

VSMART ACADEMY

For CA/CMA INTERMEDIATE

TAXATION

SECTION A – INCOME TAX LAW

QUESTION BANK

(Volume II)

#SabKarLenge

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KEY FEATURES

- ✓ Completely Amended as per ICAI's Revised Module for May/Sept 26 & Jan 27 Exams
- ✓ Compilation of Questions from ICAI Module, MTPs, RTPs, Past Papers till RTP Jan 26(Latest Available)
- ✓ Questions on All Important Concepts are Covered
- ✓ All Important Key Words are highlighted for Last Day Revision

CA YASH KHANDELWAL

2nd edition,

November, 2025 (Volume II)

For CA/CMA Intermediate

Section A – Income Tax Law

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We express our sincere thanks to all our readers, authors and business associates for helping us in our mission of producing quality books for quality education. We wish all our young readers a brilliant success in various examinations and a bright future.

- Publisher

Preface

It gives me immense pleasure to present Question Bank of CA Intermediate Direct Tax. This edition has updated syllabus which is applicable from May 26, sept 26 & Jan 27 Exam and onwards.

This book has everything which student may require to understand & remember. The book has been developed keeping in the mind the technicality of the subject to bring it at a student's grasping level.

Students need to understand the concepts and logical reasoning of the Chapter. Only mugging-up shall not suffice to score in this subject. Also, students should practice as many Questions as possible.

For all revisions, updates and notes, students are requested to join the Telegram Channel:

Main Channel (Inter DT with CA Yash Khandelwal)

Every effort has been made to avoid any errors and omissions in this book. Despite all the effort we believe some errors might have crept in. The students are welcome to point out any errors/suggestions. Please e-mail at sabkarlenge@gmail.com

*Best wishes,
Yash Khandelwal*

ACKNOWLEDGEMENT

I would like to thank my Parents (Gopal & Radhika), Krrish (My Brother), Rupal (My Sister) & MAA (My Grandmother) & Dadaji for all their support towards my studies, career and various aspects of my life.

This Book is dedicated to them.

I would like to Thank my Wife “Radhika” for her constant support and motivating me to make this book.

A Big Thanks to my Brother “Krrish” for designing the template of this book & pushing me always.

Special Thanks to my Students Gayatri and Ankit for their contribution while making this book.

Above all, a big Thank You to all my students for showering so much love in such a short span of time. We will make it big together.

A wise man once said, “SAB KAR LUNGA MAIN”

INDEX

S No.	Chapter	Page No.
7	<i>Income from Salary</i>	7.1 – 7.38
8	<i>Advance Tax, TDS and TCS</i>	8.1 – 8.24
9	<i>Clubbing of Total Income</i>	9.1 – 9.18
10	<i>Set off and Carry Forward of Losses</i>	10.1 – 10.31
11	<i>Deductions from Gross Total Income</i>	11.1 – 11.21
12	<i>Computation of Total Income</i>	12.1 – 12.68
13	<i>Return Filing & Self – Assessment</i>	13.1 – 13.15

**SUNO,
TUM SAB KAR LOGE.**

CHAPTER 7 INCOME FROM SALARY

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

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

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

Solution:

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

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

(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 = Rent Paid (-) 10% of salary for the relevant period = ($₹ 16,000 \times 12$) (-) 10% of [$(₹ 40,000 + ₹ 6,000) \times 12$] = ₹ 1,92,000 - ₹ 55,200	= ₹ 1,36,800
(c) 40% salary as his accommodation is situated at Kanpur = 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.

Question 2 [ICAI Study Mat, Similar Concept discussed in Nov 22 - 8 Marks]

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

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

Compute his taxable allowances

Solution:

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

If Mr. Srikant exercises the option of shifting out of the default tax regime provided under section 115BAC

Children Education Allowance:

Elder son [$(₹ 150 - ₹ 100) \text{ p.m.} \times 12 \text{ months}$]	= ₹ 600	
Younger son [$(₹ 70 - ₹ 70) \text{ p.m.} \times 12 \text{ months}$]	= Nil	₹ 600

Transport allowance (₹ 1,800 p.m. × 12 months)	₹ 21,600
Tribal area allowance [(₹ 500 – ₹ 200) p.m. × 12 months]	₹ 3,600
Taxable allowances	<u>₹ 25,800</u>

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
Taxable allowances	<u>₹ 30,240</u>

Question 3

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

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

Solution:

(a) He is a government employee

Uncommuted pension received (October – March)	₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]	
Commuted pension received	₹ 3,00,000
Less: Exempt u/s 10(10A)	<u>₹ 3,00,000</u> <u>NIL</u>
Taxable pension	<u>₹ 24,000</u>

(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) (– —————)	<u>₹ 1,66,667</u> <u>₹ 1,33,333</u>
Taxable pension	<u>₹ 1,57,333</u>

(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) (– —————)	<u>₹ 2,50,000</u> <u>₹ 50,000</u>
Taxable pension	<u>₹ 74,000</u>

Question 4

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

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

Compute his taxable gratuity assuming:

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

Solution:**(a) He is covered by the Payment of Gratuity Act 1972**

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

Less: Exemption under section 10(10) Least of the following:

- | | |
|--|-------------|
| i. Gratuity received | ₹ 15,00,000 |
| ii. Statutory limit | ₹ 20,00,000 |
| iii. 15 days' salary based on last drawn | |

salary for each completed year of service
or part thereof in excess of 6 months

— × last drawn salary × years of service

— × (50,000 + 10,000) × 27 =	₹ 9,34,615	₹ 9,34,615
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Taxable Gratuity	₹ 5,65,385
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(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. – Average salary × years of service

= – $\frac{(\text{Basic Salary} + \text{Dearness Allowance})}{12} \times 15 \times \text{Years of Service}$ = ₹ 8,58,000

(c) He is a government employee

Gratuity received at the time of retirement	₹ 15,00,000
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Less: Exemption under section 10(10)	₹ 15,00,000
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Taxable gratuity	Nil
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Question 5

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

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

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

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

Solution:

(a) He is a government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	<u>₹ 5,00,000</u>
Taxable Leave salary	<u>Nil</u>

(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]	<u>₹ 26,400</u>
Taxable Leave Salary	<u>₹ 4,73,600</u>

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

i.e. _____

= () () () ₹ 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

i.e. ()

= _____ ₹ 26,400

Question 6

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

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

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

Solution:

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2026-27 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.

Question 7

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

Solution:

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

Question 8

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

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

Solution:

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
Employer's 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).

Question 9

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

Solution:

Voluntary retirement compensation received	₹ 7,00,000
Less: Exemption under section 10(10C) [See Note below]	₹ 5,00,000
Taxable voluntary retirement compensation	<u>₹ 2,00,000</u>

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

(i) Compensation actually received	=	₹ 7,00,000
(ii) Statutory limit	=	₹ 5,00,000
(iii) 3 months' salary × completed years of service = (₹ 20,000 + ₹ 5,000) × 3 × 30 years	=	₹ 22,50,000
(iv) Last drawn salary × remaining months of service left = (₹ 20,000 + ₹ 5,000) × 6 × 12 months	=	₹ 18,00,000

Question 10 [ICAI SM, RTP May 22]

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2023. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2024, 31.3.2025 and 31.3.2026 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(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".

Solution:

**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. 2024-25 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.111 + 0$
 $= ₹ 1,532$

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, P.Y. 2021-22 and P.Y. 2022-23.
TP1	Nil
R	$I/\text{Favg} = 2,06,711/18,62,093 = 0.111$
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) = $(\text{PC}/2) \times R + (\text{PC1} + \text{TP1}) \times R$
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
 $= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$

PC	ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 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	$I/\text{Favg} = 3,50,307/36,95,802 = 0.09479$
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

Question 11

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

Solution:

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 12

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

Solution:

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

LTC = 15,000 × – = ₹ 5,000.

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

Question 13

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

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

Solution:**Computation of taxable value of perquisite in the hands of Mr. G**

Particulars	₹	₹
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000

Medical premium paid for insuring health of Mr. G	-
Treatment of Mr. G by his family doctor	5,000
Treatment of Mr. G's mother (dependent) by family doctor	8,000
Treatment of Mr. G's sister (dependent) in a nursing home	3,000
Treatment of Mr. G's grandfather in a private clinic	12,000
Treatment of Mr. G's brother (independent)	6,000
Taxable value of perquisite	39,000

Question 14

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

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

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

Solution:

Value of the rent free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] **[See Note below]**

= 10% of ₹ 53,000 = ₹ 5,300.

Note: Since Mr. C occupies the house only from 1.11.2025, 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.

Question 15

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

Solution:

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

In this case, 10% of salary would be ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Since 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

Question 16

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

Solution:

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

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

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). Rent paid by the employer is ₹ 5,125 (i.e. ₹ 1,025 × 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

Question 17

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

Solution:

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 = (₹ 400 p.m. × 2 × 5 months) + (₹ 25,000 × 10% p.a. for 3 months) = ₹ 4,000 + ₹ 625 = ₹ 4,625

Question 18

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

Solution:

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

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

Value of the accommodation (₹ 700 × 5)	= ₹ 3,500
Add: Value of furniture provided by the employer (computed earlier)	= ₹ 4,625
Value of furnished accommodation	= ₹ 8,125
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Perquisite value of furnished accommodation given at concessional rent	= ₹ 3,125

Question 19

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

- 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.
- For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.

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

Solution:

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

Question 20 [ICAI Study Mat, RTP May 18]

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:

- Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- 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.
- 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.
- An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- Company presented him a gift voucher worth ₹ 6,000 on his retirement.

- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

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

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

Solution:

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), if 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, the value of such perquisite will be nil. In this case, the amount was received on his retirement and the sum is ₹ 5,000 or more.

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) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$	
$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
Taxable Gratuity	80,769

Note – As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less: Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit ₹ 25,00,000	
(ii) Actual leave salary ₹ 3,30,000	
(iii) 10 months x ₹ 20,000 ₹ 2,00,000	
(iv) Cash equivalent of leave to his credit ₹ 2,20,000	
(—)	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) = -	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.

Question 21

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

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

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

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

Solution:**Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala**

- (i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

- (ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not

apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

- (iv) As per Rule 3(7)(iv), if 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, the value of such perquisite will be nil. In this case, the amount was received on the occasion of marriage anniversary and the sum is ₹ 5,000 or more.

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].

Question 22

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

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

Solution:

- (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.

Question 23

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

- (1) Accommodation taken on lease by X Ltd. for ₹ 15,000 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.

Solution:

**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	

	<i>Add:</i> Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y ($₹ 3,000 \times 12$)		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 [$(₹ 1,800 + ₹ 900) \times 12$]			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.

Question 24

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

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

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

Solution:

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
<i>Less:</i> Deductions under section 16(ia) - Standard deduction of upto ₹ 75,000	75,000
Income from Salary	6,41,000

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

Computation of salary of Mr. Goyal for the A.Y.2026-27 under the optional tax regime (normal provisions of the Act)

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000

Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times ₹ 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
under section 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

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

Question 25

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

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

Solution:

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

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹
Current year salary (computed)	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-

Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: Health and education cess @4%	8,780	4,640
Total payable	2,28,280	1,20,640

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

Particulars	A.Y. 2017-18		A.Y. 2018-19		A.Y. 2019-20	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	87,600	67,000	98,400	75,000	1,32,500	1,00,000
Add: Cess@3%/4%	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. 2026-27 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

Question 26

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

Solution:**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)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2025)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
50% of salary (Residence at Delhi– Nov, 25 - March, 26)					
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (-) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = ₹ 12,000 + ₹ 7,500 + ₹ 500 + ₹ 1,300 = ₹ 21,300

Question 27 [ICAI Study Mat, Similar Concepts in Nov 22 Exam]

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.

Solution:

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

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi
	(A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
	(B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
	(C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.
	The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.
5. & 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – 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]; Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case].

The conditions subject to which the above expenditure would be exempt are as follows –
The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
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 the amount as may be prescribed.
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 the amount as may be prescribed.

Question 28

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

- 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).

Solution:

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:

1. Value of rent-free unfurnished accommodation

= 10% of salary for the relevant period

= 10% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400

2. Value of perquisite for interest on personal loan

= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

3. Depreciated value of the motor cycle

= Original cost – Depreciation @ 10% p.a. for 3 completed years.

= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.

Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Question 29

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

- | | |
|----------------------------------|---------------|
| (i) Basic salary upto 31.10.2025 | ₹ 50,000 p.m. |
| Basic salary from 01.11.2025 | ₹ 60,000 p.m. |

Note - Salary is due and paid on the last day of every month.

- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2025 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2025.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2025 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2025 to 31.03.2026, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2026-27 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Computation of Taxable Salary of Mr. Balaji for A.Y. 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:

1. 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.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. 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.
4. 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 01.11.2025, therefore the perquisite value has been calculated for 5 months.
5. 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).

6. 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.

Question 30 [ICAI Study Mat, MTP May 18 – 10 Marks]

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

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

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

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

- (v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
- (vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
- (vii) He is getting telephone allowance @₹ 500 per month.

Solution:**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:

- (i) Basic salary i.e., ₹ 2,43,000
- (ii) Dearness allowance i.e. ₹ 24,300
- (iii) 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 10% of salary (i.e., ₹ 29,430).

Therefore, the perquisite value is ₹ 44,145.

- Facility of use of laptop is not a taxable perquisite.
- Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
- The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt.

In this case, the gift voucher was received on the occasion of marriage anniversary and the sum is ₹ 5,000 or more.

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.

Question 31 [ICAI Study Mat, MTP 1 Nov 21, May 23 Nov 23]

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:

- 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.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by 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.
- 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.
- The company presented him with a gift voucher of ₹ 4,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

Solution:

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

Particulars	₹	₹
Basic Salary = ₹ 5,000 × 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 days per year × 25 years) – 375 days (15 days × 25) = 375 days]		
Uncommuted Pension received [₹ 5,000 × 1] + (₹ 5,000 × 2 × 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A) 1/3 × ₹ 3,00,000/60% × 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 below ₹ 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

Question 32 [ICAI Study Mat, MTP 1 Nov 22, RTP Nov 18, RTP Nov 20, MTP 1 May 20, MTP 1 May 22, RTP May 19]

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
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

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

Solution:

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 it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400 + 900) × 12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,16,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	75,000
Income chargeable under the head “Salaries”	11,41,600

Question 33

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-₹ 1,00,000 -₹ 70,000. He furnishes the following information for the previous year 2025-26:

- Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)
- Bonus equal to one month's salary. Paid in November 2025 on basic salary applicable for that month.
- Leave encashment for P.Y. 2025-26 of ₹ 10,000.
- 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.
- 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.
- 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.
- The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2024. Electricity and water bills of ₹ 5,000 p.m. for the said house were paid by the employer.

Cost Inflation Index

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

- 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.

Solution:

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

Particulars		₹
Basic Pay [$₹ 61,000 \times 10 + ₹ 62,000 \times 2$]		7,34,000
Dearness Allowance [$₹ 7,34,000 \times 25\%$]		1,83,500
Bonus		61,000
Leave encashment for P.Y. 2025-26		10,000
Value of perquisite		
Perquisite of Motor Car [$₹ 3,300 \times 4$]		13,200
As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 litres) owned by the employer is provided to employee with chauffeur for both official and personal use, the value of perquisite shall be ₹ 3,300 (₹ 2,400 + ₹ 900). The car was provided to employee from 01.12.2025, therefore the perquisite value has been calculated for 4 months.		
Perquisite of interest on loan (Working Note Below)		5,917
Value of Rent-free accommodation		
Value of Rent-free accommodation {10% of ₹ 9,15,100 i.e., [$₹ 7,34,000$, basic salary + ₹ 1,10,100 ($₹ 1,83,500 \times 60\%$, DA forming part of retirement benefit) + ₹ 10,000, leave encashment + ₹ 61,000, bonus]}	91,510	
Add: Value of furniture [$₹ 1,50,000 \times 10\%$ p.a.]	15,000	
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one 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.	1,06,510	
Accordingly, value of perquisite for P.Y. 2025-26 to be restricted to = $₹ 92,000 \times 376/363$	95,295	95,295
Facility of use of electricity and water [Electricity and water bills paid by the employer would be taxable as perquisite] [$₹ 5,000 \times 12$]		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

PART B: ADDITIONAL QUESTIONS**Question 34 [Suggested May 25] – 6 Marks**

Mr. Sandeep, manager in CTL Pvt. Ltd. at Mumbai, furnishes following information for the year ended 31st March, 2026:

Basic salary is ₹ 55,000 per month and entitled to a commission of ₹ 2,500 per month. A company owned accommodation is provided to him in Mumbai. Furniture costing ₹ 2,40,000 was also provided.

He took a personal loan of ₹ 3,00,000 on 1st September, 2025 on which the interest @7.75% per annum was charged by the company. The entire loan is still outstanding. SBI rate of interest on 1" April, 2025 is 12.75%.

Mr. Sandeep is the owner of a house property in Kolkata which he constructed during the financial year 2016-17. The property consists of four identical units.

He occupied one unit for his residence and three units were let out at a rent of ₹ 20,000 per month per unit. The municipal value is ₹ 9,00,000 and the municipal tax was paid @ 20% of municipal value. Fair rent and standard rent are ₹ 7,50,000 and ₹ 8,50,000, respectively. One of the let out units was vacant for six months during the year. Interest on loan taken for construction of the house is ₹ 2,00,000.

Compute total income of Mr. Sandeep for the A.Y. 2026-27 assuming he has opted out default tax regime u/s 115BAC(1A).

Solution:

**Computation of total income of Mr. Sandeep for A.Y. 2026-27
as per the optional tax regime**

	Particulars	₹	₹	₹
I	Income from Salaries			
	Basic Salary [₹ 55,000 × 12]		6,60,000	
	Commission [₹ 2,500 × 12]		30,000	
	Value of Rent-free accommodation			
	10% of salary [₹ 6,60,000 + ₹ 30,000]	69,000		
	Add: Value of furniture [₹ 2,40,000 × 10% p.a.]	<u>24,000</u>	93,000	
	Value of perquisite for interest on personal loan			
	Interest on loan as per SBI rate [₹ 3,00,000 × 12.75% × 7/12]	22,312.50		
	Less: Interest charged by the company [₹ 3,00,000 × 7.75% × 7/12]	<u>13,562.50</u>	8,750	
	Gross Salary		7,91,750	
	Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		<u>50,000</u>	
	Net salary			7,41,750
II	Income from house property			
	Let out portion [three units]			
	Municipal value [₹ 9,00,000 × ¾]	6,75,000		
	Fair Rent [₹ 7,50,000 × ¾]	5,62,500		
	Higher of Municipal value or fair rent	6,75,000		
	Standard Rent [₹ 8,50,000 × ¾]	6,37,500		
	Expected Rent [Higher of Municipal value or fair rent but restricted to standard rent]	6,37,500		

Actual rent received/receivable [$\text{₹ } 20,000 \times 12 \times 3 - \text{₹ } 20,000 \times 6$]	6,00,000		
Actual rent of ₹ 6,00,000 is lower than the expected rent of ₹ 6,37,500 owing to vacancy since, had the property not been vacant the actual rent would have been ₹ 7,20,000. Therefore, the actual rent is Gross Annual Value.			
Gross Annual Value		6,00,000	
Less: Municipal taxes ($\text{₹ } 6,75,000 \times 20\%$)		1,35,000	
Net Annual Value		4,65,000	
Less: Deduction under section 24			
- 30% of net annual value	1,39,500		
- Interest on loan [$\text{₹ } 2,00,000 \times \frac{3}{4}$]	1,50,000	2,89,500	
		1,75,500	
Self-occupied portion [One Unit]			
Annual Value	Nil		
Less: Deduction u/s 24			
Interest on loan for construction [$\text{₹ } 2,00,000 \times \frac{1}{4}$]	50,000	(50,000)	
			1,25,500
Gross Total Income/ Total Income			8,67,250

Question 35 [MTP 1 May 25] – 5 Marks

Mr. Rishabh, a salaried employee in a private company, provides you with the following information for the year ended on 31-03-2026:

- Basic salary ₹ 75,000 p.m.
- From 1st February 2026, basic salary increased to 85,000 p.m.
- Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).
- Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.
- Professional tax paid ₹ 2,200 of which ₹ 1,800 was paid by the employer.
- House rent allowance of ₹ 16,000 p.m. He paid rent of ₹ 17,000 p.m. for accommodation in Bangalore.
- Loan of ₹ 2,00,000 was taken from the employer on 1.7.2025 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2026. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2025 was 11%.
- Leave travel concession given to Rishabh, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Rishabh is eligible for availing exemption this year to the extent it is permissible under the Income-tax Act, 1961.

Compute the taxable salary of Mr. Rishabh if he has shifted out of the default tax regime under section 115BAC.

