying a residential house in March, 2026                                             | ₹ 51 lakhs                                                                        |
| 4. | Mr. Dheeraj, a pensioner                                                                               | Contract payment made during October-November 2025 for reconstruction of residential house                     | ₹ 48 lakhs                                                                        |

| Ans. | Particulars of the payer                                                                               | Nature of payment                                          | Aggregate of payments in the FY.2025-26 | Whether TDS provisions are attracted?                                                                                                                                                                                                                        |
|------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.   | Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25 | Contract Payment for repair of residential house           | ₹ 5 lakhs                               | No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2025-26 does not exceed ₹ 50 lakh.                                   |
|      |                                                                                                        | Payment of commission to Mr. Vallish for business purposes | ₹ 80,000                                | Yes, u/s 194H @2%, since the payment exceeds ₹ 20,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2024-25.                                                                                                                                       |
| 2.   | Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2024-25                           | Contract Payment for reconstruction of residential house   | ₹ 55 lakhs                              | Yes, u/s 194M @2%, since the aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2024-25, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2025-26. |
| 3.   | Mr. Satish, a salaried individual                                                                      | Payment of brokerage for buying a residential house        | ₹ 51 lakhs                              | Yes, u/s 194M @2%, since the payment of ₹ 51 lakhs made in March 2026 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.                                        |
| 4.   | Mr. Dheeraj, a pensioner                                                                               | Contract payment for reconstruction of residential house   | ₹ 48 lakhs                              | TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.                   |

|      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Q7.  | Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases.                                                                                                                                                                                                                                                                                                                                              |
|      | (i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.6.2025, towards maturity proceeds of LIC policy taken on 1.7.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.                                                                                                                                                                                                                                                      |
|      | (ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2025 on LIC policy taken on 1.1.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.                                                                                                                                                                                                                                                                              |
|      | (iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2025 towards maturity proceeds of LIC policy taken on 31.7.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.                                                                                                                                                                                                                                                            |
| Ans. | (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 30.6.2025 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid). |
|      | (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.                                                                                                                                                        |
|      | (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2025 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.                                                                                        |

|     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Q8. | Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2024 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians. |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|      |                                                                                                                                                                                                                                                                                                                                                                                               |
|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ans. | (i) Tax implications in the hands of Mr. X                                                                                                                                                                                                                                                                                                                                                    |
|      | (a) As per section 50C, the stamp duty value of house property (i.e. ₹ 85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh - ₹ 40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2026-27.   |
|      | (b) Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.                                                                                                                                                                                                                                                        |
|      | (ii) Tax implications in the hands of Mr. Y                                                                                                                                                                                                                                                                                                                                                   |
|      | (a) In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration.<br>Therefore, in this case ₹ 25 lakh (₹ 85 lakh - ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). |
|      | (b) Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" under section 56(2)(x) includes only capital assets specified thereunder.                                                                                                |
|      | (iii) TDS implications in the hands of Mr. Y                                                                                                                                                                                                                                                                                                                                                  |
|      | (a) Since the sale consideration of house property or the stamp duty value of house property exceeds ₹ 50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs or ₹ 85 lakhs).                                                                                   |
|      | (b) TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.                                                                                                                                                                                                                                                                                  |

Q9. Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹82,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% p.a. on fixed deposit of ₹40 lakh with the said bank. Out of the deposit of ₹40 lakh, ₹2 lakh represents five year term deposit made by him on 1.4.2025. Interest on savings bank credited to his SBI savings account for the P.Y.2025-26 is ₹9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2026-27, if tax deductible at source has been fully deducted? Examine.
- (3) Is Mr. Sharma required to file his return of income for A.Y. 2026-27, if the fixed deposit of ₹40 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Ans. (1) Computation of total income of Mr. Sharma for A.Y.2026-27

| Particulars                                                                                                                        | ₹        | ₹         |
|------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| I Salaries                                                                                                                         |          |           |
| Pension (₹82,000 × 12))                                                                                                            | 9,84,000 |           |
| Less: Standard deduction u/s 16(ia)                                                                                                | 50,000   |           |
|                                                                                                                                    |          | 9,34,000  |
| II Income from Other Sources                                                                                                       |          |           |
| Interest on fixed deposit (40 lakh × 8%)                                                                                           | 3,20,000 |           |
| Interest on savings account                                                                                                        | 9,500    | 3,29,500  |
| Gross total income                                                                                                                 |          | 12,63,500 |
| Less: Deductions under Chapter VI-A                                                                                                |          |           |
| Under Section 80C                                                                                                                  |          |           |
| Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)                                                                        | 1,50,000 |           |
| Under section 80TTB                                                                                                                |          |           |
| Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years. | 50,000   | 2,00,000  |
| Total Income                                                                                                                       |          | 10,63,500 |

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

| Particulars                                | ₹        |
|--------------------------------------------|----------|
| Tax payable [ ₹ 63,500 × 30% + ₹ 1,10,000] | 1,29,050 |
| Add: Health and Education Cess@4%          | 5,162    |
| Tax liability                              | 1,34,212 |
| Tax liability (rounded off)                | 1,34,210 |

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a “specified senior citizen”. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.



Q10. Mr. Gupta, a resident Indian, is in retail business and his turnover for FY.2024-25 was ₹12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the FY.2025-26 was ₹95 lakh (₹ 20 lakh on 1.6.2025, ₹ 25 lakh on 12.8.2025, ₹ 22 lakh on 23.11.2025 and ₹ 28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for FY.2024-25 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

Ans. (1) Since Mr. Gupta's turnover for FY.2024-25 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the FY.2024-25, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –  
No tax is to be deducted u/s 194Q on the payments made on 1.6.2025 and 12.8.2025, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.  
Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2025 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].  
Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2026.

(2) If Mr. Gupta's turnover for the FY.2024-25 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted.

(3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2025 and 25.3.2026, respectively.

Q11. Compute the amount of tax deduction at source on the following payments made by M/s A Ltd. during the financial year 2025-26 as per the provisions of the Income-tax Act, 1961.

| S. No. | Date       | Nature of Payment                                                                                                                                                                                      |
|--------|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i)    | 1-10-2025  | Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.                                    |
| (ii)   | 1-11-2025  | Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.                                                                                              |
| (iii)  | 30-06-2025 | Payment of ₹ 25,000 to M/s X Ltd. for repair of building.                                                                                                                                              |
| (iv)   | 01-01-2026 | Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates. |
| (v)    | 01-01-2026 | Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.                                                                                   |
| (vi)   | 01-02-2026 | Payment of commission of ₹ 14,000 to Mr. Y.                                                                                                                                                            |

Ans. (i) No tax is required to be deducted at source under section 194C by M/s A Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:

- (1) He owns ten or less goods carriages at any time during the Relevant previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.



- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 50,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 50,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2025 to M/s X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.  
Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.  
In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 2,50,000.
- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 20,000.  
Since the commission payment made to Mr. Y does not exceed ₹ 20,000, the provisions of section 194H are not attracted.

Q12. Prince is employed in a company in Indore. He would receive from his employer the following sums as his remuneration during year:

Basic Salary - ₹ 40,000 per month, Dearness Allowance - 40% of Basic Salary, Bonus - ₹ 90,000, During the year he makes the following payments : Life Insurance Premium ₹ 20,000 , PPF ₹ 50,000, Donation to Prime Minister’s National Relief Fund ₹ 15,000

Compute the amount of tax deductible at source per month from the salary of Mr. Prince, if Mr. Prince has following other incomes, as reported by him :

Loss under the Head House Property ₹ 50,000, Winnings from lottery (gross) ₹ 80,000, Loss from business ₹ 15,000, Royalty income ₹ 60,000 (TDS ₹ 6,000).

Assume assessee opts out of default scheme u/s 115BAC.

| Ans. | Option I                  |          |          | Option II                 |          |          |
|------|---------------------------|----------|----------|---------------------------|----------|----------|
|      | <u>Income From Salary</u> |          |          | <u>Income From Salary</u> |          |          |
|      | Basic Salary              | 4,80,000 |          | Basic Salary              | 4,80,000 |          |
|      | Dearness Allowance        | 1,92,000 |          | Dearness Allowance        | 1,92,000 |          |
|      | Bonus                     | 90,000   |          | Bonus                     | 90,000   |          |
|      | Gross Salary              | 7,62,000 |          | Gross Salary              | 7,62,000 |          |
|      | Less – Standard Deduction | (50,000) |          | Less – Standard Deduction | (50,000) |          |
|      | Net Salary                |          | 7,12,000 | Net Salary                |          | 7,12,000 |
|      | Loss from House Property  |          | (50,000) | Loss from House Property  |          | (50,000) |
|      |                           |          |          | <u>Other Income</u>       |          |          |
|      |                           |          |          | Winnings                  | 80,000   |          |
|      |                           |          |          | Royalty Income            | 60,000   | 1,40,000 |

|                                                 |        |          |                                     |        |          |
|-------------------------------------------------|--------|----------|-------------------------------------|--------|----------|
| Gross Total Income                              |        | 6,62,000 | Gross Total Income                  |        | 6,62,000 |
| Less – Deduction                                |        |          | Less – Deduction                    |        |          |
| Section 80C                                     |        |          | Section 80C                         |        |          |
| Life Insurance Premium                          | 20,000 |          | Life Insurance Premium              | 20,000 |          |
| PPF_                                            | 50,000 |          | PPF_                                | 50,000 |          |
| Section 80G                                     |        |          | Section 80G                         |        |          |
| Donation to PM National Relief fund             | 15,000 | (85,000) | Donation to PM National Relief fund | 15,000 | (85,000) |
| Net Total Income                                |        | 5,77,000 | Net Total Income                    |        | 7,17,000 |
| Basic Tax                                       |        | 27,900   | Basic Tax                           |        |          |
| (+) HEC                                         |        | 1,116    | On winnings 80,000@30%              | 24,000 |          |
|                                                 |        |          | On Other Income 6,37,000            |        |          |
|                                                 |        |          | @Slab Rate                          | 39,900 | 63,900   |
|                                                 |        |          | (+) HEC                             |        | 2,556    |
| Total                                           |        | 29,016   | Total                               |        | 66,456   |
|                                                 |        |          | Less – TDS [24000+6000]             |        | 30,000   |
|                                                 |        |          | Balance                             |        | 36,456   |
| ÷ No of months                                  |        | 12       | ÷ No of months                      |        | 12       |
| Monthly TDS                                     |        | 2418     | Monthly TDS                         |        | 3038     |
| Employer should deduct TDS as per second option |        |          |                                     |        |          |

Q13. An amount of ₹ 40,000 was paid to Mr. X on 1.7.2025 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2026, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2026. Compute the interest chargeable under section 201(1A).

Ans. Interest under section 201(1A) would be computed as follows –

| Particulars                                                              | ₹   |
|--------------------------------------------------------------------------|-----|
| 1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months   | 320 |
| 1½ % on tax deducted but not deposited i.e. 1½ % on ₹ 9,000 for 4 months | 540 |
|                                                                          | 860 |

- (ii) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- (iii) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default under section 201(1) on account of payment of taxes by such payee, interest under section 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee. However, where an order is made by the Assessing Officer for assessee-in-default, the interest shall be paid by the person in accordance with such order.
- (iv) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

Q14. State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2025-26 under the Income Tax Act, 1961. Assume that all payments are made to residents:

- (i) Sanjay, a resident individual, not deriving any income from business or profession makes payments of ₹ 12 lakh in January, 2026, ₹ 20 lakh in February, 2026 and ₹ 20 lakh in March, 2026 to Mohan, a contractor for reconstruction of his residential house.
- (ii) ABC Ltd. makes the payment of ₹ 1,50,000 to Ramlal, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN.

Ans. TDS implications

- (i) On payments made to contractor

Tax is deductible @2% under section 194M, since payments to Mr. Mohan, a contractor, for reconstruction of his residential house exceeds ₹ 50 lakhs in aggregate during the FY.2025-2026

Since Sanjay does not derive income from business or profession, TDS u/s 194C is not attracted in his case. In any case, the contractor is engaged for reconstruction of residential house, hence, the amount paid to him is exclusively for personal purposes of Mr. Sanjay. Consequently, section 194C would not be attracted.

Amount of tax to be deducted = 2% of ₹ 52 lakhs = ₹ 1,04,000

- (ii) Payment to transporter who has not furnished PAN

Under section 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

However, in this case, this exemption from TDS would not be available, since Ramlal has not furnished his PAN to ABC Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided under section 194C.

Amount of tax to be deducted = ₹ 1,50,000 × 20% = ₹ 30,000

Q1. Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Ans. Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

Q2. XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

Ans. TDS provisions under section 194J would not get attracted, since the limit of ₹ 50,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the PY.2025-26.

Q3. Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

| Particulars | ₹           |
|-------------|-------------|
| 2024-25     | 1,05,00,000 |
| 2025-26     | 95,00,000   |

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2025-26:

| Particulars                                                         | ₹                 |
|---------------------------------------------------------------------|-------------------|
| Interest paid to UCO Bank on 15.8.2025                              | 41,000            |
| Contract payment to Raj (2 contracts of ₹12,000 each) on 12.12.2025 | 24,000            |
| Shop rent paid                                                      | ₹40,000 per month |
| Commission paid to Balu on 15.3.2026                                | 7,000             |



Ans. As the turnover of business carried on by Ashwin for FY. 2024-25, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2025-26, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹24,000 to Raj for 2 contracts of ₹12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹30,000 in a single payment or ₹1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid ₹40,000 per month Tax under section 194-1 would not

be attracted since the rental payment does not exceed ₹50,000 per month or part of the month.

Commission paid to Balu - No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹20,000.

Q4. Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2025 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2025-26, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

|     | Particulars                                                               | Amount in ₹ |
|-----|---------------------------------------------------------------------------|-------------|
| (1) | Salary to its employee, Mr. X (credited and paid in March, 2026)          | 12,00,000   |
| (2) | Directors' remuneration (credited in March, 2025 and paid in April, 2026) | 28,000      |

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2026 at the time of payment and remitted the same in July, 2026?

Ans. Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance@30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2025-26, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2026-27 is as follows -

|     | Particulars                                                                                   | Amount paid in ₹ | Disallowance u/s 40(a)(ia) @30% |
|-----|-----------------------------------------------------------------------------------------------|------------------|---------------------------------|
| (1) | Salary<br>[tax is deductible under section 192]                                               | 12,00,000        | 3,60,000                        |
| (2) | Directors' remuneration<br>[tax is deductible under section 194J without any threshold limit] | 28,000           | 8,400                           |
|     | Disallowance under section 40(a)(ia)                                                          |                  | 3,68,400                        |

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2026-27 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2027-28.

Q5. During the financial year 2025-26, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2025 was ₹ 99 lacs):

- (i) Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iii) Commission of ₹ 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2025 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

Ans. Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

(i) The obligation to deduct tax at source from interest paid to a resident arises u/s 194A in the case of an individual, whose total turnover in the immediately preceding P.Y., i.e., P.Y.2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.

(ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

(iii) The obligation to deduct tax at source under section 194H from commission paid in excess of ₹ 20,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2025-26. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Q6. State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2025 -26 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) Mr. Mahesh has paid ₹ 6,00,000 on 15.10.2025 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 Crores during the previous year 2024-25.
- (ii) Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month to Mr. Shiv Kumar from 1st July, 2025 to 31st March, 2026. Mr. Shiv Kumar has not furnished his Permanent Account Number.

Ans. (a) (i) The arrangement between Mr. Mahesh, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of ₹ 6 lakh paid by Mr. Mahesh to the cold storage company.

Accordingly, tax has to be deducted @ 2% on ₹ 6 lakh.

TDS u/s 194C = 2% × ₹ 6 lakh = ₹ 12,000

- (ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 2% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2025), since the rent paid by him exceeds ₹ 50,000 p.m.

Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 2%. However, the same cannot exceed ₹ 60,000, being rent for March, 2026.

TDS u/s 194-IB = ₹ 5,40,000 (₹ 60,000 × 9) × 20% = ₹ 1,08,000, but restricted to ₹ 60,000, being rent for March, 2026.

Q7. The persons referred to in (i) to (vi) in Column (2) of the table below have always been filing their returns of income on or before the due date u/s 139(1). The persons mentioned in (vii) to (x) in Column (2) of the table below have not filed their returns of income for the last five years. Determine the liability of deduction of tax at source u/s 194N by the bank/co-operative bank referred to in column (3) of the table below in each of the following individual cases, assuming that this is the only withdrawal in the PY.2025-26 by the persons referred to in Column (2).

| Ans. | (1)    | (2)                          | (3)                                                  | (4)                | (5)                      | (6)                                               |
|------|--------|------------------------------|------------------------------------------------------|--------------------|--------------------------|---------------------------------------------------|
|      |        | Person making the withdrawal | Bank/Co-operative Bank from which money is withdrawn | Date of withdrawal | Amount of withdrawal (₹) | TDS u/s 194N (₹)                                  |
|      | (i)    | Mr. Harshit                  | SBI                                                  | 1.7.2025           | 1,10,00,000              | ₹10,00,000 × 2% = ₹20,000                         |
|      | (ii)   | Mr. Pranav                   | SBI                                                  | 1.8.2025           | 90,00,000                | Nil (since withdrawals < ₹1 crore)                |
|      | (iii)  | ABC Co-operative Society     | SBI                                                  | 1.9.2025           | 2,70,00,000              | Nil (since withdrawals < ₹3 crore)                |
|      | (iv)   | XYZ Co-operative Society     | MNO Co-operative bank                                | 1.9.2025           | 3,10,00,000              | ₹10,00,000 × 2% = ₹20,000                         |
|      | (v)    | Mr. Vaibhav                  | MNO Co-operative bank                                | 1.9.2025           | 2,10,00,000              | ₹1,10,00,000 × 2% = ₹2,20,000                     |
|      | (vi)   | A Ltd.                       | MNO Co-operative bank                                | 1.10.2025          | 1,05,00,000              | ₹5,00,000 × 2% = ₹10,000                          |
|      | (vii)  | M/s. DEF & Co., a firm       | MNO Co-operative bank                                | 1.2.2026           | 90,00,000                | ₹70,00,000 × 2% = ₹1,40,000                       |
|      | (viii) | Mr. Varun                    | BOI                                                  | 1.2.2026           | 1,20,00,000              | ₹80,00,000 × 2%(+) 20,00,000 × 5% = ₹2,60,000     |
|      | (ix)   | Mr. Rakesh                   | BOI                                                  | 1.2.2026           | 45,00,000                | ₹25,00,000 × 2% = ₹50,000                         |
|      | (x)    | PQR Co-operative Society     | BOI                                                  | 1.2.2026           | 3,30,00,000              | ₹2,80,00,000 × 2% (+) ₹30,00,000 × 5% = ₹7,10,000 |



Q8. Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2025-26 as per the provisions of the Income-tax Act, 1961.

| S. No. | Date       | Nature of Payment                                                                                                                                                                                     |
|--------|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i)    | 1-10-2025  | Payment of ₹2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.                                    |
| (ii)   | 1-11-2025  | Payment of fee for technical services of ₹25,000 and Royalty of 20,000 to Mr. Shyam who is having PAN.                                                                                                |
| (iii)  | 30-06-2025 | Payment of ₹25,000 to M/s X Ltd. for repair of building.                                                                                                                                              |
| (iv)   | 01-01-2026 | Payment of ₹2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates. |
| (v)    | 01-01-2026 | Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.                                                                                  |
| (vi)   | 01-02-2026 | Payment of commission of ₹ 14,000 to Mr. Y.                                                                                                                                                           |

- Ans. (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- (1) He owns ten or less goods carriages at any time during the previous year.
  - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
  - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹50,000 during the financial year. In the given case, since the individual payments for fee of technical services i.e., ₹25,000 and royalty ₹20,000 is less than ₹50,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2025 to M/s X Ltd. is less than the threshold limit of ₹30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
- Therefore, there is no liability to deduct tax at source in respect of payment of ₹2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹5,00,000.
- In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹5,00,000.
- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹20,000.
- Since the commission payment made to Mr. Y does not exceed ₹20,000, the provisions of section 194H are not attracted.



Q9. Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the A.Y 2026-27 in the following situations

- (i) Mr. Raja paid ₹ 12 lakhs on 1.11.2025 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹13 lakhs on 28.3.2026, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday.
- (ii) Mr. Rohit and Mr. Raj are the joint owners of a house property. They sold the house property on 31.12.2025 for ₹ 60 lakhs, receiving ₹ 30 lakhs each as their respective shares. However, the stamp duty value (SDV) of the property on the date of transfer is ₹ 75 lakhs. The property was jointly purchased by Ms. Shashi and Ms. Sujata.
- (iii) XYZ Ltd. provided a luxury car worth ₹ 15 lakh to its distributor, Mr. A, as an incentive for achieving high sales targets.

- Ans. (i) M/s. Thomas Cook, being a seller of an overseas tour programme package has to collect tax at source @5% till ₹ 10 lakhs and 20% thereafter under section 206C(1G) from Mr. Raja on receiving amount for purchase of package.
- M/s Thomas Cook has to collect tax of ₹90,000, being ₹50,000 (5% of ₹10 lakhs) and ₹40,000 (20% of ₹2 lakhs).
- Bank of India, being an authorized dealer has to collect tax at source under section 206C(1G) @20% on amount in excess of ₹10 lakhs remitted under the LRS since the remittance of ₹13 lakhs is not for the purpose of education and medical treatment.
- Bank of India has to collect tax of the amount remitted in excess of ₹60,000 i.e., 20% of ₹3 lakhs, being ₹10 lakhs.
- (ii) As per section 194-IA, if a person (transferor) transfers any immovable property whose consideration for transfer or stamp duty value is not less than ₹50 lakh to a person (transferee), then transferee is required to deduct tax at source @1% of consideration for transfer or stamp duty value, whichever is higher.
- In case there are multiple transferee or transferor in respect of any immovable property, consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property.
- Accordingly, in the present case, Ms. Shashi and Ms. Sujata are required to deduct tax at source @1% on ₹75 lakhs, being the amount higher of consideration of ₹60 lakhs and stamp duty value of ₹75 lakhs.
- (iii) As per section 194R, if any person (other than an individual or HUF whose total sales or gross receipts does not exceed ₹1 crore in case of business or ₹50 lakhs in case of profession during the immediately preceding previous year) provides any benefit or perquisite to a resident arising from his business or profession and the total value of such benefits exceeds ₹20,000 in a financial year, then such person is required to deduct tax at source @10% of the total value of the benefit or perquisite. Where the benefit or perquisite is in kind, the person has to ensure before releasing such benefit or perquisite that the tax required to be deducted has been paid in respect of such benefit or perquisite. In the present case, XYZ Ltd. provided a luxury car worth ₹15 lakh to Mr. A, as an incentive which qualifies as a perquisite u/s 194R. Therefore, XYZ Ltd. has to ensure before releasing the car that the tax of ₹1,50,000 i.e., 10% of ₹ 15 lakhs has been paid by Mr. A.

- Q1. Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.
- Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.
- Q2. Examine the applicability of TDS provisions and TDS amount in the following cases:
- Rent of ₹55,000 per month was paid for hire of machinery by B Ltd. to Mr. Raman in FY 2025-26.
  - Fee paid on 1.12.2025 to Dr. Srivatsan by Sundar (HUF) ₹55,000 for surgery performed on a member of the family.
  - ABC and Co. Ltd. paid ₹19,000 to one of its Directors as sitting fees on 01-01-2026.
- Q3. Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2025-26:
- Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2026.
  - Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
  - ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land.
- Q4. Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.
- Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2026 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
  - Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2025. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.
  - Mr. Amit, working in a private company, is on deputation for 5 months (from October, 2025 to February, 2026) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.
- Q5. Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.
- On 1.5.2025, Mr. Brijesh made three fixed deposits of nine months each of ₹ 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2026.
  - Mr. Marwah, aged 80 years, holds 6½% Gold Bonds, 1977 of ₹ 2,00,000 and 7% Gold Bonds 1980 of ₹ 3,00,000. He received yearly interest on these bonds on 28.02.2026.
  - M/s AG Pvt. Ltd. took a loan of ₹ 50,00,000 from Mr. Haridas. It credited interest of ₹ 79,000 payable to Mr. Haridas during the previous year 2025-26. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2024-25 and 2025-26.



(iv) Mr. Prabhakar is due to receive ₹ 6 lakh on 31.3.2026 towards maturity proceeds of LIC policy taken on 1.4.2021, for which the sum assured is ₹ 5 lakhs and the annual premium is ₹ 1,40,000.

Q6. Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

| S. No. | Particulars of the payer                                                                               | Nature of payment                                                                                                                                                                                          | Aggregate of payments made in the F.Y.2025-26 (Amt. in ₹) |
|--------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| (A)    | Mr. Kale, receiving pension from Central Government                                                    | Contractual payment made during April 2024 for reconstruction of his residential house in Arunachal Pradesh                                                                                                | 52,50,000                                                 |
| (B)    | Mr. Rahul, a wholesale trader of spices whose turn-over was ₹ 5 crores F.Y. 2024-25                    | Contract payment for construction of office godown during January to March 2025 to Mr. Akhilesh, an individual                                                                                             | 50,00,000                                                 |
| (C)    | Mr. Golu, an individual carrying garment trading business with turnover of ₹95 lakhs in F.Y. 2024-2025 | Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2024                                                                                                      | 1,20,000                                                  |
| (D)    | XYZ Urban Co-operative bank                                                                            | Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial Year 2024-25. ABC & Co. has filed its tax returns for the last 3 financial years with in time. | 1,20,00,000                                               |

#### Solution 1:

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

#### Solution 2:

(a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹50,000 per month or part of the month, the provisions of section 194-1 for deduction of tax at source are attracted. The rate applicable for deduction of tax at source under section 194-1 on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd. Therefore, the amount of tax to be deducted at source:  
 $= 6,60,000 \times 2\% = ₹13,200.$

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on 6,60,000, by virtue of provisions of section 206AA.

(b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds 50 lakhs during the financial year.

(c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director. Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source:

$$= ₹ 19,000 \times 10\% = ₹ 1,900$$

### Solution 3:

(1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

$$\text{Tax to be deducted} = ₹ 4,20,000 \times 1\% = ₹ 4,200$$

(2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

$$\text{Hence, tax to be deducted} = ₹ 1,50,000 \times 30\% = ₹ 45,000.$$

(3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 5,00,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 5,00,000.

#### Solution 4:

##### TDS implications

(i) **On pre-mature withdrawal from EPF**

No tax is deductible under section 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) **On payment of service fee to bank**

Even though service fee is included in the definition of “interest” under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) **On payment of rent by a salaried individual Mr. Amit, a salaried individual, is not liable to deduct tax at source under section 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2025 to February 2026) from the rent of ₹ 32,000 payable on 1 st day of every month, since the monthly rent does not exceed ₹ 50,000.**

#### Solution 5:

(i) **CBZ Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [3,00,000 × 9% × 3 × 9/12], which exceeds the threshold limit of ₹ 50,000.**

Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered.

Tax to be deducted at source = ₹ 60,750 × 10% = ₹ 6,075

1 Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as ₹ 81,000 [3,00,000 × 9% × 3] and the tax to be deducted thereon would be ₹ 81,000 × 10% = ₹ 8,100.