Solution:**Computation of taxable salary of Mr. Rishabh for the A.Y. 2026-27**

Particulars	₹	₹
Basic Salary [(₹ 75,000 x 10) + (₹ 85,000 x 2)]		9,20,000
Dearness allowance [50% of basic salary]		4,60,000
Employer's contribution to recognized provident fund [18% x ₹ 9,20,000]	1,65,600	
Less: Exempt upto 12% of basic salary and D.A. forms part of retirement benefit [12% x ₹ 11,04,000]	1,32,480	33,120
Taxable allowances		
House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)	93,600	98,400
(i) HRA received	1,92,000	
(ii) Rent paid (-) 10% of salary [₹ 2,04,000 – 10% x ₹ 11,04,000]	93,600	
(iii) 40% of salary [40% x 4,41,600 ₹ 11,04,000]	4,41,600	
Taxable Perquisite		
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]		1,800
Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
Leave travel concession	45,000	
Less: Exempt u/s 10(5)	45,000	-
[Mr. Rishabh can avail exemption on the entire amount of ₹ 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, 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 birth which take place after the first child.]		
Gross Salary		15,13,320
Less: Deduction under section 16		
Professional tax paid	2,200	
Standard Deduction, lower of salary or ₹ 50,000 (Since Mr. Rishabh has opted out of section 115BAC)	50,000	52,200
Taxable Salary		14,61,120

Question 36 [MTP 2 Sept. 25] – 5 Marks

Mr. Rajeev is working as a General Manager at Zenith Pvt. Ltd. in Mumbai. He has shared the following information for the financial year 2025-26:

- Basic salary of ₹ 56,000 per month.
- Medical treatment facility received in the company's own hospital – ₹ 9,000
- On his work anniversary, he received a gift voucher worth ₹ 4,500 from the company.
- A four-seater dining table was provided to Mr. Rajeev at his residence. This was purchased by the company on 1.5.2023 for ₹ 90,000 and sold to Mr. Rajeev on 1.8.2025 for ₹ 50,000.
- Personal expenses of ₹ 10,000 made using the company credit card were paid by the company. No part of the amount was recovered from Mr. Rajeev.

- (vi) A Maruti Suzuki car which was purchased by the company on 16.7.2022 for ₹ 2,50,000 was sold to Mr. Rajeev on 14.7.2025 for ₹ 80,000.

Other income received by the assessee during the previous year 2025-26:

	Particulars	₹
(a)	Interest on Fixed Deposits with a company	5,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	3,000

Compute the gross total income of Mr. Rajeev for the Assessment year 2026-27 assuming he opts out of the default tax regime under section 115BAC. Mr. Rajesh's wife is a housewife.

Solution:

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

	Particulars	₹	₹
I	Salaries		
	Salary [₹ 56,000 × 12]	6,72,000	
	Medical facility [in the hospital maintained by the company is exempt]	-	
	Gift given on the occasion of work anniversary ₹ 4,500 is exempt, since its value is less than ₹ 5,000	-	
	Perquisite on use of dining table for 4 months [₹ 90,000 × 10 / 100 × 4 / 12]	3,000	
	Perquisite on sale of dining table		
	Cost 90,000		
	Less: Depreciation on straight line method @ 10% for 2 years 18,000		
	Written Down Value 72,000		
	Less: Amount paid by the assessee 50,000	22,000	
	Purchase through credit card [covered by section 17(2)(viii) read with Rule 3(7)]	10,000	
	Perquisite on sale of car		
	Original cost of car 2,50,000		
	Less: Depreciation from 16.7.2022 to 15.7.2023 @ 20% 50,000		
	2,00,000		
	Less: Depreciation from 16.7.2023 to 15.7.2024 @ 20% 40,000		
	Value as on 14.07.2025 – being the date of sale to employee 1,60,000		
	Less: Amount received from the assessee on 14.07.2025 80,000	80,000	
	Gross Salary	7,87,000	
	Less: Standard deduction under section 16(ia) 50,000		
	Taxable Salary		7,37,000
II	Income from Other Sources		
	Interest on fixed deposit with a company	5,000	
	Income from specified mutual fund	3,000	
	Interest on Fixed Deposit received by minor daughter (₹ 3,000 - ₹ 1500)	1,500	9,500
	Gross Total Income		7,46,500

Question 37 [RTP Jan. 26]

Ms. Ashima, aged 45 years, has been the HR manager for the past 15 years in Shipra Ltd. She gives you the following particulars for F.Y. 2025-26:

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.

Ms. Ashima contributes 18% of basic salary as contribution to RPF. Her employer contributes the same amount to her RPF account.

The company pays medical insurance premium of ₹ 20,000 to effect insurance on the health of Ms. Ashima.

She received arrears of salary of ₹ 3,35,000. The details of arrears of salary are as follows:

Previous year	Total Income (₹)	Arrears now received (₹)
2021 – 2022	9,50,000	1,20,000
2022 – 2023	10,90,000	1,10,000
2023 – 2024	12,10,000	1,05,000

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

For A.Y. 2022-23 and A.Y. 2024-25, Ms. Ashima has paid tax as per section 115BAC. However, for A.Y. 2023-24, she has paid tax under normal provisions of the Act.

Note: Rates of Tax

The rates of tax under normal provisions of the Act for A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25 are same as for A.Y. 2026-27. The rates of tax as per section 115BAC for different years are as follows:

Assessment Year	Slab rates of income-tax	
	Slabs	Rate
2022-23	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2023-24	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	5%
	₹ 5,00,001 - ₹ 7,50,000	10%
	₹ 7,50,001 - ₹ 10,00,000	15%
	₹ 10,00,001 - ₹ 12,50,000	20%
	₹ 12,50,001 - ₹ 15,00,000	25%
	Above ₹ 15,00,000	30%
2024-25	Upto ₹ 3,00,000	Nil
	₹ 3,00,001 - ₹ 6,00,000	5%
	₹ 6,00,001 - ₹ 9,00,000	10%
	₹ 9,00,001 - ₹ 12,00,000	15%
	₹ 12,00,001 - ₹ 15,00,000	20%
	Above ₹ 15,00,000	30%

Solution:

**Computation of total income of Ms. Ashima for A.Y.2026-27
under normal provisions of the Act**

Particulars	₹
Basic Salary [$₹ 70,000 \times 12$]	8,40,000
Arrears of salary	3,35,000
Dearness allowance [$₹ 24,000 \times 12$]	2,88,000
Bonus [$₹ 21,000 \times 12$]	2,52,000
Employer's contribution to recognized provident fund in excess of 12% of salary = $18\% \times [₹ 70,000 \times 12] - 12\% \times \{[₹ 70,000 + ₹ 7,200 \text{ (being 30\% of ₹ 24,000)}] \times 12\} = ₹ 1,51,200 - ₹ 1,11,168$ [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	40,032
Medical insurance premium of ₹ 20,000 paid by the employer to effect insurance on the health of an employee is an exempt perquisite	-
Gross salary	17,55,032
Less: Standard deduction under section 16(ia)	<u>50,000</u>
Salary chargeable to tax/ Gross Total Income	17,05,032
Less: Deduction under section 80C	
Own contribution of ₹ 151,200 to RPF but restricted to ₹ 1,50,000	<u>1,50,000</u>
Total Income	15,55,032
Total Income (Rounded off)	15,55,030

**Computation of tax payable by Ms. Ashima for the A.Y.2026-27 under
normal provisions of the Act**

Particulars	Incl. arrears of salary (₹)	Excl. arrears of salary (₹)
Total Income	15,55,030	15,55,030
Less: Arrears of salary	-	3,35,000
Total Income	15,55,030	12,20,030
Income-tax thereon	2,79,009	1,78,509
Add: Health and education cess @4%	11,160	7,140
Tax payable	2,90,169	1,85,649

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

Particulars	A.Y. 2022-23		A.Y. 2023-24		A.Y. 2024-25	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	9,50,000	9,50,000	10,90,000	10,90,000	12,10,000	12,10,000
Add: Arrears of salary	1,20,000	-	1,10,000	-	1,05,000	-
Taxable salary	10,70,000	9,50,000	12,00,000	10,90,000	13,15,000	12,10,000
Tax on the above	89,000	67,500	1,72,500	1,39,500	1,13,000	92,000
Add: HEC@ 4%	3,560	2,700	6,900	5,580	4,520	3,680
Tax payable	92,560	70,200	1,79,400	1,45,080	1,17,520	95,680

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2026-27 on arrears:		
	Tax on income including arrears	2,90,169	
	Less: Tax on income excluding arrears	1,85,649	1,04,520
ii	Tax payable in respective years on arrears:		
	Tax on income including arrears (₹ 92,560 + ₹ 1,79,400 + ₹ 1,17,520)	3,89,480	
	Less: Tax on income excluding arrears (₹ 70,200 + ₹ 1,45,080 + ₹ 95,680)	3,10,960	78,520
	Relief under section 89 - difference between tax on arrears in A.Y. 2026-27 and tax on arrears in the respective years		26,000

Tax payable for A.Y.2026-27 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,90,169
Less: Relief under section 89 as computed above	26,000
Tax payable after claiming relief	2,64,169
Tax payable (Rounded off)	2,64,170

Question 38 [Suggested Sept. 25]

Prabhu, a resident individual aged 45 years, is employed with a private limited company as HR manager, on a basic salary of ₹ 80,000 p.m. He has been provided with the following other benefits:

- A rent-free unfurnished accommodation (owned by the company) in Mumbai from 01.05.2025. However, he occupied the accommodation only from 01.12.2025. The company had bought this house in the financial year 2024-25 at a cost of ₹ 2 crores.
- A mobile phone for his personal use on 01.04.2025. The cost of the phone was ₹ 90,000. The company also gives him a telephone allowance amounting to ₹ 1,000 p.m. to cover his mobile phone bill. During the F.Y. 2025-26, his aggregate mobile phone bill was ₹ 15,000.
- Company had purchased a car on 01.07.2023 for ₹ 10 lakhs. This car is sold to Prabhu on 01.08.2025 for ₹ 2,50,000.
- He was allowed to use the video camera and laptop belonging to the company from 01.04.2025. The company had purchased these assets for ₹ 50,000 and ₹ 2,00,000, respectively on 01.04.2023.

Compute the taxable salary of Prabhu assuming he has opted out of default tax regime.

Cost Inflation Index: F.Y. 2024-25:348; F.Y. 2025-26:363

Solution:

**Computation of taxable salary of Mr. Prabhu for A.Y. 2026-27
as per the optional tax regime**

Particulars	₹	₹	₹
Income from Salaries			
Basic Salary [₹ 80,000 × 12]			9,60,000
Perquisite Value of Rent-free accommodation			
10% of salary [₹ 9,60,000 × 10% × 4/12]			32,000
Mr. Prabhu has occupied the accommodation from 01.12.2025. Therefore, the value of rent-free accommodation will be calculated for 4 months only.			

Mobile phone given for personal use is not taxable perquisite. Since telephone allowance of ₹ 12,000 is less than the actual mobile phone bill of ₹ 15,000, nothing is taxable as perquisite.			-
Perquisite Value on sale of car			
Original cost of car		10,00,000	
Less: Depreciation from 01.7.2023 to 30.6.2024 @20%		<u>2,00,000</u>	
		8,00,000	
Less: Depreciation from 01.7.2024 to 30.6.2025 @20%		<u>1,60,000</u>	
Value as on 01.08.2025- being the date of sale to Mr. Prabhu		6,40,000	
Less: Amount received from the Mr. Prabhu on 01.08.2025		<u>2,50,000</u>	3,90,000
Perquisite value on use of moveable assets			
Use of Laptop [Not taxable as perquisite]			-
Use of Video Camera [₹ 50,000 × 10%]			5,000
Gross Salary			13,87,000
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]			<u>50,000</u>
Net salary			13,37,000

CHAPTER 8

ADVANCE TAX, TAX DEDUCTION AT SOURCE AND TAX COLLECTION AT SOURCE

PART A: STUDY MATERIAL QUESTIONS

Question 1

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Solution:

	₹
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.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under –

Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on **non-monetary perquisites**, the same is **not a deductible expenditure** as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is **not chargeable to tax** in the **hands of the employee** as per section 10(10CC).

Question 2 [ICAI Study Mat, Jan 21]

Examine the TDS implications under section 194A in the cases mentioned hereunder–

- (i) 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.
- (ii) 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.
- (iii) On 1.10.2025, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2026.

Solution:

- (i) ABC Co-operative Bank has to **deduct tax at source@10%** on the **interest** of ₹ 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.

- (ii) XYZ Bank has to **deduct tax at source@10% u/s 194A**, since the **aggregate** interest on fixed deposit with the **three branches** of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which **exceeds the threshold limit of ₹ 50,000**. Since XYZ Bank has adopted CBS, the **aggregate** interest credited/paid by **all branches** has to be **considered**. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 50,000, tax has to be deducted@10% u/s 194A.
- (iii) **No tax** has to be deducted under section 194A by PQR Bank **on the interest** of ₹ 28,000 falling due on recurring deposit on 31.3.2026 to Mr. Rajesh, since such **interest does not exceed the threshold limit of ₹ 50,000**.

Question 3 [ICAI Module, MTP 2 Nov 23]

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2025-26–

₹ 20,000 on 1.5.2025

₹ 25,000 on 1.8.2025

₹ 28,000 on 1.12.2025

On 1.3.2026, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Solution:

In this case, the **individual contract payments** made to Mr. X does **not exceed ₹ 30,000**. However, since the **aggregate amount paid** to Mr. X during the P.Y. 2025-26 **exceeds ₹ 1,00,000** (on account of the last payment of ₹ 30,000, due on 1.3.2026, taking the total from ₹ 73,000 to ₹ 1,03,000), the **TDS provisions** under **section 194C** would get **attracted**. Tax has to be **deducted@1%** on the **entire amount** of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. X.

Question 4

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

Solution:

Section 40A(3) provides for **disallowance of expenditure** incurred in respect of which payment or aggregate of payments made **to a person** in a **day exceeds ₹ 10,000** and such payment or payments are made otherwise than by **account payee cheque** or **account payee bank draft** or use of **electronic clearing system** through bank account or through other **prescribed electronic 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**.

Question 5

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Solution:

In this case, since the **programme is produced by the production house as per the specifications given** by Moon TV, a television channel, and the **copyright is also transferred** to the television channel, the same **falls within the scope of definition** of the term '**work**' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to **tax deduction** at source under **section 194C**.

If, however, the payment was made by Moon TV for **acquisition of telecasting rights** of the content already produced by the production house, there is **no contract for "carrying out any work"**, as required in section 194C(1). Therefore, such payment would **not be liable for tax deduction** at source under section 194C.

Question 6

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-I for the P.Y. 2025-26.

Solution:

Section 194-I, 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-I 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-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source

$$= ₹ 50,600 \times 10\% \times 11 \text{ months} = ₹ 55,660$$

Question 7 [Dec 21, MTP 1 May 23, Suggested May 25 – 2 Marks]

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?

Solution:

Since Mr. X pays **rent exceeding ₹ 50,000** per month in the F.Y. 2025-26, he is **liable to deduct tax at source @2%**. 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.

Question 8 [ICAI Study Mat, Similar point in MTP May 18, May 24, MTP 1 May 25]

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2025 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

Solution:

TDS provisions under **section 194J** would **not get attracted**, since the limit of **₹ 50,000 is applicable for fees for professional services and fees for technical services, separately**. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2025-26.

Question 9 [ICAI Study Mat, Similar in MTP 2 May 24]

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.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 Payment of commission to Mr. Vallish for business purposes	₹ 5 lakhs ₹ 80,000 in November 2025
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house (made during the period January-March, 2026)	₹ 20 lakhs in January, 2026, ₹ 15 lakhs in Feb 2026 and ₹ 20 lakhs in March 2026.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2026	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2025 for reconstruction of residential house	₹ 48 lakhs

Solution:

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2025-26	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2024-25	Contract Payment for repair of residential house	₹ 5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the 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 .

Question 10 [ICAI Study Mat, MTP 1 Nov 23, MTP 2 May 21, Jan 21, May 19]

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.

Solution:

- (i) Since the **annual premium exceeds 10% of sum assured** in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 30.6.2025 are **not exempt** under **section 10(10D)** in the hands of Mr. X. Therefore, tax is required to be **deducted@2% under section 194DA** on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the 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**.

Question 11 [ICAI Study Mat, MTP 2 Nov 24, Nov 18]

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2025. He has purchased the house property and the land in the year 2024 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2025, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Solution:**(i) Tax implications in the hands of Mr. X**

As per **section 50C**, the **stamp duty value** of house property (i.e. ₹ 85 lakh) would be **deemed to be the full value of consideration** arising on transfer of property, **since the stamp duty value exceeds 110% of the consideration received**. Therefore, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 40 lakh, being the purchase price) would be **taxable as short-term capital gains** in the A.Y.2026-27.

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

(ii) Tax implications in the hands of Mr. Y

In case **immovable property** is received for **inadequate consideration**, the **difference** between the **stamp value and actual consideration** would be **taxable under section 56(2)(x)**, if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration.

Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x).

Since **agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted** in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(x) includes only capital assets specified thereunder.

(iii) TDS implications in the hands of Mr. Y

Since the **sale consideration** of house property **or the stamp duty value** of house property **exceeds ₹ 50 lakh**, Mr. Y is required to **deduct tax at source under section 194-IA**. The tax to be deducted under section 194-IA would be ₹ 85,000, **being 1% of ₹ 85 lakhs** (higher of ₹ 60 lakhs or ₹ 85 lakhs).

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

Question 12 [Study Mat, Nov 23]

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?

Solution:

(1) Computation of total income of Mr. Sharma for A.Y.2026-27

Particulars	₹	₹
I. Salaries		
Pension (₹ 82,000 x 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 x 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 x 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 ₹ 40 lakh** is with a **bank other than SBI**, which is the bank where his pension is credited, then, Mr. Sharma would **not qualify as a “specified senior citizen”**. In this case, Mr. Sharma would have to **file his return of income u/s 139**, since his **total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit**.

Question 13 [ICAI Module, Similar Point in RTP Jan 25, MTP 1 May 23, MTP 1 May 22]

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2024-25 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2025-26 was ₹ 95 lakh (₹ 20 lakh on 1.6.2025, ₹ 25 lakh on 12.8.2025, ₹ 22 lakh on 23.11.2025 and ₹ 28 lakh on 25.3.2026). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date.

- (1) Based on the above facts, examine the TDS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2024-25 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1), if PAN has not been furnished by the seller, as required?

Solution:

- (1) Since Mr. Gupta's **turnover** for F.Y.2024-25 **exceeds 10 crores**, and **payments** made by him to Mr. Agarwal, a resident seller **exceed ₹ 50 lakhs** in the P.Y.2025-26, he is **liable to deduct tax@0.1%** of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted **u/s 194Q** on the payments made on 1.6.2025 and 12.8.2025, since the **aggregate payments** till that date i.e. 45 lakhs, has **not exceeded the threshold of ₹ 50 lakhs**.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/credit of ₹ 22 lakh on 23.11.2025 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/credit of ₹ 28 lakhs on 25.3.2026.

- (2) If Mr. Gupta's **turnover** for the F.Y.2024-25 was **only ₹ 8 crores**, **TDS provisions under section 194Q would not be attracted**.
- (3) **In case (1), if PAN is not furnished** by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2025 and 25.3.2026, respectively.

Question 14

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

Solution:

As the **turnover of business** carried on by Ashwin for F.Y. 2024-25, **has exceeded ₹ 1 crore**, he has to **comply with the tax deduction provisions during the financial year 2025-26**, subject to the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under **section 194A** is **not attracted** in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

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-I** would not be attracted since the rental **payment does not exceed ₹ 50,000** per month or part of the month.

Commission paid to Balu – No, tax has to be deducted under **section 194H** in this case as the **commission does not exceed ₹ 20,000**.

Question 15 [ICAI Study Mat, MTP 1 May 20, MTP 1 May 24, MTP 2 May 21, May 19]

Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2025-26 as per the provisions of the Income-tax Act, 1961.

S. No.	Date	Nature of Payment
(i)	1-10-2025	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2025	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2025	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2026	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2026	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2026	Payment of commission of ₹ 14,000 to Mr. Y.

Solution:

(i) **No tax** is required to be deducted at source under section 194C by M/s S Ltd. on payment to **transporter** Mr. R, since **he satisfies the following conditions**:

- (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**.

Question 16 [ICAI Study Mat, Nov 22, MTP 2 May 23, MTP 2 Nov 18, MTP 2 Nov 21]

Examine the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent of ₹ 55,000 per month was paid for hire of machinery by B Ltd. to Mr. Raman in FY 2025-26.
- (b) Fee paid on 1.12.2025 to Dr. Srivatsan by Sundar (HUF) ₹ 55,000 for surgery performed on a member of the family.
- (c) ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2026.

Solution:

- (a) Since the **rent paid for hire of machinery** by B. Ltd. to Mr. Raman **exceeds ₹ 50,000** per month or part of the month, the provisions of **section 194-I** for deduction of tax at source are **attracted**.

The rate applicable for deduction of tax at source under section 194 -I on rent paid for hire of plant and machinery is **2%**, **assuming** that Mr. Raman **had furnished his permanent account number** to B Ltd.

Therefore, the amount of tax to be deducted at source:

$$= ₹ 6,60,000 \times 2\% = ₹ 13,200.$$

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.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2025 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2025-26. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) **Section 194J** provides for **deduction of tax at source @10%** from any sum paid by way of any **remuneration or fees or commission**, by whatever name called, to a **resident director**, which is **not in the nature of salary** on which **tax is deductible under section 192**. The **threshold limit of ₹ 50,000** upto which the provisions of tax deduction at source are **not attracted** in respect of **every other payment** covered under section 194J is, however, **not applicable** in respect of **sum paid to a director**.

Therefore, **tax@10% has to be deducted** at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 × 10% = ₹ 1,900

Question 17 [ICAI Study Mat, MTP 1 May 19, MTP 2 Nov 18 – 4 Marks]

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:

- (1) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2026.
- (2) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (3) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2026 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Solution:

- (1) Provisions of tax deduction at source under **section 194C** are **attracted in respect of payment** by a company **to a sub-contractor**. Under section 194C, tax is deductible at the **time of credit or payment**, whichever is **earlier @1%** in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200

- (2) **Under section 194BB**, tax is to be **deducted at source**, if the **winnings from horse races exceed ₹ 10,000** in respect of a single transaction. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.

- (3) As per **section 194LA**, any **person responsible for payment** to a resident, any sum in the nature of **compensation** or consideration on account of **compulsory acquisition** under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such **payments to the resident** during the financial year **exceeds ₹ 5,00,000**.

In the given case, there is **no liability** to deduct tax at source as the payment made to Mr. A does not **exceed ₹ 5,00,000**.

Question 18

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

Solution:

The **proviso to section 234C** contains the provisions for **payment of advance tax** in case of **capital gains and casual income**.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is **not possible** for the assessee to **estimate his capital gains**, or income from lotteries etc., it has been provided that **if any such income arises after the due date** for any instalment, then, the **entire amount** of the **tax payable** (after considering tax deducted at source) on such capital gains or casual income should be **paid in the remaining instalments of advance tax, which are due**.

Where **no** such instalment is **due**, the **entire tax** should be **paid by 31st March** of the relevant financial year.

No interest liability on late payment would arise **if the entire tax liability is so paid**.

Note: In case of **casual income** the **entire tax liability** is **fully deductible at source @30%** under section 194B, 194BA and 194BB. Therefore, **advance tax liability** would arise **only if the surcharge**, if any, and health and education **cess@4%** in respect thereof, **along with tax liability** in respect of other income, if any, is **10,000 or more**.

Question 19 [Study Mat, MTP 2 May 25 – 6 Marks]

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. **[RTP Jan 25]**
- (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.

Solution:

- (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 ₹ 60,000 i.e., 20% of ₹ 3 lakhs, being the amount remitted in excess of ₹ 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.

Question 20 [Study Mat, MTP 1 May 21, RTP May 20, MTP 1 May 19, RTP Nov 18, Similar in MTP 2 Nov 22, MTP 2 Nov 21, RTP Nov 21, Similar in RTP May 19, MTP Oct 20]

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

Solution:

Determination of Advance Tax Liability of Mr. Sameer

Particulars	₹
Estimated tax liability for the financial year 2025-26	80,000
Less: Tax deducted at source	<u>12,000</u>
Tax payable	<u>68,000</u>

Due Date of installment	Amount payable	₹
On or before 15 th June, 2025	Not less than 15% of advance tax liability	10,200
On or before 15 th September, 2025	Not less than 45% of advance tax liability less amount paid in earlier installment	20,400 (₹ 30,600, being 45% of ₹ 68,000 - ₹ 10,200)
On or before 15 th December, 2025	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	20,400 (₹ 51,000, being 75% of ₹ 68,000 - ₹ 30,600)
On or before 15 th March, 2026	Whole of the advance tax liability less amount paid in earlier installment(s)	17,000 (₹ 68,000, being 100% of ₹ 68,000 - ₹ 51,000)

PART B: ADDITIONAL QUESTIONS**Question 21 [Dec 21, MTP 1 May 23 – 2 Marks]**

State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following case for the financial year 2025-26 under Income-tax Act, 1961. Assume that payment is made to resident:

Mr. Amar has paid Rs. 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 Rs. 3 crores during the previous year 2025-26.

Solution: TDS implications

The **arrangement between** Mr. Amar, **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 Rs. 6 lakh paid by Mr. Amar to the cold storage company. Accordingly, tax has to be deducted @2% on Rs. 6 lakh. **TDS u/s 194C = 2% ₹ Rs. 6 lakh = Rs. 12,000**

Question 22 [MTP 1 May 22, Jan 21, MTP 1 May 24, Nov 23, MTP 1 May 20, MTP 1 May 19]

Examine TDS 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 is required to be deducted.

- (i) Mrinal & Sons, a LLP withdrew from its bank account Rs. 40 lakhs by cash on 1.5.2025, Rs. 35 lakhs on 7.9.2025 and Rs. 55 lakhs on 28.2.2026. The purpose of withdrawal from bank was for buying agricultural produce, from farmers/agriculturist, being raw material required for manufacture of finished products by it. Mrinal & Sons regularly files its return of income before the due date.
- (ii) Mr. Mukesh, aged 75 years, holds 6½ Gold Bonds, 1977 of Rs. 2,50,000 and 7% Gold Bonds of Rs. 3,50,000. He received interest on these bonds on 31.1.2026.
- (iii) State Bank of India pays Rs.55,000 per month as rent to the Central Government for a building in which one of its branches is situated.
- (iv) Karan, a part time director of ABC Pvt. Ltd. was paid an amount of Rs. 1,75,000 as fees which was actually in the nature of commission on sales for the period 1.6.2025 to 30.9.2025.
- (v) Fee paid on 1.11.2025 to Dr. Kashyap by Varun (HUF) Rs. 5,00,000 for surgery performed on a member of his family.

Solution:

- (i) Mrinal & Sons has **withdrawn aggregate cash of Rs.1.30 crores** during the previous year 2025-26. **Since aggregate** amount cash withdrawals **exceed Rs. 1 crore**, bank is required **deducted tax** at source **@2% on the amount exceeding Rs. 1 crore** i.e., Rs. 30 lakhs though he withdraws the same for buying agricultural produce from farmers, agriculturists, being raw material required for manufacture of finished products by it.

TDS = 2% of Rs. 30 lakhs = Rs. 60,000

- (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. Mukesh i.e.,

Rs. 6,00,000 exceed Rs.10,000. Interest on 6½ Gold Bonds, 1977 = Rs. 2,50,000 × 6.5% = Rs. 16,250 Interest on 7% Gold Bonds 1980 = Rs. 3,50,000 × 7% = Rs. 24,500.

Tax to be deducted at source = Rs. 40,750 @ 10% = Rs. 4,075

- (iii) **Section 194-I**, which governs the deduction of tax at source on payment of **rent, exceeding Rs. 50,000 p.m.**, is **applicable to all persons except individuals and HUFs**, whose turnover/gross receipts **do not exceed the 1 cr/50 Lacs respectively**. Section 196, however, provides **exemption** in respect of **payments made to Government** from application of the provisions of tax deduction at source. Therefore, **no tax is required to be deducted** at source by State Bank of India from rental payments to the Government.
- (iv) **Section 194J** provides for deduction of tax at source **@10%** on any **remuneration or fees or commission**, by whatever name called, paid to a **director**, which is **not in the nature of salary** in respect of which tax is deductible at source under section 192. Hence, tax is to be deducted at source under **section 194J @10%** by ABC Pvt. Ltd. on the commission of Rs. 1,75,000 paid to Karan, a **part-time director**. The tax deductible under section 194J would be Rs. 17,500, being 10% of Rs. 1,75,000.
- (v) 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 Rs. 1 crore or Rs. 50 lakhs**, 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 Rs. 50 lakhs** during the financial year. In the given case, the fees for professional service to Dr. Kashyap is paid on 1.11.2025 for **personal purpose**, therefore, **section 194M would have been applicable** if the payment or **aggregate of payments exceeded Rs. 50 lakhs** in the P.Y.2025-26. However, **since the payment does not exceed Rs. 50 lakh** in this case, there is **no liability to deduct tax at source** under section 194M.

Question 23 [MTP 1 Nov 22, MTP 2 Dec 24, MTP 2 May 22, Jul 21 – 8 Marks]

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act in respect of the following payments:

- (i) Mr. Shamsher (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of HFC Bank of India (working on core banking solution). During the year 2025-26, the bank paid Rs. 62,000 and Rs. 27,000 as interest on these fixed deposits
- (ii) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call centre. On 18-03-2026, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2026 by Jigar Limited.

Solution:

- (i) **HFC Bank is not required** to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank Rs. 99,000 **does not exceed the threshold limit of Rs. 1,00,000**, applicable in case of senior citizen. Since HFC Bank has adopted core banking solution (**CBS**), the **aggregate interest** paid by both branches has to be considered.

- (ii) **On payment of call centre service charges** - Since Rashi Limited is engaged only in the business of operation of call centre, Jigar Limited is required deduct tax at source@2% on the amount of Rs. 70,000 u/s 194J on 18.3.2026 i.e., at the time of credit of call centre service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2026.

Question 24 [MTP 2 May 23, Similar Question in RTP Nov 22, Sept 24, May 24]

Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of Rs. 12 crores in the previous year 2024-25. He purchased goods from Mr. Agarwal, a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2025-26 on various dates is Rs. 80 lakhs which are as under:

10-06-2025	Rs. 25,00,000
20-08-2025	Rs. 27,00,000
12-10-2025	Rs. 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2026 Rs. 80 lakh. Mr. Agarwal's turnover for the financial year 2024-25 is Rs. 20 crores.

Solution:

Since Mr. Purushotham's **turnover for F.Y.2024-25 exceeds Rs. 10 crores**, and value of goods purchased from Mr. Agarwal, a resident seller, **exceeds Rs. 50 lakhs** in the P.Y.2025-26, he is liable to **deduct tax@0.1%** on Rs. 30 lakhs (being the sum exceeding Rs. 50 lakhs), at the time of **credit or payment, whichever is earlier**. On 10.6.25 = Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2025 since the purchases made till that date has not exceeded the threshold of Rs. 50 lakhs). On 20.8.2025 = 0.1% of Rs. 2 lakhs (Rs. 27 lakhs - Rs. 25 lakhs, being balance unexhausted limit) = Rs. 200. On 12.10.2025 = 0.1% of Rs. 28 lakhs = Rs. 2,800.

Question 25 [MTP 2 Nov 24, Nov 18, RTP Nov 18, Concept MTP 1 May 18, Nov 19 – 4 Marks]

ABC & Co., a partnership firm is having a car dealership show- room. They have purchased cars for Rs. 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than Rs. 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. Turnover of ABC & Co. and XYZ Ltd. was less than Rs. 10 crores during the P.Y. 2025-26.

Solution: TDS implications

Every person, being a seller, who receives any amount as **consideration** for **sale** of a **motor vehicle or any other goods** of the **value exceeding Rs. 10 lakhs**, is required to **collect tax at source @1%** of the sale consideration from the buyer. TCS provisions will, however, **not apply** on sale of motor vehicles by manufacturers to **dealers/distributors**. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, ABC & Co., even if the value of each car exceeds Rs. 10 lakhs. However, TCS provisions would be attracted when ABC & Co., sells cars to individual buyers, since the value of each car exceeds Rs. 10 lakhs. ABC & Co. has to collect tax@1% of the consideration on sale of each car to an individual buyer.

Question 26 [May 23, Nov 20, Similar in MTP 2 Nov 22, MTP 1 Nov 21 – 7 Marks]

Answer the following:

- (i) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On

1st December 2025, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of Rs. 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.

- (ii) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him: Rs. 25,00,000/- on 10th August, 2025 and Rs. 30,00,000 on 22nd November, 2025. Determine the amount of tax to be deducted/collected at source, if any. Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.
- (iii) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received Rs. 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.

Solution:

- (i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first **ensure deduction of tax@10%** of the value of such benefit or perquisite, **if the same exceeds Rs. 20,000**. However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R. Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.
- (ii) The provisions of section 194C would not apply in the hands of Ms. Aruna, since the amount paid to Mr. Suresh is for **supply of her housing staff**. Hence, it is used **exclusively for her personal purposes**. In this case, tax is required to be deducted at source from such amount under section 194M **@2%**, since the aggregate payment made to Mr. Suresh for the said contract exceeds Rs. 50 lakhs during the P.Y. 2025-26. Accordingly, Rs. 2,75,000, being **2%** of Rs. 55,00,000 [Rs. 25,00,000 + Rs. 30,00,000], is required to be deducted at source. In case Ms. Aruna made payment to Mr. Suresh for **business purposes** and she is **not required to get her books of account audited** [assuming her turnover from such business does not exceed Rs. 1 crore in P.Y. 2024-25], she is **not required to deduct tax at source under section 194C**. In such case also, she is **required to deduct tax at source** of Rs. 2,75,000 under **section 194M**.

Note –

*In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid **exceeds Rs. 1 crore**. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-*

- *her turnover **exceeds Rs. 1 crore but does not exceed Rs. 10 crores** and **receipts** and payments in **cash does not exceed 5%** of such receipts or payments, respectively.*
- *her turnover **exceeds Rs. 1 crore but does not exceed Rs. 2 crore** and she is **declaring profits under the presumptive provisions of section 44AD**.*

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds Rs. 1 crore.

Alternative answer –

In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2025-26, she would be required to deduct tax at source @1% under section 194C amounting to Rs. 55,000 (since payment is made to Mr. Suresh, an individual) of Rs. 55,00,000.

- (iii) According to section 194C, the **definition of “work” include catering**. In the present case, nationalised bank is required to deduct tax source @2% on Rs. 7,20,000 [Rs. 60,000 × 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of Rs. 60,000 paid every month exceeds the threshold of Rs. 30,000. Therefore, nationalised bank is required to deduct tax at source of Rs. 1,200 per month amounting to Rs. 14,400 for the year.

Question 27 [MTP 1 Nov 23, MTP 1 Jul 24, MTP 2 May 21, RTP May 21, Nov 19, MTP 1 Nov 22, Nov 20, MTP 2 Nov 22, MTP 1 Nov 21, Jan 21]

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Mr. Tandon received a sum of Rs. 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- (ii) Ms. Kaul won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.
- (iii) Finance Bank Ltd. sanctioned and disbursed a loan of Rs. 10 crores to Borrower Ltd. on 31-3-2026. Borrower Ltd. paid a sum of Rs. 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.
- (iv) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2025 to February, 2026) at Hyderabad where he pays a monthly house rent of Rs. 52,000 for those three months, totalling to Rs. 1,56,000. Rent is paid by him on the first day of the relevant month. [RTP May 25]

Solution:

TDS implications

- (i) **On pre-mature withdrawal from EPF**
No tax is deductible under **section 192A** even though the employee, Mr. Tandon, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.
- (ii) **On payment of prize winnings of Rs. 21,000**
Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of Rs. 21,000 payable to the customer, since the **winnings exceed Rs. 10,000**.
- (iii) **On payment of service fee to bank**
Even though **service fee is included** in the **definition of “interest”** as defined under section 2(28A), **no tax is deductible** at source under section 194A, since the service fee are paid to a banking company, i.e., Finance Bank Ltd.
- (iv) **On payment of rent exceeding Rs. 50,000 by a salaried individual**
Mr. Ashok, a salaried individual, is liable to deduct tax at source @2% under section 194-IB on Rs. 1,56,000 (being rent for 3 months from December 2025 to February 2026) from the rent of Rs. 52,000 payable on 1st February, 2026 **since the monthly rent exceeds Rs. 50,000**.

Question 28 [Nov 22 – 4 Marks]

Ms. Priya, aged 61 years, has total income of Rs. 7,50,000, including income from profession, for A.Y. 2026-27, and has paid advance tax of Rs. 10,000 on 13.12.2025. She has filed her return of income on 15.06.2026. Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any, by Ms. Priya. She has opted out of 115BAC.

Solution:

Self assessment tax payable					Rs.
<u>Tax on Rs. 7,50,000</u>					
Upto Rs. 3,00,000					Nil
Rs. 3,00,001 – Rs. 5,00,000 @5%					10,000
Rs. 5,00,001 – Rs. 7,50,000 @20%					50,000
					60,000
Add: Health and education cess @4%					2,400
					62,400
Less: Advance tax					10,000
Tax payable					52,400
Add: Interest under section 234A [Interest under section 234A would not be attracted, since Ms. Priya has furnished her return of income on 15.06.2026 which is before the due date of filing return of income]					-
Add: Interest under section 234B would be levied on Rs. 52,400 at 1% for 3 months i.e., From April to June. The interest under section 234B amount to Rs. 1,572					1,572
Add: Interest under section 234C					2,747
Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest Rs. 100, ignoring fraction)	Period (in months)	Interest @ 1%	
15th June 2025	15%	9,300 [15% of Rs. 62,400]	3	279	
15th September 2025	45%	28,000 [45% of Rs. 62,400]	3	840	
15th December 2025	75%	36,800 [(75% of Rs. 62,400) – Rs. 10,000]	3	1104	
15th March 2026	100%	52,400	1	524	
Total interest under section 234C				2,747	
Self assessment tax payable and interest thereon					56,719
Self assessment tax payable and interest thereon (rounded off)					56,720

Question 29 [RTP May 25]

Examine the applicability and amount 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 case:

ABC Traders, a partnership firm, is engaged in the wholesale business of tendu leaves. Its turnover for the P.Y. 2024-25 was Rs. 9 crores. During the financial year 2025-26, it sold tendu leaves worth Rs. 12 lakhs to XYZ Ltd. XYZ Ltd. does not provide its PAN to ABC Trader.

Solution:

Under section 206C(1), seller of certain goods, inter alia, tendu leaves is required to collect tax from the buyers @5%. Seller u/s 206C(1) includes firm. In case of non-furnishing of PAN, tax to be collectible at the higher of twice the specified rate i.e., 10% or @5%. In the present case, ABC Traders is required to collect tax at source u/s 206C(1) @10% on sale of tendu leaves of Rs. 12 lakhs to XYZ Ltd. at the time of debit or receipt, whichever is earlier.

Question 30 [Suggested May 25] – 2 Marks

Discuss the relevant provisions of Income-tax Act, 1961 with respect to tax deduction at source (TDS) and calculate amount of TDS also for the A.Y. 2026-27 in the following independent situations:

Marks Pictures Ltd. is a movie and short films production house having turnover of ₹ 15.22 crores during the previous year 2024-25. Solar Varanasi LLP also produces short films and clippings and it has already produced a short film namely 'Maha Kumbh'. On 16-10-2025, Marks Pictures Ltd. acquired television rights in consideration of ₹ 52 lakhs from Solar Varanasi LLP. (Both have valid PAN)

Solution:**Acquisition of television rights**

Payment made by Marks Pictures Ltd. for acquisition of television rights of the content already produced by the Solar Varanasi LLP, a production house would not be liable for tax deduction at source under section 194C, since there is no contract for “carrying out any work”, as required in section 194C.

However, consideration for acquiring television right in respect of film would fall within the definition of royalty as defined in Explanation 2 to section 9(1)(vi). Accordingly, tax is required to be deducted u/s 194J @10% on ₹ 52 lakhs or ₹ 5,20,000.

Question 31 [MTP 1 May 25] – 2 Marks

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.

Payment of ₹ 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by M/s. Packaging Limited or its associates to Mr. Ankit.

Solution:

On payment for purchase of bag according to specifications - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).

Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for ‘sale’ and not a works contract.

Question 32 [MTP 1 Sept. 25] – 4 Marks

Examine & explain the TDS/TCS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Mr. Ram, an individual carrying on business, reported a turnover of ₹ 89 lakhs for the F.Y. 2024-25. In April 2025, he entered into an agreement to hire machinery for use in his business operations for a monthly rent of ₹ 52,000.
- (ii) XYZ Limited, having an idle parking lot, opted to lease it through a public bidding process. PQR Ltd, a PSU, emerged as the highest bidder and will utilize the premises for its business operations under the lease arrangement.

Solution:

- (i) The provisions of section 194-I are not applicable in this case since Mr. Ram's turnover from business does not exceed ₹ 1 crore in the P.Y. 2024-25.

Further, Mr. Ram is not required to deduct tax at source under section 194-IB since Mr. Ram has paid rent for hiring of machinery for his business operation and section 194-IB covers only rent on land or building or both.

Accordingly, Mr. Ram is not required to deduct tax at source on rent paid for hiring machinery for his business purpose.

- (ii) Section 206C(1C) requires to collect tax by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any parking lot to another person (other than a public sector company) for the use of such parking lot for the purposes of business. The tax under section 206C(1C) shall be collected at the rate of 2%.

In the present case, since PQR Ltd. is a public sector company, M/s XYZ Ltd. is not required to collect tax at source under section 206C(1C).