(ii) **Tax @10% under section 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., ₹ 5,00,000 exceed ₹ 10,000.**

Interest on 6½ Gold Bonds, 1977 = ₹ 2,00,000 × 6.5% = ₹ 13,000

Interest on 7% Gold Bonds 1980 = ₹ 3,00,000 × 7% = ₹ 21,000

Tax to be deducted at source = ₹ 34,000 × 10% = ₹ 3,400

(iii) **M/s AG Pvt. Ltd. has to deduct tax at source @10% under section 194A, since the interest on loan payable is ₹ ₹ 79,000 which exceeds the threshold limit of ₹ ₹ 10,000. M/s AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2024-25 and 2025-26.**

Tax to be deducted at source = ₹ 79,000 × 10% = ₹7,900

(iv) **Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 6 lakhs due on 31.3.26 are not exempt under section 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 40,000 [₹ 6,00,000, being maturity proceeds - ₹ 5,60,000, being the amount of insurance premium paid.**

Tax to be deducted at source = ₹ 40,000 × 5% = ₹ 2,000



#### Solution 6:

- (i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹ 50,00,000.  
Therefore, TDS u/s 194M would be = ₹ 52,50,000 × 2% = ₹ 1,05,000.
- (ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2024-25, being the financial year immediately preceding FY.2025-26 in which such sum is paid, exceeds ₹ 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual.  
Therefore, TDS u/s 194C would be = ₹ 50,00,000 × 1% = ₹ 50,000
- (iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹ 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹ 50 lakhs  
In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2025-26 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2024-25.  
Further, Mr. Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹ 50 lakhs during the P.Y. 2025-26.
- (iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ₹ 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹ 1 crore (₹ 1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the FY.2025-26, the bank is required deduct tax at source @ 2% of such sum.  
Therefore, TDS u/s 194N would be = ₹ 20,00,000 × 2% = ₹ 40,000.





- Q1. Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹80,000 p.m. He has received transport allowance of ₹15,000 p.m. and house rent allowance of ₹20,000 p.m. from the company for the P.Y. 2025-26. He has paid rent of ₹25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2026 and his parents live in that house.

Other Information

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

Compute the total income and tax liability of Mr. A for the A.Y. 2026-27 in the most beneficial manner.

Ans. Computation of total income and tax liability of Mr. A for A.Y. 2026-27  
under default tax regime under section 115BAC

| Particulars                                       | ₹          |
|---------------------------------------------------|------------|
| <b>Salaries</b>                                   |            |
| Basic Salary [ ₹80,000 × 12]                      | ₹ 9,60,000 |
| Transport allowance [₹15,000 × 12]                | 1,80,000   |
| HRA received [ ₹20,000 × 12]                      | 2,40,000   |
| Gross salary                                      | 13,80,000  |
| Less: Standard deduction u/s 16(ia)               | (75,000)   |
|                                                   | 13,05,000  |
| <b>Income from house property</b>                 |            |
| Interest on housing loan                          | -          |
| Gross Total Income                                | 13,05,000  |
| Less: Deductions under Chapter VI- A              |            |
| Section 80C                                       |            |
| Contribution in PPF                               | -          |
| Section 80CCD                                     |            |
| Contribution to pension scheme                    | -          |
| Section 80D                                       |            |
| Mediclaime insurance premium for self and parents | -          |
| Total Income                                      | 13,05,000  |
| <b>Tax liability</b>                              |            |
| Tax @5% on ₹4,00,000 [₹ 8,00,000-₹4,00,000]       | 20,000     |
| Tax @10% on ₹4,00,000 [₹12,00,000 -₹8,00,000]     | 40,000     |
| Tax @15% on ₹ 1,05,000 [₹13,05,000-₹12,00,000]    | 15,750     |
| Add: Health & Education cess @ 4%                 | 3,030      |
| Total Tax Liability                               | 78,780     |

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

| Particulars                          | ₹        |
|--------------------------------------|----------|
| <b>Salaries</b>                      |          |
| Basic Salary [ ₹ 80,000 × 12]        | 9,60,000 |
| Transport allowance [ ₹ 15,000 × 12] | 1,80,000 |
| HRA received                         | 2,40,000 |

|                                                                                                                                                                                             |          |            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|------------|
| Less: Least of the following exempt u/s 10(13A)                                                                                                                                             | 2,04,000 | 36,000     |
| HRA Received                                                                                                                                                                                | 2,40,000 |            |
| Actual rent paid - 10% of salary [₹3,00,000-₹96,000]                                                                                                                                        | 2,04,000 |            |
| 50% of salary (Since he is staying in Delhi being a metro city)                                                                                                                             | 4,80,000 |            |
| Gross salary                                                                                                                                                                                |          | 11,76,000  |
| Less: Standard deduction u/s 16(ia)                                                                                                                                                         |          | (50,000)   |
|                                                                                                                                                                                             |          | 11,26,000  |
| Income from house property                                                                                                                                                                  |          |            |
| [Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to ₹2,00,000, in case of self-occupied property, which would represent loss from house property] |          | (2,00,000) |
| Gross Total Income                                                                                                                                                                          |          | 9,26,000   |
| Less: Deductions under Chapter VI-A                                                                                                                                                         |          |            |
| Section 80C                                                                                                                                                                                 |          |            |
| Contribution to PPF                                                                                                                                                                         |          | 1,50,000   |
| Section 80CCD(1B)                                                                                                                                                                           |          |            |
| Own contribution to pension scheme                                                                                                                                                          |          | 50,000     |
| Section 80D                                                                                                                                                                                 |          |            |
| Mediclaime insurance premium                                                                                                                                                                |          |            |
| For self and spouse, restricted to                                                                                                                                                          | 25,000   |            |
| For father, who is a senior citizen, restricted to                                                                                                                                          | 50,000   |            |
|                                                                                                                                                                                             |          | 75,000     |
|                                                                                                                                                                                             |          | 6,51,000   |
| Tax liability                                                                                                                                                                               |          |            |
| Tax @ 5% on ₹2,50,000 [₹5,00,000-₹2,50,000]                                                                                                                                                 | 12,500   |            |
| Tax @ 20% on ₹1,51,000 [₹6,51,000-₹5,00,000]                                                                                                                                                | 30,200   | 42,700     |
| Add: Health & Education cess @ 4%                                                                                                                                                           |          | 1,708      |
| Total Tax Liability                                                                                                                                                                         |          | 44,408     |
| Total Tax Liability (Rounded Off)                                                                                                                                                           |          | 44,410     |

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2026-27.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by ₹6,54,000. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2026-27.

- Q2. Mr. Kadam is entitled to a salary of ₹41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹7,000 per month. The rent for the hired accommodation was ₹6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Ans. Computation of tax liability of Kadam under both the options

| Particulars                                                                                                            | Option I –<br>HRA (₹) | Option II –<br>RFA (₹) |
|------------------------------------------------------------------------------------------------------------------------|-----------------------|------------------------|
| Basic Salary (41,000 × 12 Months)                                                                                      | 4,92,000              | 4,92,000               |
| Perquisite value of rent-free accommodation (10% of ₹4,92,000)                                                         | N.A.                  | 49,200                 |
| House rent Allowance (₹7,000 × 12 Months) ₹ 84,000                                                                     |                       |                        |
| Less: Exempt u/s 10(13A) – least of the following                                                                      |                       |                        |
| - 50% of Basic Salary ₹ 2,46,000                                                                                       |                       |                        |
| - Actual HRA received ₹84,000                                                                                          |                       |                        |
| - Rent paid less 10% of salary ₹22,800 ₹22,800                                                                         | 61,200                |                        |
| Gross Salary                                                                                                           | 5,53,200              | 5,41,200               |
| Less: Standard deduction u/s 16(ia)                                                                                    | 50,000                | 50,000                 |
| Net Salary                                                                                                             | 5,03,200              | 4,91,200               |
| Less: Deduction under Chapter VI-A                                                                                     | -                     | -                      |
| Total Income                                                                                                           | 5,03,200              | 4,91,200               |
| Tax on total income                                                                                                    | 13,140                | 12,060                 |
| Less: Rebate under section 87A Lower of ₹12,500 or income-tax of ₹12,060, since total income does not exceed ₹5,00,000 | Nil                   | 12,060                 |
|                                                                                                                        | 13,140                | Nil                    |
| Add: Health and Education cess@4%                                                                                      | 526                   | Nil                    |
| Tax liability                                                                                                          | 13,666                | Nil                    |
| Tax liability (Rounded off)                                                                                            | 13,670                | Nil                    |

#### Cash Flow Statement

| Particulars              | Option I –<br>HRA | Option II –<br>RFA |
|--------------------------|-------------------|--------------------|
| Inflow: Salary           | 5,76,000          | 4,92,000           |
| Less: Outflow: Rent paid | (72,000)          | -                  |
| Tax on total income      | (13,670)          | Nil                |
| Net Inflow               | 4,90,330          | 4,92,000           |

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation.

Q3. Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2025 and came to India for the first time on 16.03.2025. She left for USA on 19.9.2025. She returned to India again on 27.03.2026. While in India, she had purchased a show room in Mumbai on 30.04.2025, which was leased out to a company on a rent of ₹25,000 p.m. from 01.05.2025. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹97,500 upto 31.03.2026. She had received the following cash gifts from her relatives and friends during 1.4.2025 to 31.3.2026:

From parents of husband ₹51,000

From married sister of husband ₹11,000

From two very close friends of her husband (₹1,51,000 and ₹21,000)

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2026-27 if she opts out of the default tax regime under section 115BAC.

(b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is 18,00,000 and she is not liable to tax in USA?

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

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

If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2026-27 has to be determined on the basis of her stay in India during the P.Y.2025-26 and in the preceding four previous years.

Her stay in India during the P.Y.2025-26 and in the preceding four years are as under:

P.Y. 2025-26

|                          |   |                 |
|--------------------------|---|-----------------|
| 01.04.2025 to 19.09.2025 | - | 172 days        |
| 27.03.2026 to 31.03.2026 | - | <u>5 days</u>   |
| Total                    |   | <u>177 days</u> |

Four preceding previous years

|                                      |   |                |
|--------------------------------------|---|----------------|
| P.Y. 2024-25 [1.4.2024 to 31.3.2025] | - | 16 days        |
| P.Y. 2023-24 [1.4.2023 to 31.3.2024] | - | Nil            |
| P.Y. 2022-23 [1.4.2022 to 31.3.2023] | - | Nil            |
| P.Y. 2021-22 [1.4.2021 to 31.3.2022] | - | <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 A.Y.2026-27.

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

| Particulars                                                                                                                                                                                        | ₹        | ₹        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Income from house property                                                                                                                                                                         |          |          |
| Show room located in Mumbai remained on rent from 01.05.2025 to 31.03.2026@ ₹25,000/- p.m.                                                                                                         | 2,75,000 |          |
| Gross Annual Value [ ₹ 25,000 × 11] (See Note 1 below)                                                                                                                                             |          |          |
| Less: Municipal taxes                                                                                                                                                                              | Nil      |          |
| Net Annual Value (NAV)                                                                                                                                                                             | 2,75,000 |          |
| Less: Deduction under section 24                                                                                                                                                                   |          |          |
| 30% of NAV                                                                                                                                                                                         | 82,500   |          |
| Interest on loan                                                                                                                                                                                   | 97,500   | 1,80,000 |
| Income from other sources                                                                                                                                                                          |          |          |
| Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.                                                        |          |          |
| - ₹50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.                 |          |          |
| - ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.                     |          |          |
| - Gift received from two friends of husband ₹1,51,000 and ₹21,000 aggregating to ₹1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹50,000. (See Note 2 below) |          |          |
| Total Income                                                                                                                                                                                       |          | 2,67,000 |

Computation of tax liability by Miss Charlie for the A.Y. 2026-27  
under normal provisions of the Act

| Particulars                       | ₹   |
|-----------------------------------|-----|
| Tax on total income of ₹2,67,000  | 850 |
| Add: Health and Education cess@4% | 34  |
| Total tax liability               | 884 |
| Total tax liability(rounded off)  | 880 |

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceed ₹50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2026-27, rebate under section 87A would not be available to her, even though her total income does not exceed 5 lakhs.

(b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources is ₹18,00,000.

If she is a person of Indian origin and her total income from Indian sources exceeds ₹15,00,000 (₹18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the PY.2025-26 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2025-26.

- Q4. Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2026 is as under:

| Expenditure                                                       | ₹         | Income                                                    | ₹         |
|-------------------------------------------------------------------|-----------|-----------------------------------------------------------|-----------|
| To Medicine consumed                                              | 35,38,400 | By Consultation and medical charges                       | 58,85,850 |
| To Staff salary                                                   | 13,80,000 | By Income-tax refund (principal ₹5,000, interest ₹450)    | 5,450     |
| To Clinic consumables                                             | 1,10,000  | By Dividend from units of UTI (Gross)                     | 10,500    |
| To Rent paid                                                      | 90,000    | By Winning from game show on T.V. (net of TDS of ₹15,000) | 35,000    |
| To Administrative expenses                                        | 2,55,000  | By Rent                                                   | 27,000    |
| To Amount paid to scientific research association approved u/s 35 | 1,50,000  |                                                           |           |
| To Net profit                                                     | 4,40,400  |                                                           |           |
|                                                                   | 59,63,800 |                                                           | 59,63,800 |

(i) Rent paid includes ₹30,000 paid by cheque towards rent for her residential house in Surat.

(ii) Clinic equipments are:

1.4.2025 Opening W.D.V. ₹5,00,000

7.12.2025 Acquired (cost) by cheque - ₹2,00,000

- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹27,000. The municipal tax of ₹2,000, paid in December, 2025, has been included in “administrative expenses”.
- (iv) She received salary of ₹7,500 p.m. from “Full Cure Hospital” which has not been included in the “consultation and medical charges”.
- (v) Dr. Niranjana availed a loan of ₹5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹1,00,000, and interest thereon ₹55,000 during the previous year 2025-26.
- (vi) She paid ₹1,00,000 as tuition fee (not in the nature of development fees/donation) to the university for full time education of her daughter.
- (vii) An amount of ₹28,000 has also been paid by cheque on 27<sup>th</sup> March, 2026 for her medical insurance premium.

From the above, compute the total income of Dr. Niranjana for the A.Y. 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Ans. Computation of total income of Dr. Niranjana for A.Y. 2026-27 under default tax regime

|     | Particulars                                                                                                                                                                                  | ₹      | ₹        | ₹      |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|----------|--------|
| I   | Income from Salary                                                                                                                                                                           |        |          |        |
|     | Basic Salary (₹ 7,500 × 12)                                                                                                                                                                  |        | 90,000   |        |
|     | Less: Standard deduction u/s 16(ia)                                                                                                                                                          |        | 75,000   | 15,000 |
| II  | Income from house property                                                                                                                                                                   |        |          |        |
|     | Gross Annual Value (GAV)                                                                                                                                                                     |        | 27,000   |        |
|     | Less: Municipal taxes paid                                                                                                                                                                   |        | 2,000    |        |
|     | Net Annual Value (NAV)                                                                                                                                                                       |        | 25,000   |        |
|     | Less: Deduction u/s 24@30% of ₹ 25,000                                                                                                                                                       |        | 7,500    | 17,500 |
| III | Income from profession                                                                                                                                                                       |        |          |        |
|     | Net profit as per Income and Expenditure account                                                                                                                                             |        | 4,40,400 |        |
|     | Less: Items of income to be treated separately                                                                                                                                               |        |          |        |
|     | (i) Rent received (taxable under the head “Income from house property”)                                                                                                                      | 27,000 |          |        |
|     | (ii) Dividend from units of UTI (taxable under the head “Income from other sources”)                                                                                                         | 10,500 |          |        |
|     | (iii) Winning from game show on T.V. (net of TDS) – taxable under the head “Income from other sources”                                                                                       | 35,000 |          |        |
|     | (iv) Income tax refund                                                                                                                                                                       | 5,450  | 77,950   |        |
|     |                                                                                                                                                                                              |        | 3,62,450 |        |
|     | Less: Allowable expenditure                                                                                                                                                                  |        |          |        |
|     | Depreciation on clinic equipments                                                                                                                                                            |        |          |        |
|     | on ₹ 5,00,000@15%                                                                                                                                                                            | 75,000 |          |        |
|     | on ₹ 2,00,000@7.5%                                                                                                                                                                           | 15,000 | 90,000   |        |
|     | (On equipments acquired during the year in December 2025, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year) |        |          |        |
|     |                                                                                                                                                                                              |        | 2,72,450 |        |
|     | Add: Items of expenditure not allowable while computing business income                                                                                                                      |        |          |        |

|    |      |                                                                                                       |          |          |          |  |
|----|------|-------------------------------------------------------------------------------------------------------|----------|----------|----------|--|
|    | (i)  | Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime) | 1,50,000 |          |          |  |
|    | (i)  | Rent for her residential accommodation included in Income and Expenditure A/c                         | 30,000   |          |          |  |
|    | (ii) | Municipal tax paid relating to residential house at Surat included in administrative expenses         | 2,000    | 1,82,000 | 4,54,450 |  |
| IV |      | Income from other sources                                                                             |          |          |          |  |
|    | (a)  | Interest on income-tax refund                                                                         |          | 450      |          |  |
|    | (b)  | Dividend from UTI (taxable in the hands of unit holders)                                              |          | 10,500   |          |  |
|    | (c)  | Winnings from TV game show (₹ 35,000 + ₹ 15,000)                                                      |          | 50,000   | 60,950   |  |
|    |      | Gross Total Income                                                                                    |          |          | 5,47,900 |  |
|    |      | Less: Deductions under Chapter VI- A:                                                                 |          |          |          |  |
|    | (a)  | Section 80C [Not allowed under default tax regime]                                                    |          |          | Nil      |  |
|    | (b)  | Section 80D [Not allowed under default tax regime]                                                    |          |          | Nil      |  |
|    | (c)  | Section 80E [Not allowed under default tax regime]                                                    |          |          | Nil      |  |
|    |      | Total income                                                                                          |          |          | 5,47,900 |  |

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

|  | Particulars                                                                                                                                | ₹        | ₹        |
|--|--------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
|  | Gross Total Income as per default tax regime                                                                                               |          | 5,47,900 |
|  | Add: Standard deduction of ₹ 25,000, being the excess amount allowed u/s 115BAC                                                            |          | 25,000   |
|  | Less: Items of expenditure allowable while computing business income under normal provisions of the Act                                    |          |          |
|  | 100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act. |          | 1,50,000 |
|  | Gross Total Income as per normal provisions of the Act                                                                                     |          | 4,22,900 |
|  | Less: Deductions under Chapter VI-A:                                                                                                       |          |          |
|  | (a) Section 80C Tuition fee paid to university for full time education of her daughter                                                     | 1,00,000 |          |
|  | (b) Section 80D -Medical insurance premium (fully allowed since she is a senior citizen)                                                   | 28,000   |          |
|  | (c) Section 80E Interest on loan taken for higher education is deductible                                                                  | 55,000   | 1,83,000 |
|  | Total income                                                                                                                               |          | 2,39,900 |

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹35,000 + ₹15,000). Thereafter, while computing tax liability, TDS of ₹15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.



(iii) Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Q5. Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2026 reads as follows:

| Expenditure                                     | (₹)       | Income                                                                       |           | (₹)       |
|-------------------------------------------------|-----------|------------------------------------------------------------------------------|-----------|-----------|
| Salary to staff                                 | 15,50,000 | Fees earned:                                                                 |           |           |
| Stipend to articled Assistants                  | 1,37,000  | Audit                                                                        | 27,88,000 |           |
| Incentive to articled                           | 13,000    | Taxation services                                                            | 15,40,300 |           |
| Office rent                                     | 12,24,000 | Consultancy                                                                  | 12,70,000 | 55,98,300 |
| Printing and stationery                         | 12,22,000 | Dividend on shares of X Ltd., an Indian company (Gross)                      |           | 10,524    |
| Meeting, seminar and conference                 | 31,600    | Honorarium received from various institutions for valuation of answer papers |           | 15,800    |
| Purchase of car (for official use)              | 80,000    | Rent received from residential flat let out                                  |           | 85,600    |
| Repair, maintenance and petrol of car           | 4,000     |                                                                              |           |           |
| Travelling expenses                             | 5,25,000  |                                                                              |           |           |
| Municipal tax paid in respect of house property | 3,000     |                                                                              |           |           |
| Net Profit                                      | 9,28,224  |                                                                              |           |           |
|                                                 | 57,17,824 |                                                                              |           | 57,17,824 |

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹2,000 for the period from 1-10-2025 to 30-09-2026.
- (v) Salary includes ₹30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000 respectively, paid in cash.
- (viii) She invested an amount of ₹10,000 in National Saving Certificate.

Compute the total income and tax liability of Ms. Purvi for the A.Y. 2026-27 in a most beneficial manner.

Ans. **Computation of total income and tax liability of Ms. Purvi for the A.Y. 2026-27 under default tax regime under section 115BAC**

| Particulars                                                     | ₹ | ₹         |
|-----------------------------------------------------------------|---|-----------|
| Income from house property (See Working Note 1)                 |   | 57,820    |
| Profit and gains of business or profession (See Working Note 2) |   | 9,20,200  |
| Income from other sources (See Working Note 3)                  |   | 33,924    |
| Gross Total Income                                              |   | 10,11,944 |

|                                                                              |        |           |
|------------------------------------------------------------------------------|--------|-----------|
| Less: Deductions under Chapter VI-A [not allowable under default tax regime] |        | -         |
| Total Income                                                                 |        | 10,11,944 |
| Total Income (rounded off)                                                   |        | 10,11,940 |
| Tax on total income                                                          |        |           |
| Upto ₹4,00,000                                                               | Nil    |           |
| ₹4,00,001 - ₹8,00,000 @5%                                                    | 20,000 |           |
| ₹8,00,001-₹10,11,940 @10%                                                    | 21,194 | 41,194    |
| Less: Rebate u/s 87 A (Since NIT < 12L)                                      |        | (41,194)  |
| Total tax liability                                                          |        | Nil       |
| Total tax liability (rounded off)                                            |        | Nil       |

Computation of total income and tax liability under normal provisions of the Act

| Particulars                                                                                                                                                                                                                     | ₹        | ₹         |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Gross Total Income                                                                                                                                                                                                              |          | 10,11,944 |
| [Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC] |          |           |
| Less: Deductions under Chapter VI-A (See Working Note 4)                                                                                                                                                                        |          | 10,000    |
| Total Income                                                                                                                                                                                                                    |          | 10,01,944 |
| Total Income (rounded off)                                                                                                                                                                                                      |          | 10,01,940 |
| Tax on total income                                                                                                                                                                                                             |          |           |
| Upto ₹2,50,000                                                                                                                                                                                                                  | Nil      |           |
| ₹2,50,001-₹5,00,000 @5%                                                                                                                                                                                                         | 12,500   |           |
| ₹5,00,000-₹10,00,000 @20%                                                                                                                                                                                                       | 1,00,000 |           |
| ₹ 10,00,000-₹ 10,01,940 @ 30%                                                                                                                                                                                                   | 582      | 1,13,082  |
| Add: Health and Education cess @ 4%                                                                                                                                                                                             |          | 4,523     |
| Total tax liability                                                                                                                                                                                                             |          | 1,17,605  |
| Total tax liability (rounded off)                                                                                                                                                                                               |          | 1,17,610  |

Since tax liability under default tax regime under section 115BAC is less as compared to tax liability under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

| Particulars                            | ₹      | ₹      |
|----------------------------------------|--------|--------|
| Gross Annual Value under section 23(1) | 85,600 |        |
| Less: Municipal taxes paid             | 3,000  |        |
| Net Annual Value (NAV)                 | 82,600 |        |
| Less: Deduction u/s 24@30% of NAV      | 24,780 | 57,820 |

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

| Particulars                                                                                                    | ₹      | ₹        |
|----------------------------------------------------------------------------------------------------------------|--------|----------|
| Net profit as per Income and Expenditure account                                                               |        | 9,28,224 |
| Add: Expenses debited but not allowable                                                                        |        |          |
| (i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000 | 30,000 |          |

|       |                                                                                                                               |        |           |
|-------|-------------------------------------------------------------------------------------------------------------------------------|--------|-----------|
| (ii)  | Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure                        | 80,000 |           |
| (iii) | Municipal taxes paid in respect of residential flat let out                                                                   | 3,000  | 1,13,000  |
|       |                                                                                                                               |        | 10,41,224 |
|       | Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)] |        | 10,500    |
|       |                                                                                                                               |        | 10,51,724 |
|       | Less: Income credited but not taxable under this head:                                                                        |        |           |
| (i)   | Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")                          | 10,524 |           |
| (ii)  | Income from UTI (taxable under the head "Income from other sources")                                                          | 7,600  |           |
| (iii) | Honorarium for valuation of answer papers                                                                                     | 15,800 |           |
| (iv)  | Rent received from letting out of residential flat                                                                            | 85,600 | 1,19,524  |
|       |                                                                                                                               |        | 9,32,200  |
|       | Less: Depreciation on motor car @15% (See Note (i) below)                                                                     |        | 12,000    |
|       |                                                                                                                               |        | 9,20,200  |

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).  
Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).
- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2026 to 30.9.2026 i.e. for 6 months amounting to ₹1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

| Particulars                                                                            | ₹      |
|----------------------------------------------------------------------------------------|--------|
| Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders) | 10,524 |
| Income from UTI (taxable in the hands of unit holders)                                 | 7,600  |
| Honorarium for valuation of answer papers                                              | 15,800 |
|                                                                                        | 33,924 |

(4) Deduction under Chapter VI-A :

| Particulars                                              | ₹      |
|----------------------------------------------------------|--------|
| Deduction under section 80C (Investment in NSC)          | 10,000 |
| Deduction under section 80D (See Notes (i) & (ii) below) | Nil    |
| Total deduction under Chapter VI-A                       | 10,000 |

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

- Q6. Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2026 revealed the following information:
- (1) The net profit was ₹11,20,000.
  - (2) The following incomes were credited in the profit and loss account:
    - (a) Income from UTI ₹22,000 (Gross)
    - (b) Interest on debentures ₹17,500 (Gross)
    - (c) Winnings from horse races ₹15,000 (Gross)
  - (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:  
Opening stock ₹8,000.  
Closing stock ₹12,000.
  - (4) ₹1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
  - (5) Salary includes ₹20,000 paid to his brother which is unreasonable to the extent of ₹2,500.
  - (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹1,000 per packet presented to important customers.
  - (7) Total expenses on car was ₹78,000. The car was used both for business and personal purposes. 3/4<sup>th</sup> is for business purposes.
  - (8) Miscellaneous expenses included ₹30,000 paid to A & Co., a goods transport operator in cash on 31-1-2026 for distribution of the company's product to the warehouses.
  - (9) Depreciation debited in the books was ₹55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹50,000.
  - (10) Drawings of ₹10,000 debited in the books.
  - (11) Investment in NSC ₹15,000 debited in the books.
- Compute the total income of Mr. Y for the assessment year 2026-27 under optional tax regime as per normal provisions of the Act.