Question 33 [MTP 2 Sept. 25] – 4 Marks

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act, 1961 assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Payment of ₹ 1,51,000 by a transport company to Ms. Asha, a resident individual as interest on compensation awarded by the Motor Accidents Claims Tribunal.
- (ii) Mr. Narsimha won ₹ 15,00,000 as prize money for winning a television serial contest in the financial year 2025-26.

Solution:

- (i) Tax has to be deducted at source by the transport company @10% under section 194A on payment of ₹ 1,51,000 to Ms. Asha, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal, since the interest paid exceeds the specified threshold of ₹ 50,000.

Tax to be deducted = ₹ 1,51,000 × 10% = ₹ 15,100.

- (ii) Tax has to be deducted @30% under section 194B on payment of ₹ 15,00,000 to Mr. Narsimha for winnings in a TV Serial contest. Tax to be deducted = ₹ 15,00,000 × 30% = ₹ 4,50,000

Question 34 [RTP Sept. 25]

Examine the applicability and determine the amount of tax deduction at source (TDS) as per the Income-tax Act, 1961 for the A.Y. 2026-27 in the following situations:

- (i) Nexus Tech Pvt. Ltd., a company engaged in the business of manufacturing electronic goods, reported a turnover of ₹ 12 crore during the F.Y. 2024-25. During the F.Y. 2025-26, the company made the following purchases from resident sellers:
- **From Vendor A** – Raw materials worth ₹ 60,00,000 (₹ 25 lakh in April, ₹ 35 lakh in July). Payment of ₹ 20 lakhs was made in June and remaining payment in September. Vendor A has not furnished his PAN.
 - **From Vendor B** – Trading goods worth ₹ 48,00,000 on instalments (₹ 15 lakh in May, ₹ 20 lakh in October, ₹ 13 lakh in December). Entire payment was made in March, 2026.

It is to be noted that Nexus Tech Pvt. Ltd. made the entry in its books on the date of purchase and TCS provisions are not applicable on vendors.

- (ii) In January 2026, Mr. Sumit, engaged in business having turnover of ₹ 1.20 crores during the P.Y. 2024-25, enters into an annual maintenance contract (AMC) with ABC Ltd., a resident company, for ₹ 5,40,000 plus GST@18%. Mr. Sumit made the payment in February 2026 and ABC Ltd. has not provided its PAN to Mr. Sumit.

Solution:

- (i) Since the turnover of Nexus Tech Pvt. Ltd. exceeds ₹ 10 crores during the P.Y. 2024-25, it is required to deduct tax at source under section 194Q for paying any sum to a resident for purchase of goods of the value exceeding ₹ 50 lakhs in a previous year, at the time of payment or credit, whichever is earlier.

The rate of TDS would be 0.1% of sum exceeding ₹ 50 lakhs. In case of non-furnishing of PAN, TDS @5% would be deducted as per section 206AA. TDS liability in respect of the purchases made by Nexus Tech Pvt. Ltd. is as follows -

- Purchase of raw material from Vendor A

The threshold limit of ₹ 50 lakhs is exhausted in July at the time of credit; accordingly, tax would be deducted by Nexus Tech Pvt. Ltd. on ₹ 10 lakhs, being the sum exceeding ₹ 50 lakhs in July.

Since Vendor A has not provided his PAN to Nexus Tech Pvt. Ltd., tax at higher rate of 5% would be deducted.

Accordingly, the tax to be deducted by Nexus Tech Pvt. Ltd. would be ₹ 50,000.

- Purchase of trading goods from Vendor B

The threshold limit of ₹ 50 lakhs is per resident seller per buyer. On purchase of trading goods from Vendor B, no tax is required to be deducted since the threshold of ₹ 50 lakhs is not exhausted.

- (ii) Since the turnover of Mr. Sumit exceeds ₹ 1 crore during the P.Y. 2024-25 and the contract payments made to ABC Ltd. exceeds ₹ 1,00,000, the TDS provisions under section 194C would be attracted. The rate of TDS under section 194C is 2%. However, as per section 206AA, in case of non-furnishing of PAN, TDS @20% would be deducted.

In the present case, ABC Ltd. has not provided its PAN to Mr. Sumit, hence, TDS@20% is applicable on ₹ 5,40,000 being the amount excluding GST as GST is separately mentioned. The amount of tax to be deducted by Mr. Sumit would be ₹ 1,08,000.

Question 35 [RTP Jan. 26]

Examine the applicability and determine the amount of tax deduction at source as per the Income-tax Act, 1961 for the A.Y. 2026-27 in the following situations:

- (i) ABC Ltd., having its registered office in Noida, organized its annual company function at its Gurgaon office. For this purpose, the company engaged Beta Pvt. Ltd. to arrange road transport for its employees from Noida to Gurgaon and back, for which a payment of ₹ 25,000 has to be made. Further, ABC Ltd. also entered into a separate contract with Beta Pvt. Ltd. for providing catering services at the function, for ₹ 90,000.
- (ii) Vijay Health Solutions Ltd., a Third-Party Administrator (TPA), makes payments to various hospitals across India towards settling cashless medical insurance claims on behalf of insurance companies. During the financial year 2025-26, the total payment made by Vijay Health Solutions Ltd. to LifeCare Hospital for cashless claims is ₹ 12,00,000.

Solution:

- (i) Any person responsible for paying any sum i.e. ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during a financial year to a resident contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and the contractee, tax has to be deducted at source u/s 194C at the time of payment of such sum or at the time of credit of such sum to the account of the contractor, whichever is earlier.

In the present case, ABC Ltd. has entered into separate contracts with Beta Pvt. Ltd. for arranging road transport and providing catering services, for ₹ 25,000 and ₹ 90,000, respectively. Both 'carriage of passengers' and 'catering' are expressly covered as "work" under section 194C. Even though the services are different, the aggregate payment to the contractor during the financial year is considered for the threshold limit.

Hence, TDS@2% is applicable on ₹ 1,15,000, being the aggregate amount paid to Beta Pvt. Ltd. The amount of tax to be deducted by ABC Ltd. would be ₹ 2,300.

- (ii) The payment by TPAs was made on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. under cashless claims which was on account of services rendered by hospitals to various patients. These services are primarily medical services and are liable to deduct tax at source under section 194J on all such payments to hospitals etc. as clarified by CBDT through Circular No. 8/2009 dated 24.11.2009.

In the present case, Vijay Health Solutions Ltd. is required to deduct tax u/s 194J @10% on payment of ₹ 12 lakhs. The amount of tax to be deducted by Vijay Health Solutions Ltd. would be ₹ 1,20,000.

Question 36 [PP Nov 23 ,Sept 24, May 24, Suggested Sept. 25]

Aryan, a resident individual engaged in the retail trade of auto parts through various stores across Delhi-NCR, had total turnover of ₹ 15 crores during the financial year 2024-25. The following data is furnished relating to the financial year ended 31-3-2026:

- (i) He purchased goods for ₹ 105 lakhs (excluding GST @ 18%) on 21.05.2025 from Diva LLP, a limited liability partnership firm resident in India. Out of these purchases, goods worth ₹ 5 lakhs (excluding GST) were returned on 20.07.2025 due to quality issues for which Diva LLP refunded the money on 20.02.2026. Assume that the turnover of Diva LLP during the financial year 2024-25 was ₹ 8 crores.
- (ii) Aryan paid ₹ 77,000 every month to Mr. Kulveer, a resident individual for providing catering services in his shop under a contract.

Discuss the TDS/TCS implications in respect of the above-mentioned transactions assuming PAN of all the concerned parties are available.

Solution:

- (i) Mr. Aryan is required to deduct tax at source under section 194Q @0.1% on the purchase of goods exceeding ₹ 50 lakhs without GST since his turnover for the P.Y. 2024-25 exceeds ₹ 10 crores. The tax is to be deducted at the time of payment or at the time of credit of such sum to the account of Diva, LLP, whichever is earlier. Accordingly, Aryan has to deduct tax of ₹ 5,500, being 0.1% of ₹ 55 lakhs on 21.5.2025.

In case of purchase return of ₹ 5 lakhs and amount is refunded by Diva LLP, tax deducted of ₹ 500 (0.1% of ₹ 5 lakhs) may be adjusted against the next purchase from Diva LLP.

- (ii) Since Mr. Aryan paid for catering services exceeding ₹ 30,000 and his turnover for the P.Y. 2024-25 exceeds ₹ 1 crore, he is liable to deduct tax at source under section 194C @1%. The tax is to be deducted at the time of payment or at the time of credit of such sum to the account of Mr. Kulveer, whichever is earlier.

Amount of TDS = ₹ 77,000 × 12 × 1% = ₹ 9,240

Question 37 [Suggested Sept. 25]

Specify the persons who are not required to pay advance tax as per the provisions of the Income-tax Act, 1961.

Solution:

An assessee is not liable to pay advance tax if the advance tax payable, in his case, is less than ₹ 10,000 during the financial year.

An individual resident, who is of the age of 60 years or more at any time during the previous year and does not have any income chargeable under the head “Profits and gains of business or profession” is also not required to pay advance tax.

CHAPTER 9

INCOME OF OTHER PERSONS INCLUDED IN ASSEESSEE'S TOTAL INCOME

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

Solution:

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

Question 2

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2026-27 if they are paying tax under default tax regime

Solution:

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

Computation of Gross total income of Mr. A

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

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

Question 3 [ICAI Study Mat Illustration 13, RTP May 18]

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

Solution:

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

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

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

Question 4 [ICAI Study Mat, MTP 2 Nov 21 – 4 Marks]

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.

Solution:

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

Computation of Gross total income of Mr. B

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

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [Clubbed in the hands of Mr. B]		Nil
Income from house property Gross Annual Value [₹ 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

Question 5

Mr. Vaibhav started a proprietary business on 01.04.2024 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2024-25. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2025, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2025-26. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2026-27. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

Solution:

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 follows:

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 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2025-26 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2025 (3:5)	1,50,000 $\left(4,00,000 \times \frac{3}{8}\right)$	2,50,000 $\left(4,00,000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2026-27 is ₹ 2,50,000.

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

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.

Question 6

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

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

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

Solution:

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

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

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

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

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

Question 7

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2025 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

Solution:

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

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	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**.

Question 8

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

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2025 from friend of Mrs. A	2,500

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

Solution:

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

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

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

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

Computation of gross total income of Mr. A for the A.Y. 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

Question 9 [ICAI Study Mat, MTP 1 May 20, MTP 1 Sept. 25]

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.

Solution:

In the given case, Mr. Vasudevan **gifted a sum of ₹ 6 lakhs to his brother's wife** on 14.06.2025 and **simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife** on 12.07.2025. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of **cross transfers**. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

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

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

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

Question 10 [ICAI Study Mat, Similar Concept in MTP 2 Nov 23, July 21]

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

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

Solution:

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.

Question 11 [ICAI Study Mat, Similar Concepts in MTP 2 Nov 18, RTP Nov 20, MTP 2 Nov 22, MTP 1 Nov 19, Nov 18, MTP 1 Nov 18, MTP 1 May 19, RTP Nov 18, MTP 1 Nov 21]

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).

Solution:

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2026-27

Particulars	Mr. A (₹)	Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"			
Salary income (of Mrs. A)	-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000 × 12)	1,20,000	-	
Less: Standard deduction under section 16(ia)	50,000	50,000	
	70,000	1,90,000	

Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000 × 9%) [See Note (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.

Question 12

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

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

Solution:

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

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

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

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

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

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

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

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

Question 13

A proprietary business was started by Smt. Rani in the year 2023. As on 1.4.2024 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2024 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial Year 2024-25, ₹ 1,50,000 and Financial Year 2025-26, ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2026-27 with reasons.

Solution:

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2026-27 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as at 1.4.2024	3,00,000	-	3,00,000
Investment on 10.04.2024 out of gift received from her husband		2,00,000	2,00,000
	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.

Question 14

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

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

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

Solution:**Clubbing of income and other tax implications**

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

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

Tax implications

- (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.

However, if Mrs. B exercises the option of shifting out of default tax regime, salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries".

- (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.

Question 15

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.

Solution:

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly 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.

Question 16

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.

Solution:

(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).

Question 17 [Study Mat, MTP 1 Nov 23, Nov 19 , MTP 1 May 25] – 6 Marks

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.

Solution:

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]	<u>Nil</u>
[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.]	<u>40,000</u>
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.	<u>Nil</u>
[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

PART B: ADDITIONAL QUESTIONS**Question 18 [Sept 24 - 6 Marks]**

Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2025-26:

Mr. Suraj

- (i) Salary received as a partner from a partnership firm - Rs. 6,15,000. He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).
- (ii) Income (loss) from house property: Brought forward loss from House -A (let out) - Rs. 96,000 and Current year loss from House B (let out) - Rs. 2,30,000
- (iii) Interest received on enhanced compensation - Rs. 2,00,000. It relates to transfer of a piece of land in the financial year 2019-20. Out of the above Rs. 35,000 relates to previous year 2025- 25 and the balance relate to preceding previous year.
- (iv) Gift from grandfather's younger sister by cheque - Rs. 1,25,000
- (v) Dividend on listed equity shares of domestic companies (Gross) - Rs. 50,000
- (vi) On 1st, December 2025, Mr. Suraj received Rs. 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2013. He paid Rs. 6,00,000 as annual premium and the sum assured was Rs. 65 lakhs.

Mrs. Megha

- (i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - Rs. 8,10,000.
- (ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1st April, 2025 out of love and affection. The FMV of the house on the date of transfer was Rs. 51 lakhs.

Master Dev

Rent received from house property received from Mrs. Megha - Rs. 35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2026-27 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item.

Solution:

**Computation of total income of Mr. Suraj,
Mrs. Megha and minor son Dev for A.Y. 2026-27**

Particulars	Mr. Suraj [Under default tax regime] Rs.	Mrs. Megha [Under normal provisions] Rs.	Dev [Under normal provisions] Rs.
Income from house property			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [Rs. 35,000 × 12]		4,20,000	
Less: Deduction @30% of NAV		1,26,000	
		2,94,000	

Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
Profits and gains from business or profession			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of Rs. 8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	6,15,000		
Income from Other Sources	-		
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @50%	1,00,000		
	1,00,000		
Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds Rs. 50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt under section 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of Rs. 1,95,000	1,95,000		
	80,000		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]			Nil
Taxable Income	80,000	2,94,000	-

Question 19 [Dec 21 – 4 Marks, Similar Concepts in May 22, Nov 20, MTP Nov 20, MTP 1 Oct 21, RTP May 20 and RTP May 22]

Details of Income of Mr. R and his wife Mrs. R for the previous year 2025-26 are as under:

1. 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 Rs. 50,000 from such property.
2. Mr. R transferred Rs. 4,00,000 to his wife Mrs. R on 01.04.2010 without any consideration which was given as a loan by her to Mr. Girish. She earned Rs. 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.

3. 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 Rs. 3,20,000 and 2,70,000 respectively.
4. Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2017 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2020. On 04.03.2026, Mr. R sold entire share holdings and earned Rs. 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission Rs. 4,00,000 and Mrs. R has interest income of Rs. 3,30,000. Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2026-27. Ignore provisions of default regime u/s 115BAC.

Solution:**Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2026-27**

	Particulars	Mr. R	Mrs. R
		Amount (Rs.)	
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 Rs. 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 [Rs. 5,20,000 × 5,000/8,000] - 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 [Rs. 5,20,000 × 3,000/8,000]	1,95,000	3,25,000
III.	Income from Other Sources - Income from commission - Interest income - Interest income on Rs. 4 lakh transferred by Mr. R to Mrs. R without consideration: - Income of Rs. 44,000, i.e., 11% of Rs.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 - Income of Rs. 38,500 i.e., 11% of Rs. 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.	4,00,000 44,000	3,30,000 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]	6,89,000	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.		
Salary income of Mr. R = Rs. 3,20,000 – Rs. 50,000 (standard deduction)		2,70,000
Salary income of Mrs. R = Rs. 2,70,000 – Rs. 50,000 (standard deduction)		2,20,000
Gross Total Income	6,89,000	11,83,500

Question 20 [May 23, Similar Concepts in RTP May 23, Nov 22, ICAI Study Mat Q5]

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- Mr. Chaman's salary income - Rs. 11,00,000
- Mrs. Chaman's income from Kathak performances - Rs. 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of Rs. 5,50,000 from sale of shares.
- Mrs. Chaman gifted Rs. 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2025, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000
- Miss Naina, their minor daughter, earned Rs. 3,56,000 by performing in various quiz competitions held online during the year 2025-26. She kept that amount in savings bank account and earned interest of Rs. 15,000 during the year 2025-26.
- Master Neelabh, their minor son earned Rs. 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned u/s 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2026-27. Ignore section 115BAC pertaining to alternative tax regime.

Solution:

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2026-27

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	Rs.	Rs.	Rs.	Rs.
Income under the head "Salaries"				
Salaries (computed)	11,00,000			
Profits and gains from business or profession				

Income from Kathak performances		2,50,000		
Capital Gains				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of Rs. 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of Rs. 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		(2,00,000)		
The balance short-term capital loss of Rs. 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent.			3,56,000	
However, interest of Rs. 15,000 on saving bank account [after providing for deduction of Rs. 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [Rs. 15,000 - Rs. 1,500]	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A				
- Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
- Under section 80U Flat deduction of Rs. 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note –

The question mentions that Mrs. Chaman gifted Rs. 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2025 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000. It is not possible to invest Rs. 2 lakhs and incur short-term capital loss of Rs. 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining Rs. 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of Rs. 5,10,000 has to be set off against long-term capital gains of Rs. 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be Rs. 2,90,000 instead of Rs. 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

CHAPTER 10

AGGREGATION OF INCOME, SET OFF AND CARRY FORWARD OF LOSSES

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

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

Solution:

- (i) **Computation of total income of Mr. A for the A.Y.2026-27 under normal provisions of the Act**

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes:

- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) **Business loss** of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be **carried forward** as it **cannot be set off against salary income**.

- (ii) **Computation of total income of Mr. A for the A.Y.2026-27 under default tax regime**

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	

Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the **default tax regime**, loss from house property of ₹ 2,20,000 cannot be set off against income under any other head and **cannot be carried forward** to next assessment year.
- (ii) **Business loss** of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be **carried forward** as it **cannot be set off against salary income**.

Question 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2025-26:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2026-27, assuming that he pays tax under section 115BAC?

Solution:**Total income of Mr. B for the A.Y. 2026-27**

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC	Nil	
Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iii)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iii)]		
Taxable income		45,000

Notes:

- (i) **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.

- (ii) 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.
- (iii) **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.

Question 3

During the P.Y. 2025-26, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2024-25	(96,000)
Short term capital loss of A.Y.2025-26	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2026-27?

Solution:

Taxable capital gains of Mr. C for the A.Y. 2026-27

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the A.Y.2025-26	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2024-25		
₹ 96,000 set off to the extent of ₹ 75,000	(75,000)	Nil
[See Note below]		
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.

Question 4

Mr. D has the following income for the P.Y.2025-26:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2025-26)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2023-24)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2026-27?

Solution:

Total income of Mr. D for the A.Y. 2026-27

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	(75,000)	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2027-28		

Income from textile business	85,000	
Less: Brought forward business loss from textile business	(50,000)	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Question 5 [ICAI Study Mat, MTP 1 Nov 19, Nov 18]

Mr. E has furnished his details for the A.Y.2026-27 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2024-25	(30,000)
Winning from lotteries (Gross)	20,000

Compute the total income of Mr. E for the A.Y.2026-27.

Solution:

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

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	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.

Question 6

Compute the gross total income of Mr. F for the A.Y. 2026-27 from the information given below –

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2025-26)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Solution:

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

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	(26,000)	
Less: Brought forward business loss	(45,000)	
	64,000	

Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Notes:

- (1) **Dividend from Indian companies** is taxable at **normal rates** of tax in the hands of **resident** shareholders.
- (2) **60% of the income from tea business** is treated as **agricultural** income and therefore, exempt from tax;
- (3) **Long-term capital loss** can be **set-off only against long-term capital gains**. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2025-26 cannot be set-off in the A.Y.2026-27, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2027-28.

Question 7

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).

Solution:**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	

Note: Agricultural income is exempt under section 10(1).

Question 8 [ICAI Study Mat, Similar in RTP Nov 20, MTP 1 May 22, RTP Nov 19, MTP 1 May 21, RTP May 19]

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:

- Losses from activity of owning and maintaining race horses-pertaining to A.Y.2023-24 - ₹ 25,000.
- Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2018-19.

Compute gross total income of Mr. Batra for the Assessment Year 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2027-28.

Solution:

Computation of Gross Total Income of Mr. Batra for the A.Y. 2026-27

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2018-19 set-off to the extent of ₹ 50,000 [See Note 1]	(50,000)	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 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.

Question 9

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 (Computed as per books) (Sales turnover ₹ 1,35,70,000)	7,50,000
	Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2026-27. Assume 10% of the turnover during the P.Y.2025-26 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	
(iii)	He has brought forward depreciation relating to A.Y. 2024-25	1,00,000

Compute taxable income of Mr. A and his tax liability for the A.Y. 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

**Computation of total income and tax liability of
Mr. A for the A.Y. 2026-27**

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	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:

- 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.