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

| Particulars                                                            | ₹         |
|------------------------------------------------------------------------|-----------|
| Profits and gains of business or profession (See Working Note 1 below) | 11,21,500 |
| Income from other sources (See Working Note 2 below)                   | 54,500    |
| Gross Total Income                                                     | 11,76,000 |
| Less: Deduction under section 80C (Investment in NSC)                  | 15,000    |
| Total Income                                                           | 11,61,000 |

Working Notes:

1. Computation of profits and gains of business or profession

| Particulars                                                                              | ₹      | ₹         |
|------------------------------------------------------------------------------------------|--------|-----------|
| Net profit as per profit and loss account                                                |        | 11,20,000 |
| Add: Expenses debited to profit and loss account but not allowable as deduction          |        |           |
| Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)] | 2,500  |           |
| Motor car expenses attributable to personal use not allowable (₹ 78,000 × ¼)             | 19,500 |           |
| Depreciation debited in the books of account                                             | 55,000 |           |
| Drawings (not allowable since it is personal in nature) [See Note (iii)]                 | 10,000 |           |
| Investment in NSC [See Note (iii)]                                                       | 15,000 | 1,02,000  |
|                                                                                          |        | 12,22,000 |
| Add: Under statement of closing stock                                                    |        | 12,000    |

|                                                                                                                                                                                                                                      |        |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------|
|                                                                                                                                                                                                                                      |        | 12,34,000 |
| Less: Under statement of opening stock                                                                                                                                                                                               |        | 8,000     |
| Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required. |        |           |
|                                                                                                                                                                                                                                      |        | -         |
|                                                                                                                                                                                                                                      |        | 12,26,000 |
| Less: Incomes credited to profit and loss account but not taxable as business income                                                                                                                                                 |        |           |
| Income from UTI [taxable under the head "Income from other sources"]                                                                                                                                                                 | 22,000 |           |
| Interest on debentures (taxable under the head "Income from other sources")                                                                                                                                                          | 17,500 |           |
| Winnings from horse races (taxable under the head "Income from other sources")                                                                                                                                                       | 15,000 | 54,500    |
|                                                                                                                                                                                                                                      |        | 11,71,500 |
| Less: Depreciation allowable under the Income-tax Rules, 1962                                                                                                                                                                        |        | 50,000    |
|                                                                                                                                                                                                                                      |        | 11,21,500 |

Notes:

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹35,000 is applicable (i.e. payment of upto ₹35,000 can be made in cash without attracting disallowance under section 40A(3))
- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹50,000. It has been assumed that, in the said figure of ₹50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

## 2. Computation of "Income from Other Sources"

| Particulars            | ₹      |
|------------------------|--------|
| Dividend from UTI      | 22,000 |
| Interest on debentures | 17,500 |
| Winnings from races    | 15,000 |
|                        | 54,500 |

Q7. Balamurugan furnishes the following information for the year ended 31-03-2026:

| Particulars                        | ₹          |
|------------------------------------|------------|
| Income from textile business       | (1,35,000) |
| Income from house property         | (15,000)   |
| Lottery winning (Gross)            | 5,00,000   |
| Speculation business income        | 1,00,000   |
| Income by way of salary (Computed) | 3,70,000   |
| Long term capital gain u/s 112     | 70,000     |

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

Ans.

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

| Particulars                                                                                | ₹          | ₹        |
|--------------------------------------------------------------------------------------------|------------|----------|
| Salaries                                                                                   | 3,70,000   |          |
| Less: Loss from house property (Cannot be set off against income under any other head)     | -          | 3,70,000 |
| Profits and gains of business or profession                                                |            |          |
| Speculation business income                                                                | 1,00,000   |          |
| Less: Business loss of ₹1,35,000 set-off to the extent of ₹1,00,000                        | (1,00,000) |          |
|                                                                                            | Nil        |          |
| Balance current year business loss of ₹35,000 to be set-off against long-term capital gain |            |          |
| Capital Gains                                                                              |            |          |
| Long term capital gain                                                                     | 70,000     |          |
| Less: Balance current year business loss set-off                                           | (35,000)   |          |
| Long term capital gain after set off of business loss                                      |            | 35,000   |
| Income from other sources                                                                  |            |          |
| Lottery winnings (Gross)                                                                   |            | 5,00,000 |
| Total Income                                                                               |            | 9,05,000 |

## Computation of tax liability for A.Y.2026-27

| Particulars                                                                                                                  | ₹        |
|------------------------------------------------------------------------------------------------------------------------------|----------|
| On total income of 3,70,000 (excluding lottery winning and LTCG)                                                             | Nil      |
| On LTCG of ₹5,000 @12.5% (balance unexhausted basic exemption limit of ₹30,000 can be adjusted against LTCG taxable u/s 112) | 625      |
| On lottery winnings of 5,00,000 @ 30%                                                                                        | 1,50,000 |
|                                                                                                                              | 1,50,625 |
| Add: Health and Education cess @ 4%                                                                                          | 6,025    |
| Total tax liability                                                                                                          | 1,56,650 |

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹6,650 (₹1,56,650 - ₹1,50,000) is less than ₹10,000, advance tax liability is not attracted.

Note The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries and capital gains, the entire amount of tax payable (after considering TDS, if any) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31<sup>st</sup> March, 2026. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹6,650 (₹1,56,650 - ₹1,50,000) is less than ₹10,000, advance tax liability is not attracted.

- Q8. Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2025-26.

## Receipts and Payments Account

| Receipts                   | ₹      | Payments                                           | ₹         |
|----------------------------|--------|----------------------------------------------------|-----------|
| Opening balance (1.4.2025) | 12,000 | Staff salary, bonus and stipend to articled clerks | 21,50,000 |
| Cash on hand and at Bank   |        |                                                    |           |

|                                            |           |                                                                           |           |
|--------------------------------------------|-----------|---------------------------------------------------------------------------|-----------|
| Fee from professional services (Gross)     | 59,38,000 | Other administrative expenses                                             | 11,48,000 |
| Rent                                       | 50,000    | Office rent                                                               | 30,000    |
| Motor car loan from Canara Bank (@9% p.a.) | 2,50,000  | (Housing loan repaid to SBI includes interest of ₹88,000)                 | 1,88,000  |
|                                            |           | Life insurance premium (10% of sum assured)                               | 24,000    |
|                                            |           | Motor car (acquired in Jan. 2026 by A/c payee cheque)                     | 4,25,000  |
|                                            |           | Medical insurance premium (for self and wife) (paid by A/c Payee cheque)  | 18,000    |
|                                            |           | Books bought on 1.07.2025 (annual publications by A/c payee cheque)       | 20,000    |
|                                            |           | Computer acquired on 1.11.2025 by A/c payee cheque (for professional use) | 30,000    |
|                                            |           | Domestic drawings                                                         | 2,72,000  |
|                                            |           | Public provident fund subscription                                        | 20,000    |
|                                            |           | Motor car maintenance                                                     | 10,000    |
|                                            |           | Closing balance (31.3.2026) Cash on hand and at Bank                      | 19,15,000 |
|                                            | 62,50,000 |                                                                           | 62,50,000 |

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2010-11, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2025 are given below:
 

|                                        |         |
|----------------------------------------|---------|
| Furniture & Fittings                   | ₹60,000 |
| Plant & Machinery                      | ₹80,000 |
| (Air-conditioners, Photocopiers, etc.) |         |
| Computers                              | ₹50,000 |

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2026-27 assuming that he has shifted out of the default tax regime under section 115BAC.

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

| Particulars                                                                                           | ₹      | ₹        | ₹ |
|-------------------------------------------------------------------------------------------------------|--------|----------|---|
| Income from house property                                                                            |        |          |   |
| Self-occupied                                                                                         |        |          |   |
| Annual value                                                                                          | Nil    |          |   |
| Less: Deduction under section 24(b)                                                                   |        |          |   |
| Interest on housing loan                                                                              |        |          |   |
| 50% of 88,000 = 44,000                                                                                | 44,000 |          |   |
| Loss from self-occupied property                                                                      |        | (44,000) |   |
| Let out property                                                                                      |        |          |   |
| Annual value (Rent receivable has been taken as the annual value in the absence of other information) | 60,000 |          |   |





|                                                                                                                       |           |        |           |           |
|-----------------------------------------------------------------------------------------------------------------------|-----------|--------|-----------|-----------|
| Less: Deductions u/s 24                                                                                               |           |        |           |           |
| 30% of Net Annual Value                                                                                               | 18,000    |        |           |           |
| Interest on housing loan (50% of ₹ 88,000)                                                                            | 44,000    | 62,000 | (2,000)   |           |
| Loss from house property                                                                                              |           |        |           | (46,000)  |
| Profits and gains of business or profession                                                                           |           |        |           |           |
| Fees from professional services                                                                                       |           |        | 59,38,000 |           |
| Less: Expenses allowable as deduction                                                                                 |           |        |           |           |
| Staff salary, bonus and stipend                                                                                       | 21,50,000 |        |           |           |
| Other administrative expenses                                                                                         | 11,48,000 |        |           |           |
| Office rent                                                                                                           | 30,000    |        |           |           |
| Motor car maintenance (10,000 × 4/5)                                                                                  | 8,000     |        |           |           |
| Car loan interest not allowable (since the same has not been paid and the assessee follows cash system of accounting) | Nil       |        | 33,36,000 |           |
| Less: Depreciation                                                                                                    |           |        | 26,02,000 |           |
| Motor car ₹4,25,000 × 7.5% × 4/5                                                                                      | 25,500    |        |           |           |
| Books being annual publications@40%                                                                                   | 8,000     |        |           |           |
| Furniture and fittings@10% of ₹ 60,000                                                                                | 6,000     |        |           |           |
| Plant and machinery@15% of ₹ 80,000                                                                                   | 12,000    |        |           |           |
| Computer@40% of ₹ 50,000                                                                                              | 20,000    |        |           |           |
| Computer (New) ₹30,000 @ 40% × 50%                                                                                    | 6,000     |        | 77,500    | 25,24,500 |
| Gross Total income                                                                                                    |           |        |           | 24,78,500 |
| Less: Deductions under Chapter VI-A                                                                                   |           |        |           |           |
| Deduction under section 80C                                                                                           |           |        |           |           |
| Housing loan principal repayment                                                                                      | 1,00,000  |        |           |           |
| PPF subscription                                                                                                      | 20,000    |        |           |           |
| Life insurance premium                                                                                                | 24,000    |        |           |           |
| Total amount of ₹1,44,000 is allowed as deduction since it is within the limit of ₹1,50,000                           |           |        | 1,44,000  |           |
| Deduction under section 80D                                                                                           |           |        |           |           |
| Medical insurance premium paid                                                                                        |           |        | 18,000    | 1,62,000  |
| Total income                                                                                                          |           |        |           | 23,16,500 |

- Q9. From the following details, compute the total income and tax liability of Mr. Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2026-27. Advise Mr. Siddhant in which regime he should pay tax for A.Y. 2026-27:

| Particulars                                                                                       | ₹        |
|---------------------------------------------------------------------------------------------------|----------|
| Salary including dearness allowance                                                               | 4,35,000 |
| Bonus                                                                                             | 15,000   |
| Salary of servant provided by the employer                                                        | 12,000   |
| Rent paid by Siddhant for his accommodation                                                       | 49,600   |
| Bills paid by the employer for gas, electricity and water provided free of cost at the above flat | 11,000   |

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹1,60,000@15% interest, his own savings of ₹65,000 and a deposit from a nationalized bank for ₹2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant ₹4,300 (per annum)
- (b) House Insurance ₹ 860
- (c) He earned ₹2,700 in share speculation business and lost ₹4,200 in cotton speculation business.
- (d) In the year 2021-22, he had gifted ₹30,000 to his wife and ₹20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
- (e) Siddhant received a gift of ₹30,000 each from four friends.
- (f) He contributed ₹50,000 to Public Provident Fund.

Ans. Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2026-27

| Particulars                                                                                                                                                                                                | ₹        | ₹        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Salary Income                                                                                                                                                                                              |          |          |
| Salary including dearness allowance                                                                                                                                                                        |          | 4,35,000 |
| Bonus                                                                                                                                                                                                      |          | 15,000   |
| Value of perquisites:                                                                                                                                                                                      |          |          |
| (i) Salary of servant                                                                                                                                                                                      | 12,000   |          |
| (ii) Free gas, electricity and water                                                                                                                                                                       | 11,000   | 23,000   |
|                                                                                                                                                                                                            |          | 4,73,000 |
| Less: Standard deduction under section 16(ia)                                                                                                                                                              |          | 75,000   |
|                                                                                                                                                                                                            |          | 3,98,000 |
| Income from house property                                                                                                                                                                                 |          |          |
| Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹3,500 × 12)                                                                                               | 42,000   |          |
| Less: Municipal taxes paid                                                                                                                                                                                 | 4,300    |          |
| Net Annual Value (NAV)                                                                                                                                                                                     | 37,700   |          |
| Less: Deductions under section 24                                                                                                                                                                          |          |          |
| (i) 30% of NAV ₹ 11,310                                                                                                                                                                                    |          |          |
| (ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] ₹ 24,000                                                                                                                                    | 35,310   | 2,390    |
| Income from speculative business                                                                                                                                                                           |          |          |
| Income from share speculation business                                                                                                                                                                     | 2,700    |          |
| Less: Loss of ₹4,200 from cotton speculation business set-off to the extent of ₹2,700                                                                                                                      | 2,700    | Nil      |
| Balance loss of ₹1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.                                               |          |          |
| Income from Other Sources                                                                                                                                                                                  |          |          |
| (i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available] | 3,800    |          |
| (ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)                                                                     | 5,700    |          |
| (iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹50,000)                                                                    | 1,20,000 | 1,29,500 |
| Gross Total Income                                                                                                                                                                                         |          | 5,29,890 |
| Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]                                                                                                    |          | Nil      |
| Total Income                                                                                                                                                                                               |          | 5,29,890 |



| Particulars                                                         | ₹     |
|---------------------------------------------------------------------|-------|
| Tax on total income [5% of ₹ 1,29,890 ( ₹5,29,890 - ₹4,00,000)]     | 6,495 |
| Less: Rebate u/s 87A, since total income does not exceed ₹12,00,000 | 6,495 |
| Tax liability                                                       | Nil   |

Computation of total income and tax liability of Siddhant for the A.Y. 2026-27  
under normal provisions of the Act

| Particulars                                                                                             | ₹ | ₹        |
|---------------------------------------------------------------------------------------------------------|---|----------|
| Gross total income (as per default scheme)                                                              |   | 5,29,890 |
| Add: Standard Deduction [₹25,000 being excess amount allowed under section 115BAC]                      |   | 25,000   |
| Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant |   | 1,500    |
| Gross total income (under the normal provisions of the Act)                                             |   | 5,53,390 |
| Less: Deductions under Chapter VI-A                                                                     |   |          |
| Under section 80C [Contribution to PPF]                                                                 |   | 50,000   |
| Total Income                                                                                            |   | 5,03,390 |

| Particulars                                           | ₹      |
|-------------------------------------------------------|--------|
| Tax on total income [5% of ₹2,50,000 + 20% of ₹3,390] | 13,178 |
| Add: HEC @4%                                          | 527    |
| Tax liability                                         | 13,705 |
| Tax liability (Rounded off)                           | 13,710 |

Since his total income as per the normal provisions of the Act exceeds ₹5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2026-27.