- Income from plying of light goods vehicles: Income calculated under section 44AE(1)** would be ₹ 7,500 × 12 × 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is **lower than the presumptive income** of ₹ 4,50,000 calculated as per section 44AE(1). Hence, **the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.**

It is to be further noted that in both the above cases, if income is declared under presumptive provisions, **all deductions under sections 30 to 38**, including depreciation would have been **deemed to have been given full effect to and no further deduction under those sections would be allowable.**

If income is declared as per presumptive provisions, his total income would be as under:

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000@ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 × 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

Question 10

Mr. Aditya furnishes the following details for the year ended 31-03-2026:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2024-25 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y.2021-22.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

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	
<i>Less:</i> Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	(75,000)	
<i>Less:</i> 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)	
<i>Less:</i> Set-off of loss from house property to the extent of	(23,000)	Nil
Total Income		1,63,000

Items eligible for carried forward to A.Y.2027-28

Particulars	₹
<u>Loss from House property</u> As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2034-35, in this case.	50,000
<u>Loss from speculative business A</u> Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2030-31, in this case, as specified under section 73(4).	20,000
<u>Loss from specified business</u> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business. Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.	20,000
<u>Loss from the activity of owning and maintaining race horses</u> 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).	2,000

Question 11

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2025-26:

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y. 2025-26 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the A.Y. 2026-27 and the amount of loss, if any that can be carried forward or not.

Solution:

Computation of Gross Total Income of Mr. Garg for the A.Y. 2026-27

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2025-26 (Unabsorbed depreciation can be set-off against any head of income other than "salary")	(11,000)	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	(9,800)	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2027-28

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another 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] [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.	

Question 12

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2026:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: 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.*

Question 13

Mr. Rajat submits the following information for the financial year ending 31st March, 2026. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

- (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) <u>Textile Business:</u>	
	(i) Discontinued from 31 st October, 2025 – Current year loss	40,000
	(ii) Brought forward business loss of A.Y.2021-22	95,000
	(b) <u>Chemical Business:</u>	
	(i) Discontinued from 1 st March, 2023 – hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000
	(iii) Brought forward business loss of A.Y. 2022-23	50,000
	(c) Leather Business: Profit for the current year	1,00,000
	(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

Solution:

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

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2021-22 set off against the business income of current year	(-)95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to A.Y. 2027-28

Particulars	₹
Brought forward chemical business loss of A.Y. 2022-23 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2026-27 to be carried forward u/s 74	35,000

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 14

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.3.2026:

- Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- Long-term capital gain on sale of land ₹ 5,00,000.
- ₹ 51,000 received in cash from friends in party.
- ₹ 55,000, being dividend income on listed equity shares of domestic companies.
- Brought forward business loss of A.Y. 2024-25 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the A.Y. 2026-27 and ascertain the amount of loss that can be carried forward.

Solution:**Computation of Gross Total Income of Ms. Geeta for the A.Y. 2026-27**

Particulars	₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: B/f business loss of A.Y. 2024-25 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	(7,50,000)
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	(3,00,000)
	2,00,000
Income from other sources	
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000
Dividend income from a domestic company is fully taxable in the hands of shareholders	55,000
	1,06,000
Gross Total Income	3,06,000

Notes:

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)**.

Question 15 [ICAI Study Mat, Similar in RTP Nov 22, RTP May 22]

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.

Solution:

Computation of Gross Total Income of Mr. P for the A.Y. 2026-27

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of ₹ 70,000)	(21,000)	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less : Current year depreciation	(8,000)	
	72,000	
Less : Unabsorbed depreciation	(9,000)	63,000
(b) Income from speculative business	12,000	
Less : B/f loss of ₹ 16,000 from speculative business set-off to the extent of ₹ 12,000	(12,000)	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	(7,800)	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

Particulars	₹
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

- (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).**

Question 16

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.

Solution:**Computation of total income of Mr. Prakash for A.Y.2026-27**

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
<i>Less: Standard Deduction u/s 16(ia)</i>	50,000	
	4,75,000	
<i>Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]</i>	(20,000)	4,55,000
Income from house property		
Income from let out house property	1,20,000	
<i>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</i>	(2,00,000)	
	(80,000)	

Profits and gains from business or profession		
Profit from speculation business Y	45,000	
<i>Less:</i> Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	Nil
Presumptive Income from trading and manufacturing business	1,00,000	
<i>Less:</i> 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	
<i>Less:</i> Short term capital loss on sale of jewellery	(65,000)	
	60,000	
<i>Less:</i> 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	
<i>Less:</i> Exempt	75,000	Nil
Gross Total Income		4,55,000
<i>Less:</i> Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2026	60,000	60,000
Total Income		<u>3,95,000</u>

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.	

Question 17

Mr. Jaji is a chartered accountant and his income from profession for the year 2025-26 is ₹ 10,00,000. He provides you with the following information for the year 2025-26.

Particulars	₹
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2024 out of her special talent	20,000
Gift received by Chitra on 30-09-2025 from friends of Mr. Jaji on winning National award	45,000
Short term capital loss of Mr. Jaji	6,00,000
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gains from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss under section 111A of Mr. Jaji	10,00,000

Compute the total income of Mr. Jaji for A.Y. 2026-27 and the losses to be carried forward. Mr. Jaji has opted out of the default tax regime.

Solution:**Computation of Total Income of Mr. Jaji for A.Y. 2026-27**

Particulars	₹	₹	₹
<u>Profits and gains from business and profession</u>			
Income from chartered accountancy profession			10,00,000
<u>Capital gains</u>			
Long term capital gains from STT paid shares		10,00,000	
Long term capital gain (other than above)		4,00,000	
		14,00,000	
<i>Less:</i> Short term capital loss set off against long-term capital gain as per section 74		(6,00,000)	
<i>Less:</i> 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
<u>Income from other sources</u>			
Income of minor son Biju			
Income from company deposit includible in the hands of Mr. Jaji as per section 64(1A)	1,50,000		
Less: Exemption in respect of income of minor child u/s 10(32)	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 A.Y.2027-28 would be as under –

Particulars	₹
Short term capital loss (other than u/s 111A)	2,00,000

PART B: ADDITIONAL QUESTIONS**Question 18 [MTP 1 Nov 23, Nov 19 – 5 Marks, Similar Question MTP 1 Nov 22]**

Following are the details of incomes/losses of Mr. Rishi for the F.Y. 2025-26 :

(Figures in brackets represents losses)	Rs.
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources :	
- from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for A.Y. 2026-27. He has exercised the option to shift out of the default tax regime under section 115BAC.

Solution:**Computation of gross total income of Mr. Rishi for the A.Y.2026-27**

Particulars	Rs.	Rs.
Salary Income (computed)	3,60,000	
Less: Set-off of loss from house property Rs. 2,20,000, restricted to	2,00,000	1,60,000
Income from House Property		
Income from Property X	1,20,000	
Less: Loss from Property Y [inter-source set-off is permitted under section 70(1)]	3,40,000	
Loss from house property	2,20,000	
Less: Loss eligible for set-off against salary income as per section 71(3A), restricted to	2,00,000	
Loss to be carried forward to A.Y. 2027-28 as per section 71B, for set-off against income from house property, if any, in that year.	(20,000)	
Profits and gains of business or profession		
Income from business P	2,30,000	
Less: Loss from business Q (inter-source set-off is permitted)	12,000	2,18,000
Income from speculation business R	15,000	
Less: Loss from speculation business T [can be set-off only against income from speculation business as per section 73(1)]	25,000	
Loss to be carried forward to A.Y. 2027-28 for set-off against speculative business income of that year by virtue of section 73(2).	(10,000)	
Income from Other Sources		
Income from card games	16,000	
Interest on securities	5,000	
Loss from owning & maintaining race horses	(7,000)	21,000

[Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to A.Y. 2027-28 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)]		
Gross Total Income		3,99,000

Note: Loss from house property of Rs. 2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be Rs. 3,60,000 and business income would be Rs. 18,000. Gross total income would remain the same. Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible.

Question 19 [MTP 2 Nov 23, July 21, May 24, Similar Points covered in MTP 2 May 23, RTP Nov 21, Nov 20, MTP 1 May 20, MTP 2 Nov 24]

Mr. Nigam a resident individual submits the following information, relevant to the previous year ending March 31, 2026:

S. No.	Particulars	Amount (Rs.)
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property	
	- House in Delhi	22,000
	- House in Chennai	(-) 2,60,000
	- House in Mumbai (self-occupied)	(-) 20,000
(iii)	Profit and gains from business or profession	
	- Textile business	18,000
	- Cosmetics business	(-) 22,000
	- Speculative business-1	(-) 74,000
	- Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of 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. Nigam for the assessment year 2026-27 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC.

Solution:

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

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of Rs. 2,58,000 to the extent of Rs. 2 lakhs by virtue of section 71(3A)	2,00,000	22,000
Income from house property		
- House in Delhi	22,000	
- House in Chennai	(2,60,000)	
- House in Mumbai (self-occupied)	(20,000)	
	(2,58,000)	

Loss upto Rs. 2 lakhs can be set off against income from salary. Balance loss of Rs. 58,000 from house property has to be carried forward to A.Y.2027-28. Profits and gains from business or profession Profits from Speculative business – 2 Less: Loss of Rs. 74,000 from speculation business - 1 set off to the extent of profits of Rs. 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Hence, the balance loss of Rs. 28,000 from speculative business has to be carried forward to A.Y.2027-28. Profits from textile business Less: Loss from cosmetic business of Rs. 22,000 set off against profits from textile business to the extent of Rs. 18,000 as per section 70(1). Balance loss of Rs. 4,000 from cosmetic business has to be carried forward to A.Y.2027-28, since the same cannot be set-off against salary income. Capital Gains Long term capital gain from sale of property Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of Rs. 16,000 set off against long-term capital gains to the extent of Rs. 15,400 as per section 74(1). Balance short term capital loss of Rs. 600 has to be carry forward to A.Y.2027-28 Income from Other Sources Income from betting [No loss is allowed to be set off against such income] Income from card games [No loss is allowed to be set off against such income] Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss of Rs. 14,600 has to be carried forward to A.Y.2027-28]		
	46,000	
	(46,000)	-
	18,000	
	(18,000)	-
	15,400	
	(15,400)	-
	34,000	
	46,000	
	Nil	80,000
Gross Total Income		1,02,000

Question 20 [RTP Jan 25]

Mr. Mayank, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the F.Y. 2025-26

Particulars	Amount (Rs.)
Income from Salary (Computed)	27,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,25,000)
Income from let out property in Kanpur	5,50,000

Loss from let out property in Delhi	(3,75,000)
Interest on self-acquired property in Mumbai	(1,50,000)
Net winnings from online games (Net of TDS)	35,000
Profit and gains from manufacturing business (after deducting normal depreciation of Rs. 2,00,000 and additional depreciation of Rs. 50,000)	36,86,000

The other details of losses and unabsorbed depreciation pertaining to A.Y. 2025-26 are as follows:

Particulars	Amount
Business loss from manufacturing business	(5,35,000)
Unabsorbed normal depreciation	(2,10,000)
Loss from the activity of owning and maintaining the race horses	(1,50,000)
Loss from let out property in Delhi	(2,10,000)

Mr. Mayank filed his return of income for A.Y. 2025-26 on 28.7.2025 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2026-27 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC.

Solution:

Computation of gross total income of Mr. Mayank for A.Y. 2026-27

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary (Computed)		27,40,000
Income from house property		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	
Less: Loss from let out property in Delhi of A.Y. 2025-26 cannot be set off against income from house property of A.Y. 2026-27 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2025-26 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
		1,75,000
Profits and gains from business or profession		
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	
Less: Brought forward business loss of A.Y. 2025-26	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	
		29,91,000
Capital Gains		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
Income from Other Sources		
Net winnings from online games [Rs. 35,000/70%]		50,000
Gross Total Income		59,56,000

Losses to be carried forward to A.Y. 2027-28

Particulars	Amount (Rs.)
Brought forward loss from the activity of owning and maintaining the race horses of A.Y. 2025-26 can be set off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.	1,50,000
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid	1,25,000

Question 21 [Suggested May 25] – 6 Marks

Mr. Sanju, an individual assessee, aged 32 years, furnishes the following details for the year ended on 31st March, 2026:

- (i) Loss from Future & Option: ₹ 75,000
- (ii) Profit from restaurant business (computed): ₹ 2,21,000
- (iii) Share of profit in partnership firm M/s XL & Co. (19% share): ₹ 38,000
- (iv) Income from salary (computed): ₹ 3,15,000
- (v) Interest on loan paid for self-occupied house property: ₹ 1,75,000 (Principal amount paid: ₹ 1,20,000)
- (vi) Short-term capital gain: ₹ 82,000
- (vii) Long-term capital gain u/s 112A: ₹ 1,10,000
- (viii) Long-term capital loss u/s 112: ₹ 68,000
- (ix) His wife received salary of ₹ 2,40,000 from a partnership firm XL & Co., where she is an accountant. She does not have any professional qualification related to accounting.
- (x) He paid ₹ 21,000 for medical insurance premium and ₹ 9,000 for preventive health check-up.

Brought forward speculative business loss: ₹ 26,000 (this being 3rd year from the year of loss) and brought forward short-term capital loss: ₹ 52,000 (this being the 4th year from the year of loss).

Compute total income of Mr. Sanju for the A.Y. 2026-27 if he exercises the option to shift out of default tax regime u/s 115BAC(1A). Also state the losses eligible to carry-forward.

Solution:

**Computation of Total Income of Mr. Sanju for the A.Y. 2026-27
as per the optional tax regime under the Income-tax Act, 1961**

Particulars	₹	
Income from Salary		
Salary (computed)	3,15,000	
Add: Salary received by his wife from M/s XL & Co., partnership firm of ₹ 2,40,000 shall not to be clubbed in the income of Mr. Sanju even if his wife does not have any professional qualification since he does not have substantial interest in the firm as his share of profit in such firm is less than 20%	Nil	
	3,15,000	
Less: Loss from self-occupied house property	(1,75,000)	
		1,40,000
Income from House Property (Self-occupied Property)		
Annual Value		
Less: Deductions under section 24	-	

Interest on loan paid for self-occupied property	(1,75,000)	
	(1,75,000)	
Profit and gains of business or profession		
Profit from restaurant business	2,21,000	
Less: Loss from Future & Option	(75,000)	
	1,46,000	
Share of profit from M/s XL & Co., partnership firm [Exempt under section 10(2A)]	Nil	1,46,000
Capital Gain		
Short term capital gain	82,000	
Less: Brought forward short-term capital loss	(52,000)	
		30,000
Long-term capital gain u/s 112A	1,10,000	
Less: Long term capital loss u/s 112	(68,000)	
		42,000
Gross Total Income		3,58,000
Less: Deduction under Chapter VI-A		
- Under section 80C – Repayment of housing loan	1,20,000	
- Under section 80D – Medical premium for self of ₹ 21,000 and preventive health checkup fees of ₹ 9,000 restricted to ₹ 5,000 subject to overall limit of ₹ 25,000	25,000	1,45,000
Total Income		2,13,000
Losses to be carried forward to A.Y. 2027-28		
Loss from speculative business		26,000
As per section 73(4), brought forward loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2027-28 for set-off against income from speculation business of that year.		

Question 22 [MTP 2 May 25] – 6 Marks

Mr. Mayank, aged 65 years, resides in Hyderabad, provides the following information relating to the financial year ended 31.3.2026.

Particulars	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000
Income from speculation business	40,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000

Other information

- Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2015 and the sum assured is ₹ 2,00,000.
- Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

You are required to compute the total income of Mr. Mayank for the A.Y. 2026-27 under normal provisions of the Act.

Solution:

**Computation of total income of Mr. Mayank for the A.Y.2026-27
under normal provision of the Act**

Particulars	₹	₹
Income under the head “Salaries”		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia)	50,000	6,10,000
Profits and gains of business or profession		
Income from speculation business	40,000	40,000
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	1,40,000
Income from other sources		
Interest from bank on fixed deposit (Gross)	55,000	
Loss from card games can neither be set off against any other income, nor can it be carried forward	Nil	
Income from betting	45,000	1,00,000
Gross total income		8,90,000
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. Mayank is a senior citizen	26,000	
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. Mayank is a senior citizen	50,000	96,000
Total income		7,94,000

Question 23 [MTP 2 Sept. 25] – 6 Marks

Mr. Shitij has earned the following incomes and incurred losses for the previous year 2025–26:

Particulars	Amount (₹)
Income from Salary	3,40,000
Long term capital loss on sale of shares of ABC 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)

You are required to compute the total income of Mr. Shitij for the assessment year 2026-27 under default tax regime, showing clearly the manner of set-off and the items eligible for carry forward. The return of income has been filed on 30-7-2026.

Solution:

**Computation of total Income of Mr. Shitij for the A.Y. 2026-27
under default tax regime**

Particulars	Amount (₹)	Amount (₹)
Income from Salary		3,40,000
Income from house property		
Loss from let out property	75,000	
Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Shitij is paying tax under default tax regime]	-	
Loss from house property is not allowed to be set off against any other head of income under default tax regime and it cannot be carried forward	75,000	-
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	10,000	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	(1,15,000)	25,000
Income from Other Sources		
Winnings from lottery tickets [As per section 58, no expenditure is allowed against winnings from lottery tickets]		40,000
Gross Total Income		4,60,000

Losses to be carried forward to A.Y. 2027-28

Particulars	Amount (₹)
Loss from the activity of owning and maintaining the race horses [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.]	50,000

Question 24 [RTP Sept. 25]

Mr. Suraj, aged 40 years, submits the following information for the financial year ending 31.3.2026:

- (i) He is employed in ABC Ltd. and earned salary income of ₹ 10,50,000 (computed).
- (ii) He is engaged in a speculation and a non-speculation business. He earned profit from speculation business of ₹ 60,000 and suffered loss from non-speculation business of ₹ 40,000.
- (iii) He reported short-term capital gain of ₹ 80,000. He also received lottery winnings of ₹ 20,000 (Gross).
- (iv) He has a brought forward long-term capital loss of ₹ 30,000 from A.Y. 2025–26.
- (v) Mr. Suraj has two children: one married daughter Riya aged 17 years, and a son Raj aged 16 years. The interest income of Riya and Raj is ₹ 1,200 p.a. and ₹ 2,000 p.a., respectively.
- (vi) He transferred a flat to Riya on 1st April 2025, on account of natural love and affection. This flat was let out from that date and generated rental income of ₹ 5,000 per month.
- (vii) Mr. Suraj paid a medical insurance premium of ₹ 22,000 during the financial year to insure his health, his spouse and dependent children. Additionally, he paid ₹ 33,000 to insure the health of his mother, aged 67 years, who is not dependent on him. He also incurred ₹ 20,000 as medical expenditure for his father, aged 71 years, who is not dependent and is not covered under any insurance policy. He contributed ₹ 6,000 during the year to the Central Government Health Scheme (CGHS).

Compute the total income of Mr. Suraj assuming that Mr. Suraj's total income is higher than Mrs. Suraj's total income, before including the income of minor children. Mr. Suraj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

Particulars		₹	₹
I	Salaries		
	Income from Salary (computed)		10,50,000
II	Income from business		
	Income from speculation business	60,000	
	Less: Loss from non-speculation business	<u>(40,000)</u>	20,000
	As per section 73(1), loss from speculation business cannot be set off against profit from non-speculation business. However, there is no restriction under section 72 to set off loss from non-speculation business against profit from speculation business.		
III	Capital Gains		
	Short-term capital gain		80,000
	As per section 74(1), 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 A.Y. 2027-28		
IV	Income from Other Sources		<u>20,000</u>
	Winnings from lotteries		
	Gross Total income before including income of minor children		11,70,000
	Income of minor married daughter Riya		
	(i) Interest income	1,200	
	(ii) GAV [Rental income from 60,000 house property] 60,000		
	[₹ 5,000 × 12] [Section 27 is not attracted if the house property is transferred by a parent to a minor married daughter. Hence, Mr. Suraj is not a deemed owner of the house property. However, by virtue of section 64(1A), all income of a minor child is includible in the hands of parent whose income is higher.		

Less: 30% of GAV	18,000	42,000	
		43,200	
Less: Exempt under section 10(32)		1,500	41,700
Income of Minor Son Raj			
Interest income		2,000	
Less: Exempt under section 10(32)		1,500	500
Gross Total Income			12,12,200
Less: Deduction under section 80D (Refer working note below)			75,000
Total Income			11,37,200

Working Note**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

Question 25 [RTP Jan. 26]

Mr. K is a 48-year-old resident individual. The details of income earned for the P.Y. 2025-26 from diversified businesses and investment portfolio are as under:

- He runs two businesses:
 - A manufacturing business with profit of ₹ 10,00,000.
 - A speculative business with loss of ₹ 7,00,000.
- He incurred a loss of ₹ 2,15,000 from a let-out property and also earned an income of ₹ 50,000 from the activity of owning and maintaining race horses. For earning this income, he incurred an expense of ₹ 5,000.
- He has earned short-term capital gains of ₹ 50,000 from equity shares sold on 10.05.2025 on which STT was paid, and long-term capital loss of ₹ 75,000 from other assets sold on 15.10.2025.
- Mr. K took divorce from his wife in April 2025 and the custody of their minor son is given to Mrs. K. Following the divorce, he transferred ownership of house property to his wife. During the financial year, the property generated rental income of ₹ 5,00,000.
- Mr. K deposits cash of ₹ 50,000 every month into the bank account of his minor son. During the P.Y. 2025-26, interest income of ₹ 25,000 is generated in his son's bank account.
- He has also contributed a sum of ₹ 2 lakh to an electoral trust and incurred expenditure of ₹ 30,000 on advertisement in a brochure of a political party.
- He authored an investment portfolio book and received royalty income of ₹ 4,10,000 during the P.Y. 2025-26 from a publisher in Germany. The royalty is calculated at 16% of book sales value. He incurred ₹ 60,000 as expenditure for earning this income. Out of the total royalty, ₹ 2,90,000 was remitted to India by 31st August 2026, and the balance remained in abroad till 30.9.2026.

Compute the total income of Mr. K assuming that he exercises the option of shifting out of the default tax regime. Assume Mr. K's total income, excluding the minor's income, is higher than that of his wife.

Solution:

**Computation of total income of Mr. K for the A.Y.2026-27
under normal provision of the Act**

Particulars		₹	₹
I	House Property Rental Income of ₹ 5 lakhs shall be taxable in the hands of Mrs. K since it is a case of transfer of house property to his spouse in connection with an agreement to live apart. In such case, the transferee shall be the owner of the house property and rental income will be taxed in the hands of transferee. Set off of loss from house property to be restricted to ₹ 2 lakhs by virtue of section 71(3A). Balance loss of ₹ 15,000 has to be carried forward to A.Y. 2027-28		-
II	Income from business Income from manufacturing business Loss from speculation business As per section 73(1), loss from speculation business can be set off only against profit from any other speculation business. Therefore, loss from speculation business of ₹ 7,00,000 has to be carried forward to A.Y. 2027-28 Less: Set off of loss from house property to the extent of ₹ 2 lakhs	10,00,000 - <u>2,00,000</u>	 8,00,000
III	Capital Gains Short-term capital gain u/s 111A Long term capital loss As per section 74(1), long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 75,000 has to be carried forward to A.Y. 2027-28	50,000 <u>-</u>	 50,000
IV	Income from Other Sources Royalty Income [₹ 4,10,000 - ₹ 60,000] Interest income from son's bank account [Income of the minor will be included in the income of Mrs. K as Mrs. K is maintaining the child.] Income from the activity of owning and maintaining race horses Less: Expenses incurred to earn this income	3,50,000 - 50,000 5,000	 3,95,000
Gross Total Income			12,45,000
Less: Deduction under section 80GGC Contribution to an electoral trust is allowed as deduction assuming it is paid otherwise than in cash. Expenditure of ₹ 30,000 incurred on advertisement in a brochure of political party is not eligible for deduction under section 80GGC		2,00,000	
Deduction under section 80QQB (Refer working note below)		2,30,000	4,30,000
Total Income			8,15,000

Working Note**Deduction allowable under section 80QQB for the A.Y. 2026-27**

Particulars	₹
Royalty ₹ 4,10,000 x 15/16 = ₹ 3,84,375	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,90,000
Less: Expenses already allowed as deduction while computing royalty income	60,000
Deduction u/s 80QQB	2,30,000

Question 26 [Suggested Sept. 25]

Surbhi, a resident individual aged 35 years, is a working partner in two firms (A and B) engaged in the retail business of garments. She provides the following details of her income/losses for the year ended 31st March 2026:

- Remuneration received as a partner from partnership firm "A" - ₹ 9.7 lakhs (Deductible while computing the income of the firm).
- Loss from intra-day trading in shares of Indian companies listed on a recognised stock exchange (no delivery of shares was taken) - ₹ 4 lakhs.
- Income from the activity of owning and maintaining race horses - ₹ 7 lakhs.
- Long term capital gains on sale of property (computed as per the provisions of the Income-tax Act, 1961) - ₹ 9.2 lakhs.
- Interest paid on loan taken for repair of self-occupied house property - ₹ 1.2 lakhs.
- Amount received as advance towards sale of a shop which was later forfeited as the buyer could not comply with the conditions specified in agreement of sale - ₹ 5 lakhs.
- Share of loss from partnership firm "B" - ₹ 1.1 lakhs.
- Loss on betting - ₹ 0.20 lakhs.
- Interest on fixed deposit (gross) - ₹ 0.80 lakhs. The fixed deposit of ₹ 10 lakhs was gifted to her by her father-in-law on 01.04.2025.

Following are the losses brought forward:

- Long term capital loss on sale of unlisted shares (pertaining to A.Y. 2025-26) - ₹ 3.8 lakhs.
- Loss from the activity of owning and maintaining race horse (pertaining to A.Y. 2025-26) - ₹ 25,000.

Compute gross total income of Surbhi for assessment year 2026-27 under appropriate heads of income and the amount of loss that can/cannot be carried forward assuming that she has opted out of default tax regime. Will your answer be different in case she does not opt out from default tax regime. There is no need to compute the tax payable under any of the regimes.

Solution:

**Computation of Gross Total Income of Mrs. Surbhi for the
A.Y. 2026-27 as per the optional tax regime**

Particulars	₹	₹
Income from House Property (Self-occupied Property)		
Annual Value	-	
Less: Deductions under section 24(b)	(30,000)	
Interest on loan for repair of self-occupied property (Restricted to ₹ 30,000)		
	(30,000)	

Profit and gains of business or profession		
Remuneration from partnership firm	9,70,000	
Share of loss from partnership firm [Not allowed for set-off as it is from exempt source]	-	
<i>Less: Set off of loss from House Property</i>	<i>(30,000)</i>	9,40,000
<i>[Alternatively, loss from house property can be set off from advance forfeited.]</i>		
Capital Gain		
Long-term capital gain on sale of property	9,20,000	
<i>Less: Brought forward long-term capital loss on sale of unlisted shares</i>	<i>(3,80,000)</i>	5,40,000
Income from Other Sources		
Income from owning and maintaining race horse	7,00,000	
<i>Less: Brought forward loss of owning and maintaining race horse</i>	<i>(25,000)</i>	
	6,75,000	
Advance forfeited as the buyer could not comply with the conditions of the sale agreement	5,00,000	
FD received from Father-in-Law [Sine Father- in-law falls within the definition of relative, the gift will not be taxable in her hands]	-	
As per section 64(1)(vi), interest on fixed deposit (Since fixed deposit was gifted by father-in law, interest on FD will be clubbed in the hands of Father-in-law)	-	11,75,000
Gross Total Income		26,55,000
Losses to be carried forward to A.Y. 2027-28		
Loss from speculative business		4,00,000
Loss from speculation business (intra day trading in shares) cannot be set off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward to A.Y. 2027-28ew for set off against income from speculation business of that year.		
Loss on betting		-
Loss from betting cannot be set off or carried forward for future years.		

**Computation of Gross Total Income of Mrs. Surbhi for the
A.Y. 2026-27 as per the default tax regime**

Particulars	₹	₹
Gross Total Income as per optional tax regime	26,55,000	
<i>Add: Loss from House Property [Interest under section 24(b) is not allowable in respect of self-occupied house property while Computing total income as per section 115BAC]</i>	<i>30,000</i>	
Gross Total Income as per default tax regime		26,85,000

CHAPTER 11

DEDUCTIONS FROM GROSS TOTAL INCOME

PART A: STUDY MATERIAL QUESTIONS

Question 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (a) For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- (b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QQB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

Solution:

- (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**, inter alia, under **section 80QQB**.

Question 2

Compute the eligible deduction under section 80C for A.Y.2026-27 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2025-26, the details of which are given hereunder, if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) –

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)
(i)	30/3/2012	Self	9,00,000	48,000
(ii)	1/5/2019	Spouse	1,50,000	20,000
(iii)	1/6/2022	Handicapped son (section 80U disability)	4,00,000	80,000

Solution:

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2025-26 (₹)	Deduction u/s 80C for A.Y. 2026-27 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	9,00,000	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	

Question 3

What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

Solution:

If Mr. Ganesh pays tax under **default tax regime under section 115BAC**, he would **not** be eligible for deduction under section 80C.

Question 4

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2025-26:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value ₹ 2,20,000)	25,000

What is the deduction allowable under section 80C for A.Y.2026-27 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Solution:**Computation of deduction under section 80C for A.Y.2026-27**

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,20,000, as the policy is taken after 31.3.2012)	22,000
Total	1,72,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

Question 5 [ICAI Study Mat, Similar Concept in MTP 1 Nov 22, RTP Nov 21, MTP 2 May 21]

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?

Solution:

(i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

(a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.

(b) **Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1).** However, the deduction is **restricted to 10% of salary**.

Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 = Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	12,00,000
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction under section 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 under section 80CCE. ₹ 36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of ₹ 1,50,000 under section 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction under section 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction under section 80CCD(1).

- (c) **Employer's contribution to pension scheme** would be allowable as deduction under section 80CCD(2), **subject to a maximum of 10% of salary**. Therefore, deduction under section 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would **not be eligible for deduction** under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be **allowed deduction of upto ₹ 2,01,600, being 14% of salary** [₹ 14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contributions of ₹ 1,80,000 would be allowed as deduction under section 80CCD(2).

Question 6

The gross total income of Mr. X for the A.Y.2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2025-26 –

Particulars	₹
(1) Contribution to PPF	1,10,000
(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3) Repayment of housing loan taken from Standard Chartered Bank	25,000
(4) Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2026-27 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Computation of deduction under Chapter VI-A for the A.Y.2026-27

Particulars	₹
Deduction under section 80C	
- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
- 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

Question 7

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Deduction allowable under section 80D for the A.Y.2026-27

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (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.

Question 8

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2025-26 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under 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).

Solution:

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	25,000
(ii)	Contribution to CGHS	6,000	
	restricted to	28,000	
(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	50,000
		53,000	
	restricted to		
			75,000

Question 9

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Since the amount deposited by Mr. X was for his grandfather, he will **not be allowed any deduction under section 80DD**. The deduction is available if the individual assessee incurs any expense for a “**dependant**” disabled person. **Grandfather does not come within the meaning of “dependant”** as defined under section 80DD.

Question 10

What will be the deduction if Mr. X had made this deposit for his dependant father?

Solution:

Since the expense was incurred for a **dependant disabled person**, Mr. X will be entitled to claim a **deduction of ₹ 75,000** under section 80DD, irrespective of the amount deposited. In case his father has **severe disability**, the deduction would be ₹ 1,25,000.

Question 11

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).

Solution:

Deduction under section 80E is available to an individual assessee exercising the **option of shifting out of the default tax regime provided under section 115BAC(1A)**, in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Question 12

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2026-27 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2026 and he does not own any other house property.

Solution:

Particulars		₹
Interest deduction for A.Y.2026-27		
(i)	Deduction allowable while computing income under the head "Income from house property" Deduction under section 24(b) ₹ 3,85,000 [₹ 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

Question 13

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2026-27 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of Disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019

Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.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.

Solution:

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: (i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C		
Deduction under Chapter VI-A from Gross Total Income		
	Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D		
Deduction under Chapter VI-A from Gross Total Income		
	Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

Question 14 [ICAI Study Mat, Similar in Nov 23, RTP Nov 19, MTP 1 Nov 18, similar in MTP 1 Nov 24, MTP 1 Jul 24, MTP 2 Nov 20, RTP May 18]

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- (i) Premium paid to insure the life of her major daughter (policy taken on 1.4.2019) (Assured value ₹ 1,80,000) – ₹ 20,000.
- (ii) Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- (iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.
- (iv) LIC Pension Fund – ₹ 60,000.
- (v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
- (vi) Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- (viii) Deposit in PPF – ₹ 1,00,000

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

Solution:

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

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	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.

Question 15

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

The deduction under section 80GG will be computed as follows:

- (i) Actual rent paid less 10% of total income

$$₹ 1,44,000 (-) \frac{(10 \times 4,60,000)}{100} = ₹ 98,000$$

- (ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = ₹ 1,15,000$

- (iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question 16

During the P.Y. 2025-26, ABC Ltd., an Indian company,

- (1) contributed a sum of ₹ 2 lakh to an electoral trust; and
- (2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? ABC Ltd. does not opt for section 115BAA/115BAB.

Solution:

An Indian company is eligible for deduction under section 80GGB in respect of any sum **contributed by it in the previous year to any political party** or an **electoral trust**. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 under section 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a **specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party**. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Question 17 [ICAI Study Mat, RTP Nov 18]

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?

Solution:

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2026-27 and he has employed “**additional employees**” during the P.Y. 2025-26.

I. If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below]
= ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

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 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, **30% of additional employee cost** in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2026-27.

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

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2025, 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.

Question 18

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2026 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2027. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

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

Question 19

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2025-26. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Solution:**Computation of total income of Mr. A for A.Y.2026-27**

Particulars	₹	₹
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.

Question 20

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2026. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 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.

Solution:

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		
Under section 80D (See Note 2)		39,500	
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.

Question 21

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

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

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

Solution:

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.

Question 22

Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

	₹
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 ₹ 4,500 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.

Solution:**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

Question 23

Examine the following statements with regard to the provisions of the Income- tax Act, 1961:

- 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.
- Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- 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.
- 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.
- 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.
- Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

- 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. 2026-27.
- (vi) **The statement is not correct.** Contribution to **Tier II account of NPS would qualify** for deduction under section 80C and not section 80CCD.

Question 24

Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- (i) Rajan, a resident individual, has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- (ii) Varun, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
- (iii) Hari, a resident individual, has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.

Solution:

- (i) **The deduction of ₹ 75,000 under section 80DD** is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a **dependant with severe disability, the deduction allowable is ₹ 1,25,000.**
- (ii) The assessee Varun has deposited ₹ 25,000 for maintenance of dependent disabled. He is, however, **eligible to claim ₹ 75,000** since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of **dependant with severe disability, the deduction allowable is ₹ 1,25,000.**
- (iii) Section 80DD allows a deduction of ₹ 75,000 **irrespective of the actual amount spent** on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/deposited is only ₹ 45,000. If the dependant is a person with **severe disability the quantum of deduction is ₹ 1,25,000.**

Question 25

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.

Solution:

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:

Deduction under section 24 while computing income under the head “Income from house property”: 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	2,00,000
Deduction under section 80EEA (while computing deduction under Chapter VI-A from gross total income): 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	1,50,000
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.	

Question 26 [ICAI Study Mat, RTP May 18]

For the A.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 15,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2026, in a tax efficient manner.

Solution:

**Computation of total income and tax liability of
Mr. Chaturvedi for the A.Y. 2026-27 under default tax regime**

Particulars	₹
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	
LTCC ₹ 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 ₹ 10,28,240 (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).

Note:

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

- 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.
- 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.
- Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

Question 27

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).

Solution:

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		
	<u>Under section 80C</u>		
	Repayment of loan taken for acquisition of residential house	50,000	
	Five year time deposit with Post Office	20,000	
		70,000	
	<u>Under section 80E</u>		
	Interest on loan taken for higher education of spouse, being a relative.	10,000	
	<u>Under section 80G (See Note below)</u>		
	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.

Question 28 [ICAI Study Mat, similar in MTP 1 May 21, RTP May 19, RTP Nov 23]

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

Solution:

**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 (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, <i>inter alia</i> , 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 Eligible deduction under Chapter VI-A	50,000	75,000
		2,25,000

Question 29 [MTP 1 May 18, Similar in MTP 2 Oct 22, RTP May 20, RTP Nov 21]

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 22-05-2017.

Solution:

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.

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

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

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

CHAPTER 12

INCOME TAX LIABILITY COMPUTATION AND OPTIMISATION

PART A: STUDY MATERIAL QUESTIONS

Question 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 80,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2025-26. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2026 and his parents live in that house.

Other Information

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

Compute the total income and tax liability of Mr. A for the A.Y. 2026-27 in the most beneficial manner

Solution:

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

Particulars	₹
Salaries	
Basic Salary [₹ 80,000 x 12]	9,60,000
Transport allowance [₹ 15,000 x 12]	1,80,000
HRA received [₹ 20,000 x 12]	2,40,000
Gross salary	13,80,000
Less: Standard deduction u/s 16(ia)	(75,000)
	13,05,000
Income from house property	
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	
Mediclinaim insurance premium for self and parents	-
Total Income	13,05,000
Tax liability	
Tax @5% on ₹ 4,00,000 [₹ 8,00,000 - ₹ 4,00,000]	20,000
Tax @10% on ₹ 4,00,000 [₹ 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	₹
Salaries	
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
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
Total Income	6,51,000
Tax liability	
Tax @ 5% on ₹ 2,50,000 [₹ 5,00,000 - ₹ 2,50,000]	12,500
Tax @ 20% on ₹ 1,51,000 [₹ 6,51,000 - ₹ 5,00,000]	30,200
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.

Question 2 [ICAI Study Mat, MTP 2 Nov 21 - 7 Marks]

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Solution:**Computation of tax liability of Kadam under both the options**

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary ₹ 2,46,000		
- Actual HRA received ₹ 84,000		
- Rent paid less 10% of salary ₹ 22,800	₹ 22,800	
	61,200	
Gross Salary	5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	5,03,200	4,91,200
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 – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
Net Inflow	4,90,330	4,92,000

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation.

Question 3

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?

Solution:

(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	
	<u>1,80,000</u>	95,000
Income from other sources		
- Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.		

- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 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)	1,72,000	1,72,000
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:

1. 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.
2. 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).
3. 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 P.Y.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.

Question 4 [Study Mat, PP Nov 22]

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 27th 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.

Solution:

**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 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		75,000	15,000
II.	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
III.	Income from profession			
	Net profit as per Income and Expenditure account		4,40,400	

IV.	<i>Less:</i> 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	
	<i>Less:</i> 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	
IV.	<i>Add:</i> 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		
	(ii) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(iii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
	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
	<i>Less: Deductions under Chapter VI-A:</i>			
	(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
<i>Add:</i> 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:

- (i) 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".
- (ii) 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.

Question 5

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 Assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
Printing and stationery	12,22,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Meeting, seminar and conference	31,600	Income from UTI (Gross)		7,600
Purchase of car (for official use)	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
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.

Solution:

**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 under section 87A, since the total income does not exceed ₹ 12 lakhs		41,194
Tax liability		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.

Question 6

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:

- The net profit was ₹ 11,20,000.
- The following incomes were credited in the profit and loss account:
 - Income from UTI ₹ 22,000 (Gross)
 - Interest on debentures ₹ 17,500 (Gross)
 - Winnings from horse races ₹ 15,000 (Gross)
- 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.
- ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- 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.

Solution:

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

Question 7

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.

Solution:

**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 31st 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.

Question 8

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 articulated clerks	21,50,000
Cash on hand and at Bank		Other administrative expenses	11,48,000
Fee from professional services (Gross)	59,38,000	Office rent	30,000
Rent	50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	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 (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2026-27 assuming that he has shifted out of the default tax regime under section 115BAC.

Solution:

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

Question 9

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:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- House Insurance ₹ 860
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.

(e) Siddhant received a gift of ₹ 30,000 each from four friends.

(f) He contributed ₹ 50,000 to Public Provident Fund.

Solution:

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	₹ 24,000	
	35,310	2,390
[See Note 2]		
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.

Question 10

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.

Solution:

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	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25 th 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)*
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
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.

Question 11

From the following particulars furnished by Mr. X for the year ended 31.3.2026, you are requested to compute his total income and tax payable for the assessment year 2026-27, assuming that he opts out of the default tax regime under section 115BAC.

- Mr. X retired on 31.12.2025 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2026.
- Mr. X has deposited ₹ 1,00,000 in public provident fund.

Solution:**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
<u>House rent allowance:</u>		
Actual amount received (₹ 6,000 × 9 months)	54,000	
Less : Exemption under section 10(13A) (Note 1)	36,000	18,000
<u>Gratuity:</u>		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
<u>Leave encashment:</u>		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(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 × ₹ 24,500/30 = ₹ 3,18,500

Question 12

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.	Mediclaim 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.

Solution:

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2026-27

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.

Question 13

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.

Solution:

**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 [$₹ 50,00,000 \times 10.5\% \times 3.5/12$] 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 [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]	5,00,000	6,53,125	
	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		
	(iii) Dividend from Indian companies	15,00,000		
	(iv) 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% × 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 × 20% × 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 Dividend from Indian companies		4,550 15,00,000	15,04,550
	Gross Total Income			95,25,641
	Less: Deductions under Chapter VI-A			
	- Deduction under section 80C [Not allowable under default tax regime]			Nil
	- Deduction under section 80D [Not allowable under default tax regime]			Nil
	Total Income			95,25,641
	Total Income (Rounded off)			95,25,640

Computation of tax payable under default tax regime

Particulars	₹	₹
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 × 20% × 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		
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]	25,000	65,000
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	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		<u>8,39,657</u>
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.