Notes:

(1) It is assumed that the entire loan of ₹1,60,000 is outstanding as on 31.3.2026;

(2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Q10. Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2026:

|                                                         |                     |
|---------------------------------------------------------|---------------------|
| - Basic Salary                                          | ₹ 15,000 p.m.       |
| - DA (50% of it is meant for retirement benefits)       | ₹ 12,000 p.m.       |
| - Commission as a percentage of turnover of the Company | 0.5%                |
| - Turnover of the Company                               | ₹ 50 lakhs          |
| - Bonus                                                 | ₹ 50,000            |
| - Gratuity                                              | ₹ 30,000            |
| - Own Contribution to R.P.F.                            | ₹ 30,000            |
| - Employer's contribution to R.P.F.                     | 20% of basic salary |
| - Interest credited in the R.P.F. account @ 15% p.a.    | ₹15,000             |

- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2025 by the company for ₹85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹6,500 p.m. Books of account are not maintained.
- Received interest of ₹5,860 on bank FDRs on 24.4.2025 and interest of ₹7,540 from the debentures of Indian Companies on 5.5.2025.
- Made payment by cheques of ₹15,370 towards premium on Life Insurance policies and ₹22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹30,000 and in FDR of SBI for 5 years ₹50,000.
- Donations of ₹11,000 to an institution approved u/s 80G and of ₹5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax liability thereon for the A.Y. 2026-27. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Ans. Computation of Total Income and tax liability of Mr. Ramdin for the A.Y.2026-27  
under normal provisions of the Act

| Particulars                                                                                                                                                                                                                                                                                                                  | ₹      | ₹        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|----------|
| Income from Salaries                                                                                                                                                                                                                                                                                                         |        |          |
| Basic Salary ( ₹ 15,000 × 12)                                                                                                                                                                                                                                                                                                |        | 1,80,000 |
| Dearness Allowance (₹12,000 ×12)                                                                                                                                                                                                                                                                                             |        | 1,44,000 |
| Commission on Turnover (0.5% of ₹50 lakhs)                                                                                                                                                                                                                                                                                   |        | 25,000   |
| Bonus                                                                                                                                                                                                                                                                                                                        |        | 50,000   |
| Gratuity (See Note 1)                                                                                                                                                                                                                                                                                                        |        | 30,000   |
| Employer's contribution to recognized provident fund                                                                                                                                                                                                                                                                         |        |          |
| Actual contribution [20% of ₹ 1,80,000]                                                                                                                                                                                                                                                                                      | 36,000 |          |
|                                                                                                                                                                                                                                                                                                                              | 33,240 | 2,760    |
| Interest credited in recognized provident fund account @15% p.a.                                                                                                                                                                                                                                                             | 15,000 |          |
| Less: Exempt upto 9.5% p.a.                                                                                                                                                                                                                                                                                                  | 9,500  | 5,500    |
| Gift of gold ring worth ₹10,000 on 25 <sup>th</sup> wedding anniversary by employer (See Note 3)                                                                                                                                                                                                                             |        | 10,000   |
| Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000                                                                                                                                                                                                                      |        | 8,500    |
|                                                                                                                                                                                                                                                                                                                              |        | 4,55,760 |
| Less: Standard deduction under section 16(ia)                                                                                                                                                                                                                                                                                |        | 50,000   |
|                                                                                                                                                                                                                                                                                                                              |        | 4,05,760 |
| Profits and Gains of Business or Profession                                                                                                                                                                                                                                                                                  |        |          |
| Lease of 2 light goods vehicles on contract basis against fixed charges of ₹6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹7,500 p.m. for each of the two light goods vehicle (₹7,500 × 2 × 12). He cannot claim lower profits and gains since he has not maintained books of account. |        | 1,80,000 |
| Income from Other Sources                                                                                                                                                                                                                                                                                                    |        |          |
| Interest on bank FDRs                                                                                                                                                                                                                                                                                                        | 5,860  |          |
| Interest on debentures                                                                                                                                                                                                                                                                                                       | 7,540  | 13,400   |
| Gross total Income                                                                                                                                                                                                                                                                                                           |        | 5,99,160 |
| Less: Deductions under Chapter VI-A                                                                                                                                                                                                                                                                                          |        |          |



|                                                                     |        |          |  |
|---------------------------------------------------------------------|--------|----------|--|
| Section 80C                                                         |        |          |  |
| Premium on life insurance policy                                    | 15,370 |          |  |
| Investment in NSC                                                   | 30,000 |          |  |
| FDR of SBI for 5 years                                              | 50,000 |          |  |
| Employee's contribution to recognized provident fund                | 30,000 | 1,25,370 |  |
| Section 80D - Mediclaim Insurance                                   |        | 22,500   |  |
| Section 80G (See Note 4)                                            |        | 10,600   |  |
| Total Income                                                        |        | 4,40,690 |  |
| Tax on total income                                                 |        |          |  |
| Income-tax [5% of ₹1,90,690 (i.e., ₹ 4,40,690 - ₹ 2,50,000)]        |        | 9,535    |  |
| Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000 |        | 9,535    |  |
| Tax liability                                                       |        | Nil      |  |

Notes:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)  
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$   
 $= 12\% \text{ of } \text{₹ } 2,77,000 = \text{₹ } 33,240$
3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹5,000. In such a case the Income from Salaries would be ₹4,00,760.
4. Deduction under section 80G is computed as under:

| Particulars                                                                                                                                                        | ₹      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Donation to PM National Relief Fund (100%)                                                                                                                         | 5,100  |
| Donation to institution approved under section 80G (50% of ₹11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹45,129, whichever is lower) | 5,500  |
| Total deduction                                                                                                                                                    | 10,600 |

Adjusted Total Income Gross Total Income - Deductions under section 80C and 80D = ₹ 5,99,160 - ₹ 1,47,870 = ₹ 4,51,290.

Q11. From the following particulars furnished by Mr. X for the year ended 31.3.2026, you are requested to compute his total income and tax payable for the assessment year 2026-27, assuming that he opts out of the default tax regime under section 115BAC.

- (a) Mr. X retired on 31.12.2025 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- (b) He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹6,000 p.m. He paid rent of ₹6,500 p.m. during his tenure of service.
- (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- (e) After retirement, he ventured into textile business and incurred a loss of ₹80,000 for the period upto 31.3.2026.
- (f) Mr. X has deposited ₹1,00,000 in public provident fund.

Ans. Computation of total income of Mr. X for A.Y.2026-27

| Particulars                                                                                        | ₹        | ₹        |
|----------------------------------------------------------------------------------------------------|----------|----------|
| Income from Salaries                                                                               |          |          |
| Basic salary (₹ 25,000 × 9 months)                                                                 |          | 2,25,000 |
| House rent allowance:                                                                              |          |          |
| Actual amount received (₹ 6,000 × 9 months)                                                        | 54,000   |          |
| Less: Exemption under section 10(13A) (Note 1)                                                     | 36,000   | 18,000   |
| Gratuity:                                                                                          |          |          |
| Actual amount received                                                                             | 3,50,000 |          |
| Less: Exemption under section 10(10)(ii) (Note 2)                                                  | 3,50,000 | -        |
| Leave encashment:                                                                                  |          |          |
| Actual amount received                                                                             | 3,15,000 |          |
| Less: Exemption under section 10(10AA) (Note 3)                                                    | 2,45,000 | 70,000   |
| Gross Salary                                                                                       |          | 3,13,000 |
| Less: Standard deduction under section 16(ia)                                                      |          | 50,000   |
| Profits and gains of business or profession                                                        |          | 2,63,000 |
| Business loss of ₹80,000 to be carried forward as the same cannot be set off against salary income |          | Nil      |
| Gross Total income                                                                                 |          | 2,63,000 |
| Less: Deduction under section 80C                                                                  |          |          |
| Deposit in Public Provident Fund                                                                   |          | 1,00,000 |
| Total income                                                                                       |          | 1,63,000 |
| Tax on total income (Nil, since it is lower than the basic exemption limit of ₹2,50,000)           |          | Nil      |

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

|                                                                           | ₹        |
|---------------------------------------------------------------------------|----------|
| (i) HRA actually received (₹ 6,000 × 9)                                   | 54,000   |
| (ii) Rent paid in excess of 10% of salary ( ₹ 6,500 - ₹ 2,500) × 9 months | 36,000   |
| (iii) 50% of salary                                                       | 1,12,500 |

- (2) Gratuity of 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

|                                                                                            | ₹         |
|--------------------------------------------------------------------------------------------|-----------|
| (i) Actual amount received                                                                 | 3,50,000  |
| (ii) Half month salary for each year of completed service [( ₹ 25,000 × 15/26) × 26 years] | 3,75,000  |
| (iii) Statutory limit                                                                      | 20,00,000 |

- (3) Leave encashment is exempt upto the least of the following:

|                                                                                                                                                                                                | ₹         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| (i) Actual amount received                                                                                                                                                                     | 3,15,000  |
| (ii) 10 months average salary (₹ 24,500 × 10)                                                                                                                                                  | 2,45,000  |
| (iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below) | 3,18,500  |
| (iv) Statutory limit                                                                                                                                                                           | 25,00,000 |

- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

|                                                                                                                     |                                |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------|
| Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer | = 30 days/year x 26 = 780 days |
| Less: Leave taken /availed by Mr. X during the period of his service                                                | = 15 days/year x 26 = 390 days |
| Earned leave to the credit of Mr. X at the time of his retirement                                                   | 390 days                       |
| Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement                                | = 390 x 24,500/30 = ₹ 3,18,500 |

- Q12. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2026:

| S. No. | Particulars                                                                                                        | Rosy ₹   | Mary ₹   |
|--------|--------------------------------------------------------------------------------------------------------------------|----------|----------|
| 1.     | Pension received from State Government                                                                             | --       | 60,000   |
| 2.     | Pension received from Canadian Government                                                                          | 20,000   | --       |
| 3.     | Long-term capital gain on sale of land on 15.5.2025 at Mumbai taxable                                              | 1,00,000 | 1,00,000 |
| 4.     | Short-term capital gain on sale of shares on 23.4.2025 of Indian listed companies in respect of which STT was paid | 20,000   | 2,50,000 |
| 5.     | LIC premium paid                                                                                                   | --       | 10,000   |
| 6.     | Premium paid to Canadian Life Insurance Corporation at Canada                                                      | 40,000   | --       |
| 7.     | Mediclaime policy premium paid by A/c Payee Cheque                                                                 | --       | 25,000   |
| 8.     | Deposit in PPF                                                                                                     | --       | 20,000   |
| 9.     | Rent received in respect of house property at Mumbai                                                               | 60,000   | 30,000   |

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2026-27 and tax thereon assuming both exercised the option to shift out of the default tax regime.

Ans.

| S. No. | Particulars                                                                                                                                                        | Mrs. Rosy (Non-resident) ₹ | Mrs. Mary (ROR) ₹ |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|
| (I)    | Salaries                                                                                                                                                           |                            |                   |
|        | Pension recd from State Govt. ₹ 60,000                                                                                                                             |                            |                   |
|        | Less: Standard deduction u/s 16(ia) ₹ 50,000                                                                                                                       | -                          | 10,000            |
|        | Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India                               | -                          | -                 |
|        |                                                                                                                                                                    | -                          | 10,000            |
| (II)   | Income from house property                                                                                                                                         |                            |                   |
|        | Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) | 60,000                     | 30,000            |
|        | Less: Deduction u/s 24(a)@30%                                                                                                                                      | 18,000                     | 9,000             |
|        |                                                                                                                                                                    | 42,000                     | 21,000            |
| (III)  | Capital gains                                                                                                                                                      |                            |                   |
|        | Long-term capital gain on sale of land at Mumbai                                                                                                                   | 1,00,000                   | 1,00,000          |



|     |                                                                                                                       |          |          |
|-----|-----------------------------------------------------------------------------------------------------------------------|----------|----------|
|     | Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid                 | 20,000   | 2,50,000 |
|     |                                                                                                                       | 1,20,000 | 3,50,000 |
| (A) | Gross Total Income [(I)+(II)+(III)]                                                                                   | 1,62,000 | 3,81,000 |
|     | Less: Deductions under Chapter VIA                                                                                    |          |          |
| 1.  | Deduction u/s 80C                                                                                                     |          |          |
|     | 1. LIC Premium paid                                                                                                   | -        | 10,000   |
|     | 2. Premium paid to Canadian Life Insurance Corporation                                                                | 40,000   | -        |
|     | 3. Deposit in PPF                                                                                                     | -        | 20,000   |
|     |                                                                                                                       | 40,000   | 30,000   |
| 2.  | Deduction u/s 80D – Mediclaim premium paid                                                                            | -        | 25,000   |
|     |                                                                                                                       | 40,000   | 55,000   |
| (B) | Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112 | 40,000   | 31,000   |
| (C) | Total income (A-B)                                                                                                    | 1,22,000 | 3,50,000 |
|     | Tax liability of Mrs. Rosy for A.Y.2026-27                                                                            |          |          |
|     | Tax on long-term capital gains @12.5% of ₹ 1,00,000                                                                   | 12,500   |          |
|     | Tax on short-term capital gains @20% of ₹ 20,000                                                                      | 4,000    |          |
|     | Tax on balance income of ₹ 2,000                                                                                      | Nil      |          |
|     |                                                                                                                       | 16,500   |          |
|     | Tax liability of Mrs. Mary for A.Y.2026-27                                                                            |          |          |
|     | Tax on LTCG @12.5% of ₹ 1,00,000                                                                                      |          | 12,500   |
|     | Tax on STCG of ₹ 2,50,000 (unexhausted basic exemption limit of ₹2,50,000 is adjusted)                                |          | Nil      |
|     |                                                                                                                       |          | 12,500   |
|     | Less: Rebate u/s 87A would be lower of ₹12,500 or tax liability, since total income does not exceed ₹5,00,000         |          | 12,500   |
|     |                                                                                                                       |          | Nil      |
|     | Add: Health and Education cess@4%                                                                                     | 660      | Nil      |
|     | Total tax liability                                                                                                   | 17,160   | Nil      |

Notes:

- (1) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed as per rates u/s 112/111A. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (2) Since long-term capital gains is taxable at the rate of 12.5% and short-term capital gains is taxable at the rate of 20%, it is more beneficial for Mrs. Mary to exhaust her basic exemption limit of ₹2,50,000 against short-term capital gains of ₹2,50,000.
- (3) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹5,00,000, since she is non-resident for the A.Y. 2026-27.

- Q13. Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:
- (i) Depreciation ₹15,40,000
  - (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹10,00,000
  - (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
  - (iv) Dividend income from Indian companies ₹15,00,000
- Additional information
- (i) Mr. Rishabh installed new plant and machinery for ₹65 lakhs on 1.10.2025 which was put to use on 1.1.2026. Depreciation (including additional depreciation) on this amount of ₹65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
  - (ii) Mr. Rishabh took a loan from SBI of ₹50 lakhs on 15.9.2025 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2026 has been paid on 31.3.2026 and the same has been debited to profit and loss account.
  - (iii) Advance tax paid during the year is ₹17,50,000
  - (iv) Rishabh purchased goods for ₹40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹35 lakhs.
  - (v) He paid ₹40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹5,00,000 and the policy was taken on 1.4.2020.
  - (vi) He paid ₹45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
  - (vii) On 1.7.2025, Mr. Rishabh withdrew ₹1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.
- You are required to compute the total income and tax payable after adjusting TDS/TCS/advance tax, if any, by Mr. Rishabh for the A.Y. 2026-27, in the manner so that he can make maximum tax savings.

Ans. Computation of total income of Mr. Rishabh for A.Y. 2026-27  
(under default tax regime under section 115BAC)

|   | Particulars                                                                                                                                                                                                                                                                                                     | ₹        | ₹         | ₹ |
|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|---|
| I | Income from business or profession                                                                                                                                                                                                                                                                              |          |           |   |
|   | Net profit as per profit and loss account                                                                                                                                                                                                                                                                       |          | 82,45,000 |   |
|   | Add: Items of expenditure not allowable while computing business income                                                                                                                                                                                                                                         |          |           |   |
|   | (i) Interest on loan taken for purchase of plant & machinery                                                                                                                                                                                                                                                    | 1,53,125 |           |   |
|   | [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,53,125 [₹50,00,000 × 10.5% × 3.5/12] has to be added back, since the same is debited to the profit and loss account] |          |           |   |
|   | (ii) Purchase of goods at a price higher than the fair market value                                                                                                                                                                                                                                             | 5,00,000 | 6,53,125  |   |
|   | [The difference between the purchase price (₹40 lakhs) and the fair market value (₹35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]                                                         |          |           |   |
|   |                                                                                                                                                                                                                                                                                                                 |          | 88,98,125 |   |

|     |                                                                                                                                                                                                               |           |           |           |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|
|     | Less: Items of income to be treated separately under the respective head of income                                                                                                                            |           |           |           |
|     | (i) Income-tax refund including interest on refund of ₹4,550                                                                                                                                                  | 15,550    |           |           |
|     | (ii) Dividend from Indian companies                                                                                                                                                                           | 15,00,000 |           |           |
|     | (iii) Short term capital gains on transfer of listed equity shares                                                                                                                                            | 10,00,000 | 25,15,550 |           |
|     |                                                                                                                                                                                                               |           | 63,82,575 |           |
|     | Less: Depreciation on interest on loan capitalized to plant and machinery                                                                                                                                     |           |           |           |
|     | ₹1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized |           |           |           |
|     | Normal depreciation @15% x 50% on such interest                                                                                                                                                               |           | 11,484    |           |
|     |                                                                                                                                                                                                               |           | 63,71,091 |           |
|     | Add: Additional depreciation on newly plant and machinery [Not allowable under default tax regime] [₹65,00,000 x 20% x 50%]                                                                                   |           | 6,50,000  |           |
|     |                                                                                                                                                                                                               |           |           | 70,21,091 |
| II  | Capital Gains                                                                                                                                                                                                 |           |           |           |
|     | Short term capital gains on transfer of listed equity shares                                                                                                                                                  |           |           | 10,00,000 |
| III | Income from Other Sources                                                                                                                                                                                     |           |           |           |
|     | Interest on income-tax refund                                                                                                                                                                                 | 4,550     |           |           |
|     | Dividend from Indian companies                                                                                                                                                                                |           | 15,00,000 | 15,04,550 |
|     | Gross Total Income                                                                                                                                                                                            |           |           | 95,25,641 |
|     | Less: Deductions under Chapter VI-A                                                                                                                                                                           |           |           |           |
|     | -Deduction under section 80C                                                                                                                                                                                  |           |           | Nil       |
|     | [Not allowable under default tax regime]                                                                                                                                                                      |           |           |           |
|     | -Deduction under section 80D                                                                                                                                                                                  |           |           | Nil       |
|     | [Not allowable under default tax regime]                                                                                                                                                                      |           |           |           |
|     | Total Income                                                                                                                                                                                                  |           |           | 95,25,641 |
|     | Total Income (Rounded off)                                                                                                                                                                                    |           |           | 95,25,640 |

Computation of tax payable under default tax regime

| Particulars                                                                            |           | Amount<br>(₹) |
|----------------------------------------------------------------------------------------|-----------|---------------|
| Tax on total income of ₹ 95,25,640                                                     |           |               |
| Tax on STCG of ₹ 10,00,000@20% u/s 111A                                                |           | 2,00,000      |
| Tax on remaining total income of ₹85,25,640                                            |           |               |
| Upto ₹ 4,00,000                                                                        | Nil       |               |
| ₹4,00,001-₹8,00,000 [@5% of ₹ 4 lakhs]                                                 | 20,000    |               |
| ₹8,00,001 - ₹12,00,000 [@10% of ₹4 lakhs]                                              | 40,000    |               |
| ₹12,00,001-₹16,00,000 [@15% of ₹4 lakhs]                                               | 60,000    |               |
| ₹16,00,001-₹20,00,000 [@20% of ₹4 lakhs]                                               | 80,000    |               |
| ₹20,00,001- ₹ 24,00,000 [@25% of ₹4 lakhs]                                             | 1,00,000  |               |
| ₹ 24,00,001- ₹ 85,25,640 [@30% of ₹ 61,25,640]                                         | 18,37,692 | 21,37,692     |
|                                                                                        |           | 23,37,692     |
| Add: Surcharge @10%, since total income exceeds ₹50,00,000 but does not exceed 1 crore |           | 2,33,769      |
|                                                                                        |           | 25,71,461     |

|                                                                                      |           |           |
|--------------------------------------------------------------------------------------|-----------|-----------|
| Add: Health and education cess@4%                                                    |           | 1,02,858  |
| Total tax liability                                                                  |           | 26,74,319 |
| Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹1 crore | 1,00,000  |           |
| Less: Advance tax paid                                                               | 17,50,000 | 18,50,000 |
| Tax payable                                                                          |           | 8,24,319  |
| Tax payable (rounded off)                                                            |           | 8,24,320  |

Computation of total income of Mr. Rishabh under optional tax regime for A.Y. 2026-27

| Particulars                                                                                                                                                                                                                                                                                                                   | ₹        | ₹         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|-----------|
| Gross Total Income as per default tax regime                                                                                                                                                                                                                                                                                  |          | 95,25,641 |
| Less: Additional depreciation on plant and machinery                                                                                                                                                                                                                                                                          |          |           |
| - On interest which is capitalised                                                                                                                                                                                                                                                                                            | 15,313   |           |
| - On cost of plant and machinery [ ₹ 65 lakhs x 20% x 50%]                                                                                                                                                                                                                                                                    | 6,50,000 | 6,65,313  |
| Gross Total Income as per normal provisions of the Act                                                                                                                                                                                                                                                                        |          | 88,60,328 |
| - Deduction under section 80C                                                                                                                                                                                                                                                                                                 | 40,000   |           |
| Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹40,000 is allowable as it does not exceed 10% of the ₹5,00,000, being the sum assured] |          |           |
| - Deduction under section 80D                                                                                                                                                                                                                                                                                                 | 25,000   | 65,000    |
| Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]                                                                                                                                                  |          |           |
| Total Income                                                                                                                                                                                                                                                                                                                  |          | 87,95,328 |
| Total Income (Rounded off)                                                                                                                                                                                                                                                                                                    |          | 87,95,330 |

Computation of tax payable under optional tax regime

| Particulars                                                                             | ₹         | ₹         |
|-----------------------------------------------------------------------------------------|-----------|-----------|
| Tax on total income of ₹ 87,95,330                                                      |           |           |
| Tax on short term capital gains on transfer of listed equity shares @20% u/s 111A       |           | 2,00,000  |
| Tax on other Income of ₹ 77,95,330                                                      |           |           |
| Upto ₹2,50,000                                                                          | Nil       |           |
| ₹2,50,001 - ₹ 5,00,000 [@5% of ₹2.50 lakh]                                              | 12,500    |           |
| ₹5,00,001-₹10,00,000 [@20% of ₹5,00,000]                                                | 1,00,000  |           |
| ₹10,00,001-₹77,95,330 [@30% of ₹ 67,95,330]                                             | 20,38,599 | 21,51,099 |
|                                                                                         |           | 23,51,099 |
| Add: Surcharge @10%, since total income exceeds ₹50,00,000 but does not exceed ₹1 crore |           | 2,35,110  |
|                                                                                         |           | 25,86,209 |
| Add: Health and education cess@4%                                                       |           | 1,03,448  |
| Total tax liability                                                                     |           | 26,89,657 |
| Less: TDS u/s 194N @ 2% on ₹50 lakhs, being the cash withdrawals exceeding ₹1 crore     | 1,00,000  |           |
| Less: Advance tax paid                                                                  | 17,50,000 | 18,50,000 |
| Tax payable                                                                             |           | 8,39,657  |
| Tax payable (rounded off)                                                               |           | 8,39,660  |

Since tax payable as per section 115BAC is lower than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh to pay tax under default tax regime under section 115BAC for A.Y. 2026-27.

Q14. Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹2,95,000. He has paid municipal taxes of ₹25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹1,50,000 as interest and ₹80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2020.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹400 lakhs, which includes ₹150 lakhs from export turnover. Out of ₹150 lakhs, only ₹120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2026. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹40 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2025-26. Out of 20 employees, 12 were employed on 1<sup>st</sup> May 2025 for monthly emoluments of ₹18,000 and remaining were employed on 1<sup>st</sup> September 2025 on monthly emoluments of ₹12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹30,000 and ₹40,000 as interest on saving bank deposits and fixed deposits, respectively.
- (vi) He also sold his vacant land on 01.12.2025 for ₹16 lakhs. The stamp duty value of land at the time of transfer was ₹17 lakhs. This land was acquired by him on 15.10.1998 for ₹2.80 lakhs. The FMV of the land as on 1<sup>st</sup> April, 2001 was ₹4.8 lakhs and Stamp duty value on the said date was ₹4 lakhs. He had incurred registration expenses of ₹12,000 at that time.  
CII-FY. 2001-02: 100; FY. 2025-26: 376.
- (vii) He paid insurance premium of ₹40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2026-27 under default tax regime.

Ans. Computation of total income of Mr. Sunil for A.Y. 2026-27  
(under default tax regime under section 115BAC)

|   | Particulars                                                                                    | ₹      | ₹        | ₹ |
|---|------------------------------------------------------------------------------------------------|--------|----------|---|
| I | Income from house property Let out portion [First floor]                                       |        |          |   |
|   | Gross Annual Value [Rent received is taken as GAV, in the absence of other information]        |        | 2,95,000 |   |
|   | Less: Municipal taxes paid by him in the P.Y. 2025-26 pertaining to let out portion [25,000/2] |        | 12,500   |   |
|   | Net Annual Value (NAV)                                                                         |        | 2,82,500 |   |
|   | Less: Deduction u/s 24                                                                         |        |          |   |
|   | (a) 30% of ₹ 2,82,500                                                                          | 84,750 |          |   |
|   | (b) Interest on housing loan [₹1,50,000/2]                                                     | 75,000 | 1,59,750 |   |
|   |                                                                                                |        | 1,22,750 |   |
|   | Self-occupied portion [Ground Floor]                                                           |        |          |   |
|   | Annual Value                                                                                   |        | Nil      |   |



|     |                                                                                                                                                                                           |           |     |           |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----|-----------|
|     | [No deduction is allowable in respect of municipal taxes paid]                                                                                                                            |           |     |           |
|     | Less: Interest on housing loan [Not allowable under section 115BAC]                                                                                                                       |           | Nil |           |
|     |                                                                                                                                                                                           |           | Nil |           |
|     | Income from house property                                                                                                                                                                |           |     | 1,22,750  |
| II  | Profits and gains of business or profession                                                                                                                                               |           |     |           |
|     | Income from SEZ unit                                                                                                                                                                      |           |     | 40,00,000 |
| III | Capital Gains                                                                                                                                                                             |           |     |           |
|     | Long-term capital gains on sale of land (since held for more than 24 months)                                                                                                              |           |     |           |
|     | Full Value of Consideration [Actual consideration of ₹16 lakhs, since stamp duty value of ₹17 lakhs does not exceed 110% of actual consideration of ₹16 lakhs]                            | 16,00,000 |     |           |
|     | Less: Cost of acquisition [₹4,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)                                                              | 4,00,000  |     | 12,00,000 |
|     | Cost of acquisition                                                                                                                                                                       |           |     |           |
|     | Higher of -                                                                                                                                                                               |           |     |           |
|     | - Actual cost ₹2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and                                                                                                                               |           |     |           |
|     | - Fair Market Value (FMV) as on 1.4.2001 = ₹4.8 lakhs but cannot exceed stamp duty value of ₹4 lakhs.                                                                                     |           |     |           |
| IV  | Income from Other Sources                                                                                                                                                                 |           |     |           |
|     | Interest on savings bank deposits                                                                                                                                                         | 30,000    |     |           |
|     | Interest on fixed deposits                                                                                                                                                                | 40,000    |     | 70,000    |
|     | Gross Total Income                                                                                                                                                                        |           |     | 53,92,750 |
|     | Less: Deduction under Chapter VI-A                                                                                                                                                        |           |     |           |
|     | Deduction under section 80JJAA                                                                                                                                                            |           |     | 7,12,800  |
|     | 30% of the employee cost of the new employees employed during the P.Y. 2025-26 for 240 days or more during the P.Y. 2025-26 allowable as deduction [30% of ₹23,76,000 (12 x 18,000 x 11)] |           |     |           |
|     | As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA                                                                               |           |     |           |
|     | Total Income                                                                                                                                                                              |           |     | 46,79,950 |