Question 14

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2020.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 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.
- He employed 20 new employees for the said industrial undertaking during the previous year 2025-26. Out of 20 employees, 12 were employed on 1st May 2025 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st 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.
- He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- He also sold his vacant land on 01.12.2025 for ₹ 16 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

CII – F.Y. 2001-02: 100; F.Y. 2025-26: 376.

(vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2026-27 under default tax regime.

Solution:

**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			
	30% of ₹ 2,82,500	84,750		
	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			
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			7,12,800
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.		
<u>Tax @20% with indexation</u>		
Sale consideration = ₹ 16,00,000		
Indexed cost of acquisition = ₹ 4,00,000 × 376/100 = ₹ 15,04,000		
Gain = ₹ 96,000		
Tax @20% = ₹ 96,000 × 20% = ₹ 19,200		
<u>Tax @12.5% without indexation</u>		
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
		6,43,185
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.

Question 15

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2024-25, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2025 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2025-26 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2026	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2026-27 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2026-27. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Solution:

**Computation of total income and tax liability of Mr. X for A.Y. 2026-27
(under default tax regime under section 115BAC)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
<i>Less:</i> Depreciation under section 32		
On building @10% of ₹ 65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		37,35,000
<i>Add:</i> Surcharge@15%		5,60,250
		42,95,250
<i>Add:</i> Health and Education cess@4%		1,71,810
Total tax liability		44,67,060

Note: Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings

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	
<i>Less:</i> Deduction u/s 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
<i>Less:</i> Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 64,00,000		17,32,500
<i>Add:</i> Surcharge @ 10% (since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore)		1,73,250
		19,05,750
<i>Add:</i> Health and Education cess@4%		76,230
Total tax liability		19,81,980

Computation of adjusted total income and AMT liability of Mr. X

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 10AA		16,00,000
Add: Deduction under section 35AD	65,00,000	80,00,000
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs ⁵	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

Note: Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings.

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	19,81,980
	10,82,470

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

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

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = ₹ 16,00,000$$

(2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2024-25 and capitalized in the books of account on 1.4.2025, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.

PART B: ADDITIONAL QUESTIONS**Question 16 [MTP 1 May 24, RTP May 23 & Nov 22 – 15 Marks]**

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2026

Trading and Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		66,66,000

Following are the further information relating to the financial year 2025-26:

Income-tax refund includes amount of Rs. 4,570 of interest allowed thereon.

- Salary include Rs. 30,000 paid to his brother which is unreasonable to the extent of Rs. 5,000.
- Advertisement expenses include an amount of Rs. 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- Miscellaneous expenses include an amount of Rs. 1,00,000 paid to Political Party by cheque.
- Goods and Services Tax demand paid includes an amount of Rs. 5,300 charged as penalty for delayed filing of returns and Rs. 12,750 towards interest for delay in deposit of tax.
- Mr. Amit had purchased a warehouse building of Rs. 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2025 and the income from this activity is credited in the Profit and Loss account under the head “Warehousing charges”.
- Depreciation under the Income-tax Act, 1961 works out at Rs. 65,000 excluding depreciation on warehouse building.
- Interest on loans includes an amount of Rs. 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2026-27 in a most beneficial manner.

Solution:**Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2026-27**

Particulars		Rs.
Net profit as per profit and loss account		50,85,000
Less: Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"		30,000
		50,55,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account		
- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]		5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)		2,500
- Payment made to political party by cheque (See Note 2)		1,00,000
- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 3)		5,300
- Depreciation as per books		1,07,250
- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)		24,000
		52,99,050
Less: Depreciation allowable as per Income-tax Act, 1961	65,000	
Depreciation on building [Rs. 20 lakhs × 10%]	2,00,000	2,65,000
Profits and gains from business or profession		50,34,050
Income from Other Sources		
Interest on income-tax refund		4,570
Gross Total Income		50,38,620
Less: Deduction under section 80GGC [Contribution to Political Party] [Not allowable u/s 115BAC]		Nil
Total Income		50,38,620

Notes –

- 1) The amount of Rs. 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- 2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- 3) The interest of Rs. 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of Rs. 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- 4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	Rs.	Rs.
Tax on total income of Rs. 50,38,620		
Upto Rs. 4,00,000	Nil	
Rs. 4,00,001 – Rs. 8,00,000 [@5% of Rs. 4 lakhs]	20,000	

Rs. 8,00,001 – Rs. 12,00,000 [@10% of Rs. 4 lakhs]	40,000	
Rs. 12,00,001 – Rs. 16,00,000 [@15% of Rs. 4 lakhs]	60,000	
Rs. 16,00,001 – Rs. 20,00,000 [@20% of Rs. 4 lakhs]	80,000	
Rs. 20,00,000 – Rs. 24,00,000 [@25% of Rs. 4 lakhs]	1,00,000	
Rs. 24,00,001 – Rs. 50,38,620 [@30% of Rs. 26,38,620]	7,91,586	
		10,91,586
Add: Surcharge @10% [Since, the total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]		1,09,159
		12,00,745
Less: Marginal relief (See computation below)		82,125
		11,18,620
Add: Health and education cess@4%		44,745
Total tax liability		11,63,365
Total tax liability (Rounded off)		11,63,370

Computation of marginal relief

Particulars		Rs.
(A)	Tax payable including surcharge on total income of Rs. 50,38,620 as per section 115BAC	12,00,745
(B)	Tax payable on total income of Rs. 50 lakhs as per section 115BAC	10,80,000
(C)	Excess tax payable (A-B)	1,20,745
(D)	Marginal relief (Rs. 1,20,745 – Rs. 38,620), being the amount of income in excess of Rs. 50 lakhs)	82,125

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [Rs. 20 lakhs × 10%]		2,00,000
		52,38,620
Less: Warehousing charges		22,50,000
Gross Total Income excluding profits and gains from specified business under section 35AD		29,88,620
Profits and gains from specified business under section 35AD		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD (See Note 1)	20,00,000	2,50,000
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
Total Income as per regular provisions of the Act		31,38,620

Notes –

- Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.*
- Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.*

**Computation of tax liability of Mr. Amit for A.Y. 2026-27
under the regular provisions of the Act**

Particulars	Rs.	Rs.
Tax on total income of Rs. 31,38,620		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001- Rs. 31,38,620 [@30% of Rs. 21,38,620]	6,41,586	7,54,086
Add: Health and education cess@4%		30,163
Total tax liability		7,84,249
Total tax liability (rounded off)		7,84,250

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2026-27

Particulars	Rs.	Rs.
Total Income (computed above as per regular provisions of income tax)		31,38,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [Rs. 20 lakhs × 10%]	(2,00,000)	18,00,000
Adjusted Total Income		49,38,620
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		36,546
Total tax liability		9,50,191
Total tax liability (rounded off)		9,50,190

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 cess@4%. Therefore, liability as per section 115JC is Rs. 9,50,190.

Since the tax liability of Mr. Amit 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 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	Rs.
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	1,65,940

Question 17 [MTP 2 May 21 – 14 Marks]

You are required to compute the total income and tax payable by Mr. Josh, aged 48 years, from the following information provided by him for the Assessment Year 2026-27. Mr. Josh does not want to opt for section 115BAC for the A.Y. 2026-27:

- Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 10,000 per month (Part of salary for retirement benefits), House rent allowance Rs. 4,000 per month and rent paid for house in Chennai is Rs. 7,000 per month.
- He owns a commercial building at Mumbai, which is let out on 1.7.2025 at a monthly rent of Rs. 46,000 to ABC Ltd. He paid municipal taxes of Rs. 27,000 and Rs. 25,000 for the financial year 2024-25 and 2025-26 on 31-3-2026 and 20-4-2026, respectively. Fair rent of the building is Rs. 33,000 p.m.

- iii) He purchased 4000 unlisted shares of Maharaja Limited on 25-2-2009 for Rs. 80,000. Company declared bonus in the ratio of 1:1 on 15th March, 2009. Mr. Josh sold 3000 bonus shares on 15.05.2025 for Rs. 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2008-09: 137, 2025-26: 372)
- iv) Interest from saving bank account with SBI Bank Rs. 15,000 and lottery winnings (Net of TDS@30%) is Rs. 21,000.

He paid the following amounts during the P.Y. 2025-26:

- a) Deposits in Public Provident Fund Rs. 1,50,000.
- b) Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque.

Solution:

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

Particulars	Rs.	Rs.
Salaries		
Basic Salary = Rs. 51,000 × 12	6,12,000	
Dearness Allowance (DA) = Rs. 10,000 × 12	1,20,000	
House Rent Allowance (HRA) = Rs. 4,000 × 12 Rs. 48,000		
Less: Least of the following exempt u/s 10(13A) (Rs. 10,800)	37,200	
(i) HRA actually received = Rs. 4,000 × 12 = Rs. 48,000		
(ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 × 12)		
(-) Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic		
Salary + DA)] = Rs. 10,800		
(iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] =		
Rs. 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [Rs. 46,000 × 9, being the higher of actual rent	4,14,000	
received and fair rent]		
Less: Municipal tax paid during the P.Y. 2025-26	27,000	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	
		2,70,900
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after	Nil	
1.4.2001		
Long-term capital gains (since bonus shares are held for a		
period of more than 24 months)		2,00,000
Income from Other Sources		
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 × 100/70]	30,000	45,000
		12,35,100
Gross Total Income		
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF	1,50,000	

Section 80D Medical insurance premium for wife and dependent son Rs. 31,000, restricted to Section 80TTA Interest on saving bank account with SBI	25,000 10,000	1,85,000
Total Income		10,50,100

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 10,50,100		
Tax on long-term capital gains of Rs. 2,00,000@12.5 % u/s 112	25,000	
Tax on lottery income of Rs. 30,000 @30% u/s 115BB	9,000	
Tax on other income of Rs. 8,20,100 [Rs. 10,50,100 – Rs. 2,00,000, capital gains – Rs. 30,000, lottery income]		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs. 8,20,100 [i.e., Rs. 3,20,100@20%]	64,020	
		1,10,520
Add: Health and education cess@4%		4,421
Tax liability		1,14,941
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [Rs. 4,14,000 × 10%]	41,400	50,400
Tax Payable		64,541
Tax Payable (rounded off)		64,540

Question 18 [RTP May 2021]

- 1) Compute total income and tax liability thereon of Mr. Raghav for the A.Y. 2026-27 from the following details:

Mr. Raghav (aged, 61 years) working in a private company from last 10 years. His salary details for the financial year 2025-26 are:

- | | |
|--|---------------|
| i) Basic Salary | 1,70,000 p.m. |
| ii) Dearness Allowance (forms part of retirement benefits) | 80,000 p.m. |
| iii) Commission | 32,000 p.m. |
| iv) Transport Allowance | 5,000 p.m. |
| v) Medical Reimbursement | 40,000 |
- 2) Mr. Raghav resigned from the services on 30th November, 2025 after completing 10 years and 5 months of service. He was paid gratuity of Rs. 25 lakhs on his retirement. He is not covered under the Payment of Gratuity Act, 1972.
- 3) He started business of hiring of goods vehicle, purchased 4 small goods vehicle on 10th December, 2025 and 4 heavy vehicles having gross weight of 20 MTs each on 1st January, 2026. He did not maintain books of accounts for the business of hiring of goods vehicle. Mr. Shivpal, his very close friend gifted him Rs. 2 lakhs to purchase the vehicles.
- 4) He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid up share capital of company as on 31st March, 2025 was Rs. 20 lakh divided into 2 lakh shares of Rs. 10 each which were issued at a premium of Rs. 30 each. Company allotted shares to shareholders on 1st October, 2013.

He sold all these shares on 30th April, 2025 for Rs. 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Raghav has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was Rs. 50 per share.

- 5) On 12.2.2026, interest of fixed deposits of Rs. 90,000 credited to his SBI Bank. On 30.4.2025, Rs. 5,500 and on 30.12.2025, Rs. 8,500 credited to interest on saving bank A/c with SBI Bank.
- 6) He deposited Rs. 1,10,000 in PPF A/c. He paid insurance premium of Rs. 20,000 on his life policy during the financial year 2025-26. The policy was taken in April 2011 and sum assured was Rs. 3,00,000. He also made payment of Rs. 25,000 towards L.I.C. pension fund and premium of Rs. 40,000 towards mediclaim policy for self and Rs. 20,000 for his wife. All the payment he made by A/c payee cheque.
- 7) There was no change in salary of Mr. Raghav from last two years. He does not opt to pay tax as per section 115BAC.

Cost inflation Index is:

Financial Year	Cost Inflation Index
2013-14	220
2025-26	372

Solution: Computation of Total Income of Mr. Raghav for the A.Y.2026-27

Particulars	Rs.	Rs.
Salaries		
Basic Salary = $1,70,000 \times 8$	13,60,000	
Dearness Allowance = $80,000 \times 8$	6,40,000	
Commission = $32,000 \times 8$	2,56,000	
Transport Allowance = $5,000 \times 8$	40,000	
Medical reimbursement [Fully taxable]	40,000	
Gratuity – Amount received	25,00,000	
Less: Least of the following exempt u/s 10(10)		
(i) Actual Gratuity received Rs. 25,00,000		
(ii) $\frac{1}{2}$ month's salary for every year of completed service [$\frac{1}{2} \times 2,50,000$ (Basic salary plus DA) $\times 10$] = Rs. 12,50,000		
(iii) Notified limit of Rs. 20,00,000		
Least of the above is exempt	12,50,000	
Gross Salary	12,50,000	
	35,86,000	
Less: Standard deduction u/s 16(ia) [Actual salary or Rs. 50,000, whichever is less]	50,000	
Net Salary		35,36,000
Profits and gains of business or profession		
Income from business of hiring goods vehicle		
Other than heavy goods vehicles = $4 \times (\text{Rs. } 7,500 \text{ p.m.}) \times (4 \text{ months})$	1,20,000	
Heavy goods vehicles = $4 \times (20 \text{ MTs} \times \text{Rs. } 1,000 \text{ per MT}) \times (3 \text{ months})$	2,40,000	3,60,000
Capital Gains		
On transfer of 60,000 shares ($2,00,000 \times 30\%$)		
Sales consideration [60,000 $\times$ Rs. 60 per share]	36,00,000	
Less: Cost of acquisition, higher of –	30,00,000	
- Actual cost [60,000 $\times$ Rs. 40 per share]	24,00,000	

- Lower of • FMV on 31.1.2018 [60,000 × 50] 30,00,000 • Actual sales consideration [60,000 × 60] 36,00,000		
Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)		6,00,000
Income from Other Sources		
Gift from friend taxable u/s 56(2)(x) since the same exceeds Rs. 50,000. It is fully taxable	2,00,000	
Interest on Saving A/c with SBI Bank	14,000	
Interest on Fixed deposits with SBI Bank	1,00,000	
[Since interest is credited after deduction of at source @ 10%, as the amount of interest exceeds Rs. 50,000, amount included in the total income need to be grossed up (Rs. 90,000 × 100/90)]		3,14,000
Gross Total Income		48,10,000
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF A/c	1,10,000	
Life Insurance premium [fully deductible, since, in respect of a policy taken before 1.4.2012, the actual premium paid (Rs. 20,000) or 20% of the sum assured (Rs. 3,00,000 × 20% = Rs. 60,000), whichever is lower, has to be deducted]	20,000	
	1,30,000	
Section 80CCC		
Payment to LIC Pension Fund	25,000	
	1,55,000	
Restricted to Rs. 1,50,000, being the maximum allowable deduction		1,50,000
Section 80D		
Medical insurance premium for self and spouse Rs. 60,000, allowable to the extent of Rs. 50,000, since Mr. Raghav is a senior citizen		50,000
Section 80TTB		
Deduction in respect of interest on fixed deposits and saving bank allowable as deduction under section 80TTB, since Mr. Raghav is a senior citizen, to the extent of Rs. 50,000		50,000
Total Income		45,60,000

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 45,60,000		
Tax on long-term capital gains of Rs. 6,00,000 arising from transfer of listed shares @12.5% under section 112A after deducting Rs. 1.25 lakh.		59,375
Tax on other income of Rs. 39,60,000 [Rs. 45,60,000 – Rs. 6,00,000 capital gains]		
Upto Rs. 3,00,000	Nil	
Rs. 3,00,001 – Rs. 5,00,000 [i.e., Rs. 3,00,000@5%]	10,000	
Rs. 5,00,001 – Rs. 10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	
Rs. 10,00,001 – Rs. 39,60,000 [i.e., Rs. 29,60,000@30%]	8,88,000	9,98,000
		10,57,375
Add: Health and Education cess@4%		42,295
Tax liability		10,99,670

Question 19 [RTP Nov 20]

Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.3.2026:

Sl.No.	Particulars	Rs.	Rs.
(i)	Interest on capital received from XYZ & Co., at 15% [in accordance with the partnership deed]		1,50,000
(ii)	Share of profit from the firm		35,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		40,500
(v)	Interest on saving bank account		12,300
(vi)	Income-tax refund received relating to assessment year 2025-26 including interest of Rs. 2,300		34,500
(vii)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2026 and for the other on 31.12.2026)		
	Salary to manager by way of a single cash payment	21,000	
(viii)	The WDV of the assets (as on 1.4.2025) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2025 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2019. He received arrears of rent in respect of the said property in October, 2025.		1,15,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependant on him.	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income of the Mr. Suraj for the assessment year 2026-27 and the closing WDV of each block of assets. He wants to Opt out of 115BAC.

Solution:

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

Particulars	Rs.	Rs.
Income from house property		
Arrears of rent (taxable under section 25A even if Mr. Suraj is not the owner of the house property in the P.Y.2025 -25)	1,15,000	
Less: Deduction@30%	34,500	80,500
Income chargeable under this head		
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	5,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
• Depreciation as per books	34,000	

- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (Rs. 7,000/2) - Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds Rs. 10,000 20% of car expenses for personal use	3,500	
	21,000	
	8,000	
	6,26,500	
Less: Depreciation allowable (Note 1)	1,96,800	
Income from firm	4,29,700	
Share of profit from the firm is exempt under section 10(2A)	-	
Interest on capital from partnership firm (Note 2)	1,20,000	
Salary as working partner fully taxable	1,00,000	2,20,000
Income from other sources		
Interest on bank fixed deposit (Gross)	45,000	
Interest on saving bank account	12,300	
Interest on income-tax refund	2,300	59,600
Gross total income		7,89,800
Less: Deduction under Chapter VIA (Note 3)		2,25,000
Total Income		5,64,800

Notes:

1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV	Rate		Depreciation	Closing WDV
Block 1	Computers	2,40,000	40%		96,000	1,44,000
	Computer printer	1,50,000	40%		60,000	90,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days] 10,200	40,800	6,39,200
	Less: 20% disallowance for personal use					
					1,96,800	8,73,200

2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to Rs. 1,20,000 would be treated as the business income of Mr. Suraj.

3) Deduction under Chapter VI-A

Particulars	Rs.	Rs.
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C and 80CCE is Rs. 1,50,000, the entire sum of Rs. 1,30,000 would be allowed as deduction		1,30,000

Under section 80D Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependant on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of Rs. 50,000		35,000
Under section 80G Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTA Interest on saving bank account, restricted to		10,000
Total deduction		2,25,000

Question 20 [Jan 21 – 14 Marks]

Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of Rs. 5,64,44,700 for the previous year 2025-26 after debiting/crediting the following items:

Debits:

- Rs. 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- Rs. 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid Rs. 1,67,000 on loan taken for purchase of E-vehicle on 15-05-2022 from a bank. The E-vehicle was purchased for the personal use of his wife.
- His firm has purchased timber under a forest lease of Rs. 20,00,000 for the purpose of business.

Credits:

- Income of Rs. 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
- He received Rs. 3,00,000 from a debtor which was written off as bad in the year 2021-22. Amount due from the debtor (which was written off as bad) was Rs. 5,00,000, out of which tax officer had only allowed Rs. 3,00,000 as deduction in computing the total income for assessment year 2022-23.
- He sold some furniture to his brother for Rs. 7,00,000. The fair market value of such furniture was Rs. 9,00,000.

Other information :

- Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
- Mr. Krishna purchased a new car of Rs. 12,00,000 on 1st September, 2025 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
- Mr. Krishna had sold a house on 30th March, 2023 and deposited the long term capital gains of Rs. 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2026, he sold another house property in which he resided for Rs. 1 crore. He earned a long term capital gain of Rs. 50,00,000 on sale of this property. On 25th March, 2026, he withdrew money out of his capital gain account and invested Rs. 1 crore on construction of one house.
- Mr. Krishna also made the following payments during the previous year 2025-26
 - Lump-sum premium of Rs. 30,000 paid on 30th March, 2026 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2026 to 29th March, 2031.
 - Rs. 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2026-27.