Computation of tax liability of Mr. Sunil under section 115BAC

| Particulars                                                                                                                                                                                                                                                                                 |  | ₹ |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---|
| Tax on total income of ₹46,79,950                                                                                                                                                                                                                                                           |  |   |
| Tax on LTCG on sale of vacant land                                                                                                                                                                                                                                                          |  |   |
| As the asset is a long-term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee |  |   |
| Tax @20% with indexation                                                                                                                                                                                                                                                                    |  |   |
| Sale consideration = ₹16,00,000                                                                                                                                                                                                                                                             |  |   |
| Indexed cost of acquisition = ₹4,00,000 x 376/100 = ₹15,04,000                                                                                                                                                                                                                              |  |   |
| Gain = ₹96,000                                                                                                                                                                                                                                                                              |  |   |

|                                                         |          |          |
|---------------------------------------------------------|----------|----------|
| Tax @20% = ₹96,000 × 20% = ₹19,200                      |          |          |
| Tax @12.5% without indexation                           |          |          |
| Tax @12.5% = ₹ 12,00,000 × 12.5% = ₹1,50,000            |          | 19,200   |
| Tax on LTCG on sale of vacant land @20% with indexation |          |          |
| Tax on remaining total income of ₹34,79,950             |          |          |
| Upto ₹ 4,00,000                                         | Nil      |          |
| ₹4,00,001-₹8,00,000 [@5% of ₹ 4 lakhs]                  | 20,000   |          |
| ₹8,00,001 - ₹12,00,000 [@10% of ₹4 lakhs]               | 40,000   |          |
| ₹12,00,001-₹16,00,000 [@15% of ₹4 lakhs]                | 60,000   |          |
| ₹16,00,001- ₹20,00,000 [@20% of ₹4 lakhs]               | 80,000   |          |
| ₹20,00,001-₹24,00,000 [@25% of ₹ 4 lakhs]               | 1,00,000 |          |
| ₹24,00,001- ₹ 34,79,950 [@30% of ₹ 10,79,950]           | 3,23,985 |          |
|                                                         |          | 6,23,985 |
|                                                         |          | 6,43,985 |
| Add: Health and education cess@4%                       |          | 25,727   |
| Total tax liability                                     |          | 6,68,912 |
| Tax liability (Rounded off)                             |          | 6,68,910 |

Note: An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

- Q15. Mr. ARP (35 years) is a salaried employee of TGC Ltd as manager Taxation. His income and other incentives are as follows –

| Particulars                                                             | ₹            |
|-------------------------------------------------------------------------|--------------|
| Basic Salary                                                            | 4,00,000     |
| House rent allowed [₹60,000 is exempt u/s 10(13A)]                      | 90,000       |
| Leave travel concession (LTC) [₹1,80,000 is exempt u/s 10(5)]           | 1,95,000     |
| New pension Scheme contribution (NPS) by TGC LTD. (12% of basic salary) | 4,80,000     |
| Payment of professional tax by Mr. ARP                                  | 2000         |
| Income from House Property A(Self – occupied )                          | (-) 1,05,000 |
| Income from House Property B (Let out )                                 | 60,000       |
| Income from House property C (Let out )                                 | (-) 80,000   |
| Saving bank A/C interest received by minor son of ARP                   | 800          |
| Saving bank A/C interest received by minor daughter of ARP              | 2000         |
| Interest on Saving bank account of ARP in SBI                           | 28000        |
| Interest on public provident fund in post office                        | 55,000       |
| Deduction under section 80D,80E,80EEA and 80EEB and 80G                 | 2,81,000     |
| NPS Contribution by ARP                                                 | 4,00,000     |
| PPF contribution by ARP                                                 | 20,000       |

Mr. ARP wants to know whether he should opt for normal provisions of the act.

- Ans. Computation of total Income & Tax Liability

| Particular               | Normal provision |           | Section 115BAC |           |
|--------------------------|------------------|-----------|----------------|-----------|
|                          | ₹                | ₹         | ₹              | ₹         |
| Basic salary             |                  | 40,00,000 |                | 40,00,000 |
| HRA                      | 90,000           |           | 90,000         |           |
| Less: exempt u/s 10(13A) | 60,000           | 30,000    | N/A            | 90,000    |
| LTC                      | 1,95,000         |           | 1,95,000       |           |
| Less: Exempt u/s 10(5)   | 1,80,000         | 15,000    | N/A            | 1,95,000  |



|                                                               |          |            |          |                              |
|---------------------------------------------------------------|----------|------------|----------|------------------------------|
| NPS contribution by TGC Ltd                                   |          | 4,80,000   |          | 4,80,000                     |
| Gross Salary                                                  |          | 45,25,000  |          | 47,65,000                    |
| Deduction u/s 16                                              |          |            |          |                              |
| (i) Professional Tax                                          |          | (2000)     |          | N/A                          |
| (ii) Standard Deduction                                       |          | (50,000)   |          | (75,000)                     |
| Net Salary                                                    |          | 44,73,000  |          | 46,90,000                    |
| Income from house Property                                    |          |            |          |                              |
| Self- Occupied Property – A                                   |          | (1,05,000) | -        | -                            |
| Let – Out Property – B                                        | 60,000   |            |          |                              |
| Let – Out Property – C                                        | (80,000) | (20,000)   | (20,000) | N/A                          |
|                                                               |          |            |          | Set-off not allowed so lapse |
|                                                               |          | 43,48,000  |          | 46,90,000                    |
| Income from other sources                                     |          |            |          |                              |
| SB Interest of Minor Son                                      | 800      |            | 800      |                              |
| Less : Exempt u/s 10(32)                                      | 800      | -          | N/A      | 800                          |
| SB Interest of Minor Daughter                                 | 2000     |            | 2000     |                              |
| Less : Exempt u/s 10(32)                                      | 1500     | 500        | N/A      | 2000                         |
| Interest on saving A/c                                        |          | 28,000     |          | 28,000                       |
| Interest on PPF                                               | 55,000   |            | 55,000   |                              |
| Less : Exempt u/s 10(11)                                      | 55,000   | -          | 55,000   | -                            |
| Gross Total Income                                            |          | 43,76,500  |          | 47,20,800                    |
| Less : Deduction u/c VI – A                                   |          |            |          |                              |
| Sec .80C : PPF                                                | 20,000   |            | N/A      |                              |
| Sec. 80CCD(1) EE cont.to NPS                                  | 3,50,000 |            | N/A      |                              |
|                                                               | 3,70,000 |            |          |                              |
| Sec. 80CCE Max. deduction u/s 80C+80CCC+80CCD(1) is 1,50,000  | 1,50,000 | 1,50,000   |          |                              |
| Sec. 80CCD (1B) EE cont. to NPS                               |          | 50,000     |          |                              |
|                                                               |          |            | N/A      |                              |
| Sec. 80CCD (2) ER cont.to NPS                                 |          |            |          |                              |
| (i) Employer contribution.                                    | 4,80,000 |            | 4,80,000 |                              |
| (ii) 10% of salary ₹40,00,000/ 14% of ₹40,00,000 (U/S 115BAC) | 4,00,000 |            | 5,60,000 |                              |
| Lower of above                                                |          | 4,00,000   |          | 4,80,000                     |
| Sec. 80D,80E,80EEA,80G                                        |          | 2,81,000   |          | N/A                          |
| Sec.80TTA Interest on SB A/C                                  |          | 10,000     |          | N/A                          |
| Total Income / Net Taxable Income                             |          | 34,85,500  |          | 42,40,800                    |

Computation of tax Liability

| Tax as per Normal Provisions |      |            | Tax as per 115 BAC       |      |            |
|------------------------------|------|------------|--------------------------|------|------------|
| Particular                   | Rate | Tax Amount | Particular               | Rate | Tax Amount |
| Upto 2,50,000                | Nil  | Nil        | Upto 4,00,000            | Nil  | Nil        |
| 2,50,000 upto 5,00,000       | 5%   | 12,500     | 4,00,000 upto 8,00,000   | 5%   | 20,000     |
| 5,00,000 upto 10,00,000      | 20%  | 1,00,000   | 8,00,000 upto 12,00,000  | 10%  | 40,000     |
| 10,00,000 upto 34,85,500     | 30%  | 7,45,650   | 12,00,000 upto 16,00,000 | 15%  | 60,000     |
|                              |      | 8,58,150   | 16,00,000 upto 20,00,000 | 20%  | 80,000     |
| Add : HEC@4%                 |      | 34,326     | 20,00,000 upto 24,00,000 | 25%  | 1,00,000   |
| Net Tax Payable              |      | 8,92,476   | 24,00,000 upto 42,40,800 | 30%  | 5,52,240   |
|                              |      |            |                          |      | 8,52,240   |
|                              |      |            | Add: HEC @ 4%            |      | 34,090     |
|                              |      |            | Net Tax Payable          |      | 8,86,330   |

Conclusion : Since in the present question tax as per normal provision is lower so Mr. ARP should opt for normal provisions.

- Q16. Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2021-22 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the FY. 2025-26 are as follows:

| Particulars                                                                                     | ₹           |
|-------------------------------------------------------------------------------------------------|-------------|
| Profit of unit located in SEZ                                                                   | 40,00,000   |
| Export turnover received in India in convertible foreign exchange on or before 30.9.2026        | 80,00,000   |
| Domestic sales of above unit                                                                    | 20,00,000   |
| Profit from operation of warehousing facility (before considering deduction under Section 35AD) | 1,05,00,000 |

Compute tax liability in most beneficial manner for Mr. X

Ans. Computation of tax liability under default tax regime

| Particulars                                                                                     | ₹           | ₹           |
|-------------------------------------------------------------------------------------------------|-------------|-------------|
| Profits and gains of business or profession                                                     |             |             |
| Profit from unit in SEZ                                                                         |             | 40,00,000   |
| Profit from operation of warehousing facility                                                   | 1,05,00,000 |             |
| Less: Depreciation under section 32                                                             |             |             |
| On building @10% of ₹ 65 lakhs <sup>4</sup> (normal depreciation under section 32 is allowable) | 6,50,000    | 98,50,000   |
| Total Income                                                                                    |             | 1,38,50,000 |
| Computation of tax liability as per section 115BAC                                              |             |             |
| Tax on ₹ 1,38,50,000                                                                            |             | 37,35,000   |
| Add: Surcharge@15%                                                                              |             | 5,60,250    |
|                                                                                                 |             | 42,95,250   |
| Add: Health and Education cess@4%                                                               |             | 1,71,810    |
| Total tax liability                                                                             |             | 44,67,060   |

Notes:

- (1) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is not liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

Computation of total income and tax liability of Mr. X for A.Y.2026-27  
(under the regular provisions of the Income-tax Act, 1961)

| Particulars                                                         | ₹           | ₹         |
|---------------------------------------------------------------------|-------------|-----------|
| Profits and gains of business or profession                         |             |           |
| Profit from unit in SEZ                                             | 40,00,000   |           |
| Less: Deduction u/s 10AA [See Note (1) below]                       | 32,00,000   |           |
| Business income of SEZ unit chargeable to tax                       |             | 8,00,000  |
| Profit from operation of warehousing facility                       | 1,05,00,000 |           |
| Less: Deduction u/s 35AD [See Note (2) below]                       | 65,00,000   |           |
| Business income of warehousing facility chargeable to tax           |             | 40,00,000 |
| Total Income                                                        |             | 48,00,000 |
| Computation of tax liability (under the normal/ regular provisions) |             |           |
| Tax on ₹ 48,00,000                                                  |             | 12,52,500 |
| Add: Health and Education cess@4%                                   |             | 50,100    |
| Total tax liability                                                 |             | 13,02,600 |

Computation of adjusted total income of Mr. X for Levy of Alternate Minimum Tax

| Particulars                                                           | ₹         | ₹           |
|-----------------------------------------------------------------------|-----------|-------------|
| Total Income (computed above as per regular provisions of income tax) |           | 48,00,000   |
| Add: Deduction under section 10AA                                     |           | 32,00,000   |
|                                                                       |           | 80,00,000   |
| Add: Deduction under section 35AD                                     | 65,00,000 |             |
| Less: Depreciation under section 32                                   |           |             |
| On building @10% of ₹65 lakhs <sup>5</sup>                            | 6,50,000  | 58,50,000   |
| Adjusted Total Income                                                 |           | 1,38,50,000 |
| Alternate Minimum Tax@18.5%                                           |           | 25,62,250   |
| Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)          |           | 3,84,338    |
|                                                                       |           | 29,46,588   |
| Add: Health and Education cess@4%                                     |           | 1,17,863    |
|                                                                       |           | 30,64,451   |
| Tax liability u/s 115JC (rounded off)                                 |           | 30,64,450   |

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2026-27. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

#### AMT Credit to be carried forward under section 115JEE

|                                                                               | ₹         |
|-------------------------------------------------------------------------------|-----------|
| Tax liability under section 115JC                                             | 30,64,450 |
| Less: Tax liability under the regular provisions of the Income- tax Act, 1961 | 13,02,600 |
|                                                                               | 17,61,850 |

#### Notes:

- (1) Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$₹40,00,000 \times \frac{₹80,00,000}{₹1,00,00,000} = ₹32,00,000$$

- (2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹65 lakhs (i.e., ₹75 lakhs – ₹10 lakhs, being expenditure on acquisition of land) has been incurred in the FY.2024-25 and capitalized in the books of account on 1.4.2025, being the date when the warehouse became operational, ₹65,00,000, being 100% of ₹65 lakhs would qualify for deduction under section 35AD.