Solution:

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

Particulars	Rs.	Rs.	Rs.
Income from business or profession Net profit as per profit and loss account		5,64,44,700	
Add: Items of expenditure debited but not allowable while computing business income			
1. Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	20,000		
2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e- vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000		
3. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of Rs. 2 lakh]	-		
		1,87,000	
		5,66,31,700	
Less: Items of income credited but not taxable or taxable under any other head of income			
4. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	4,00,000		
5. Bad debt recovered [Actual bad debt is Rs. 2 lakhs i.e., Rs. 5 lakhs less Rs. 3 lakh, being the amount of bad debt recovered. Bad debt written off is Rs. 3 lakhs. Bad debt recovered to the extent of Rs. 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire Rs. 3 lakhs is credited to the profit and loss account, Rs. 2 lakhs has to be reduced]	2,00,000		
		6,00,000	
		5,60,31,700	
Less: Allowable expenditure			
6. Contribution to a university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment required]			-

7. Depreciation on car [Rs. 12 lakh × 15%, since car is put to use for more than 180 days in the P.Y.2025-26]		1,80,000	
			5,58,51,700
Capital Gain Long term capital gain on sale of house property Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.] <i>[Capital gain of Rs. 25 lakhs in capital gain account scheme is not taxable in P.Y. 2025-26, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of Rs.75 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of Rs.50 lakhs being long-term capital gain on sale of house property during the P.Y.2025-26]</i>		50,00,000 (50,00,000)	-
Income from Other Sources Royalty on patent <i>[Taxable as “income from other sources”, since he is engaged in business of manufacturing furniture]</i>			4,00,000
Gross Total Income			5,62,51,700
Less: Deduction under Chapter VI-A u/s 80D			
• Medici claim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [Rs. 30,000/6 years, being relevant previous years in which the insurance is in force]	5,000		
• Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of Rs. 5,000]	5,000	10,000	
Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2022-23, interest on loan taken for purchase of e-vehicle is allowed to the extent of Rs. 1,50,000]		1,50,000	
Deduction under section 80G [Donation of Rs. 20,000 to Gurudwara not allowable as deduction since amount exceeding Rs. 2,000 paid in cash]		-	
Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of Rs. 3 lakh]		3,00,000	4,60,000
Total income			5,57,91,700

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 5,57,91,700		
Upto Rs. 3,00,000	Nil	
Rs. 3,00,001 – Rs. 5,00,000 [@5% of Rs. 2 lakh]	10,000	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001- Rs. 5,57,91,700 [@30% of Rs. 5,54,87,700]	1,64,37,510	1,65,47,510
Add: Surcharge @ 37%, since total income exceeds Rs. 5,00,00,000		61,22,579
		2,26,70,089
Add: Health and education cess@4%		9,06,803
Total tax liability		2,35,76,893
Less: TCS u/s 206C(1) @ 2% on Rs. 20 lakh i.e., timber TCS	40,000	
u/s 206C(1F) @ 1% of Rs. 12 lakh i.e., sale of motor car where consideration exceeds Rs. 10 lakh	12,000	
TDS u/s 194-IA@1% of Rs. 1 crore i.e., sale of immovable property where consideration is Rs. 50 lakh or more	1,00,000	1,52,000
Tax payable		2,34,24,893
Tax payable (rounded off)		2,34,24,890

Question 21 [PP May 23 – 14 Marks]

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2026 is as under:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Employees' Remuneration	15,00,000	By Gross Receipts from Profession (last year Rs. 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Interest on Savings Bank Account	25,000
To Rates and Taxes	15,000	By Winnings from Lottery (Net of cost of lottery tickets of Rs. 500)	99,500
To Interest Expenses	80,000	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	36,97,500		
	64,24,500		64,24,500

The following details relates to F.Y. 2025-26:

- a) Employees' Remuneration includes a sum of Rs. 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.

- b) Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of Rs. 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence-cum-office. Other particulars of the house are:
- Municipal Valuation - Rs. 3,60,000 p.a.
 - Fair Rent - Rs. 4,20,000 p.a.
 - Standard Rent under Rent Control Act - Rs. 4,00,000 p.a.
- c) Rates and taxes include a sum of Rs. 10,000 paid as municipal taxes of the house.
- d) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2012-13. Neither the loan nor the interest was paid till the due date of filing the return of income.
- e) Based on the actual rent received for Unit-1, Mr. Bhasin has debited Rs. 2,40,000 as notional rent for Unit-2 which is used for his profession.
- The expense on insurance premium of Rs. 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1st July, 2025 to 30th June, 2027 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
- f) The expenses on professional fees paid includes a sum of Rs. 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.
- g) There was only one block containing computers which came into existence only on 2nd April, 2025 when new laptops (for Rs. 1,60,000), printers and scanners (for Rs. 40,000) were purchased. He charged depreciation @ 60% in the entire cost of Rs. 2,00,000 and debited the amount to Income & Expenditure A/c.
- h) Mr. Bhasin has also taken a loan of Rs. 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2025-26, he repaid principal of Rs. 75,000 along with interest of Rs. 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2026-27 under old provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him.

Solution:

Computation of total income and tax payable by Mr. Bhasin for A.Y. 2026-27

	Particulars	Rs.	Rs.	Rs.
I	Income from Salaries			
	Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		50,000	2,50,000
II	Income from house property			
	Let out portion (Unit 1 – 50% area)			
	Gross Annual Value [Higher of expected rent of Rs. 2,00,000 and actual rent of Rs. 2,40,000 (Rs. 20,000 × 12)]	2,40,000		
	[Expected rent is higher of municipal value of Rs. 1,80,000 (3,60,000 × 50%) and fair rent of Rs. 2,10,000 (Rs. 4,20,000 × 50%), restricted to standard rent of Rs. 2,00,000 (Rs. 4,00,000 × 50%)]			

III	Less: Municipal taxes paid for let out portion (Rs. 10,000 × 50%)	5,000		
	Net Annual Value (NAV)	2,35,000		
	Less: Deduction under section 24			
	(a) 30% of NAV	70,500		
	(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 × 50%) (allowed on accrual basis)	40,000		
	Income from let out portion		1,24,500	
	Self-occupied (Unit 2 – 25%)			
	[Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]			
	Gross Annual Value			Nil
	Less: Municipal taxes [not allowed for self-occupied property]			Nil
	Net Annual Value			Nil
	Less: Deduction under section 24(b)			
	Interest on loan for construction of house, Rs. 80,000 × 50% × 1/2 (allowable on accrual basis)			20,000
	Loss from self-occupied portion			(20,000)
	[Loss from self-occupied portion can be set off against income from let out portion]			1,04,500
III Profits and gains from business and profession				
	Excess of income over expenditure			36,97,500
	Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction			
	Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]			-
	Municipal taxes attributable to let out and self-occupied portions not allowable [Rs. 10,000 × 75%]			7,500
	Interest on capital borrowed for construction of house attributable to let out and self-occupied portion not allowable [Rs. 80,000 × 75%]			60,000
	Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of Rs. 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]			20,000
	Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]			2,40,000
	Insurance premium [Personal expenditure not allowable]			72,000

IV	Professional fees to Mr. Raunak without deducting TDS [Rs. 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds Rs. 50 lakhs during the P.Y. 2024-25. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2025-26]	30,000		
	Depreciation as per books	1,20,000		5,49,500
				42,47,000
	Less: Income credited to Income & Expenditure A/c but not taxable as business income			
	Interest on savings bank account [taxable under the head "Income from other sources"]	25,000		
	Winnings from lottery [taxable under the head "Income from other sources"]	99,500		
	Rent received [taxable under the head "Income from house property"]	2,40,000		3,64,500
	Less: Depreciation allowable [2,00,000 (Rs. 1,60,000, being new laptops + Rs. 40,000, being printers) × 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2025-26. Printers and scanners for Rs. 40,000 are eligible for higher depreciation of 40%]			38,82,500 80,000
				38,02,500
	Income from Other Sources			
	Interest on savings bank account		25,000	
	Winnings from Lottery [No expenditure or allowance is allowed from lottery income]		1,00,000	1,25,000
	Gross Total Income			42,82,000
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D			
	Medical insurance premium [Rs. 72,000 × 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]		18,000	
	Deduction under section 80E			
	Interest on loan taken from a nationalised bank for higher education of son		40,000	
	Deduction under section 80TTA			
	Interest on saving bank account to the extent of 10,000		10,000	68,000
	Total Income			42,14,000
	Tax Payable			
	On lottery income [30% of Rs. 1,00,000]		30,000	
	On other income of Rs. 41,14,000			
	Upto Rs. 2,50,000	Nil		
	Rs. 2,50,000 @5% [Rs. 2,50,000 – Rs. 5,00,000]	12,500		
	Rs. 5,00,000 @20% [Rs. 5,00,000 – Rs. 10,00,000]	1,00,000		

Rs. 31,14,000 @30% [Rs. 10,00,000 – 9,34,200]	Rs. 41,14,000]	10,46,700	
Add : HEC@4%			10,76,700
Tax liability			43,068
Less: TDS on lottery winnings @30% u/s 194B			11,19,768
Tax payable			30,000
Tax payable (rounded off)			10,89,768
			10,89,770

Question 22 [PP May 24 – 15 Marks]

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026.

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	43,50,000
To Purchase of Raw Materials	17,20,500	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,80,500		
To Gross Profit	21,78,000		
Total	45,50,000	Total	45,50,000
To Administrative Charges	2,90,000	By Gross Profit	21,78,000
To SGST Penalty Paid (It is not compensatory nature)	7,000	By Dividend From Domestic Companies	15,000
To GST Paid	1,10,000	By Winning from Lotteries (Net of TDS)	10,500
To General Expenses	55,000	(TDS 4,500)	
To Miscellaneous Expenses	1,50,500	By Profit on Sale of Shares	45,000
To Loss on Sale of Shares	20,000		
To Interest to Bank (on Machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	13,56,000		
Total	22,48,500	Total	22,48,500

Following are the further information relating to Financial Year 2025-2026:

- Administrative Charges include Rs. 46,000 paid as commission to brother of Assessee. The Commission amount at the market rate in Rs. 36,000.
- The assessee paid Rs. 33,000 in cash to a Transport Carrier on 26.12.2025. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on this payment.)
- A Sum of Rs. 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in books of account.
- Bank Term Loan Interest actually paid upto 31.03.2026 was Rs. 20,000 and the balance was paid in November 2026.
- Miscellaneous Expenses include Rs. 10,000 contributed to Prime Minister's Relief Fund.
- Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.
- Profit on Sale of Shares represents shares held for 2 years & Securities Transaction Tax was paid on it.

- (viii) Housing Loan Principal repaid during the year was Rs. 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was Rs. 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is Rs. 45 Lakhs, loan value Rs. 25 Lakhs and sanction date 31.03.2017).

Note: These amounts were not dealt with in the Profit and Loss Account given above. (Assume this housing loan is eligible for 80EE deduction).

- (ix) Depreciation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	Rs.
Opening WDV (as on 01.04.2025)	12,00,000
Additions During the year (Used for more than 180 Days)	2,00,000
Total Additions during the year	4,00,000
<i>Note: Ignore Additional Depreciation u/s 32(1)(iia)</i>	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under Section 115BAC(1A).

Solution:

Computation of total income and tax liability of Mr. Sahil for A.Y. 2026-27

	Particulars	Rs.	Rs.
I	Income from house property		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b)	2,00,000	
	Interest on housing loan of Rs. 2,60,000 restricted to Rs. 2,00,000		
		(2,00,000)	
II	Profits and gains of business or profession		
	Net Profit	13,56,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head		
	• Commission paid to brother [Commission paid to a related person/relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	
	• Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is Rs. 35,000 in respect of payment to transport operators]	Nil	
	• Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]	40,000	
	• Contribution to Prime Minister's Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]	10,000	
	• SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]	7,000	
	• Loss on sale of shares	20,000	
	• Depreciation as per books of account	2,00,000	
		16,43,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	- Dividend from Domestic Companies	15,000	

	- Winnings from lotteries - Profit on sale of shares	10,500 45,000 15,72,500	
	Less: Depreciation allowable as per Income- tax Rules, 1962 • On Plant & Machinery [@15% on Rs. 14,00,000, being opening WDV of Rs. 12 lakhs and additions put to use for more than 180 days of Rs. 2 lakhs + @7.5% on Rs. 2,00,000, being additions put to use for less than 180 days]	2,25,000	
	Business Income	13,47,500	
	Less: Set off of loss from house property as per section 71(3A)	2,00,000	
		11,47,500	
	Add: Salary paid to staff not recorded in the books [Assuming the expenditure is in the nature of unexplained expenditure, the same is deemed to be income as per section 69C of Mr. Sahil. No deduction would be allowed in respect of such expenditure.] <i>Alternatively, it is possible to assume that the salary not recorded in the books of account was an erroneous omission and the assessee has offered satisfactory explanation about the source of such expenditure. In such a case, it would not be considered as deemed income and the same would be allowed as deduction.</i>	48,000	11,95,500
	Presumptive Income [8% of sales i.e. Rs. 43,50,000 x 8% assuming entire amount of sales are not received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes] Note: <i>If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.</i> <i>[As per section 44AD, in case of Mr. Sahil, being an eligible assessee, a sum equal to Rs. 3,48,000 (8% of total turnover i.e., Rs. 43,50,000) or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by him would be deemed to be the business income. In this case, since Mr. Sahil has maintained books of account, he can claim the higher sum actually earned Rs. 13,47,500 as his income from business.]</i> <i>(See Note below the solution for alternate answer)</i>	3,48,000	
III	Capital Gain Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	45,000	
	Less: Set off of short term capital loss as per section 70(2)	20,000	25,000
IV	Income from Other Sources Dividend from Domestic Companies Winning from lotteries (Rs. 10,500 + Rs. 4,500)	15,000 15,000	30,000
	Gross Total Income Less: Deduction under Chapter VI-A Deduction under section 80C Principal repayment of housing loan	50,000	12,50,500

Deduction under section 80EE Interest on housing loan of Rs. 60,000 [Rs. 2,60,000 – Rs. 2,00,000, allowed u/s 24(b)] allowable u/s 80EE upto Rs. 50,000	50,000	
Deduction under section 80G Contribution to Prime Minister's Relief Fund	10,000	1,10,000
Total Income		11,40,500
Tax Liability		
Tax on LTCG of Rs. 25,000 u/s 112A [Exempt upto Rs. 1.25 lakh]		Nil
Tax on winning from lotteries of Rs. 15,000 @30%		4,500
Tax on unexplained expenditure of Rs. 48,000 @60%		28,800
Tax on balance income of Rs. 10,52,500 at slab rate Upto Rs. 2,50,000	Nil	
From Rs. 2,50,001 to Rs. 5,00,000 @5%	12,500	
From Rs. 5,00,001 to Rs. 10,00,000 @20%	1,00,000	
From Rs. 10,00,001 to Rs. 10,52,500 @30%	15,750	1,28,250
Add: Surcharge @25% on tax on unexplained expenditure of Rs. 28,800		1,61,550 7,200
Add: Health and education cess @4%		1,68,750 6,750
Tax Liability		1,75,500

Note – Alternatively, if Mr. Sahil claims his business income as Rs. 3,48,000 i.e., 8% of total turnover under section 44AD, his total income and tax liability would undergo a change. Note - If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.

Question 23 [Suggested May 25] – 15 Marks

Mrs. S.C. Bose (aged 62 years) is a widow of a public sector employee who died during his service in 2011. She earns income from business of running a flower bouquet shop at Kolkata and income from royalty from writing books of science and sells in India and abroad. Profit & Loss account for the year ended 31st March, 2026 furnished by her is given below:

Particulars	₹	Particulars	₹
To Opening stock	1,00,000	By Sales of flower bouquet	36,75,000
To Purchases	15,66,000	By Family pension from PSU through bank	3,60,000
To Salaries and wages	4,90,000	By Royalty form California University for books sold (Foreign exchange brought into India)	4,25,000
To Expenses relating to books authored by her	75,000	By Dividend (Net of TDS)	4,50,000
To Expenses in connection with dividends	12,000	By Interest on FDR (No TDS deducted)	76,000
To Repairs & Maintenance	3,25,000	By Closing stock	1,36,000
To Amount paid to IIT Chennai for scientific research projects	35,000		

To Computers and other electronic items (purchased on 01-12-2025)	4,50,000		
To Net Profit	20,69,000		
Total	51,22,000	Total	51,22,000

Additional Information:

- Purchases include ₹ 2 lakhs relate to flowers and creepers directly purchased from a farmer in cash on 26.09.2025.
- Repairs & Maintenance includes one-time deposit of ₹ 2,00,000 paid to electricity and water department.
- Computers and other electronic items includes ₹ 1,00,000 paid for television and washing machine for her household use.
- Salary & wages includes salary paid ₹ 2,40,000 to her illiterate brother (reasonable salary as per market rate is ₹ 1,80,000)
- She purchased a residential house for ₹ 110 lakhs for which loan of ₹ 75 lakhs was taken from State Bank of India. Accrued interest was ₹ 3,37,500 till 31-03-2026 which was paid on 10-04-2026. No principal amount and interest was paid by Mrs. S.C. Bose till 31-03-2026. Ground floor of the house was used for shop and first floor was occupied for her residence.
- She purchased an electric vehicle on 30-09-2025 for ₹ 25 lakhs for business purposes.
- She sold 10,000 listed shares of SBCL Ltd. for ₹ 11,66,000 on 11-12-2025 which were purchased for ₹ 2,65,000 on 16.08.2025. STT was paid on purchase and sale both.

Compute total income of Mrs. S.C. Bose under default tax regime u/s 115BAC and optional tax regime of the Income-tax Act, 1961.

Solution:

Computation of total income of Mrs. S.C. Bose for A.Y. 2026-27 under default tax regime under section 115BAC(1A)

	Particulars		₹	₹
I	Income from house property Self-occupied portion [First Floor] Annual Value Less: Deduction u/s 24 Interest on housing loan [Not allowed under default tax regime]		Nil Nil	Nil
II	Profits and gains from business or profession Net profit Add: Items of expenditure not allowable while computing business income - Expenses relating to books authored by her [Allowed as deduction considering royalty income is taxable under the head "Profits and gains from business or profession"] <i>[Note - Royalty income may be taxed under the head "Income from other Sources". In such case, expenses relating to books would not be allowed as deduction while computing business income and allowed</i>	Nil	20,69,000	

from royalty income while computing "Income from Other Sources".]			
- Expenses in connection with dividends [Not allowed since expense is in respect of dividend taxable under the head "Income from Other Sources"]	12,000		
- Amount paid to IIT Chennai from scientific research projects, not allowable under default tax regime	35,000		
- Computers and other electronic items [Capital expenditure not allowed as deduction]	4,50,000		
- Payment to a farmer exceeding ₹ 10,000 in cash for purchase of flower and creepers [Not disallowed under section 40A(3), since payment to farmer comes under exclusion]	Nil		
- One-time deposit to electricity and water department, not allowed as deduction	2,00,000		
- Excessive salary paid to brother [Disallowed under section 40A(2), since brother falls under the definition of relative and salary paid is in excess of market rate] [₹ 2,40,000 – ₹ 1,80,000]	60,000	7,57,000	
Less: Items of income to be treated separately under the respective head of income		28,26,000	
- Family pension from PSU [Taxable under the head "Income from Other Sources"]	3,60,000		
- Royalty from California University [No adjustment is required since royalty is taxable under the head "Profits and gains from business or profession"]	Nil		
<i>[Note - Royalty income may be taxed under the head "Income from Other Sources". In such case, the income has to be reduced while computing business income.]</i>			
- Dividend [Taxable under the head "Income from Other Sources"]	4,50,000		
- Interest on FDRs [Taxable under the head "Income from Other Sources"]	76,000	8,86,000	
Less: Allowable expenditure		19,40,000	
- Interest on residential house used for shop [₹ 3,37,500/2] [Since the interest is paid on or before due date of filing return of income, disallowance under section 43B would not be attracted.]		1,68,750	
- Depreciation On Computer and other electronic items other than television and washing machine	70,000		

	[₹ 3,50,000 × 40% × 50%, since it is purchased and put to use for less than 180 days] On residential house used for shop [₹ 1,10,00,000 × 10% × 50% for ground floor] On electric vehicle [₹ 25,00,000 × 40%]	5,50,000 10,00,000	16,20,000	1,51,250
III Capital Gains	Sale consideration on sale of listed shares of SBCL Ltd. Less: Cost of acquisition		11,66,000 2,65,000	9,01,000
IV Income from Other Sources	Short term capital gains taxable under section 111A [Since shares are held for less than 12 months and STT has been paid]			
	Family pension from PSU Less: Lower of 33-1/3% of ₹ 3,60,000 or ₹ 25,000 allowed as deduction	3,60,000 25,000	3,35,000	
	Dividend [₹ 4,50,000/90%] Less: Expenditure to the extent of 20% of dividend	5,00,000 12,000	4,88,000	
	<i>[Note - If it is assumed that expenditure are in the nature of expenses other than interest expenses, no deduction would be allowed from dividend income.]</i>			
	Interest on FDRs		76,000	8,99,000
	Gross Total Income			19,51,250
	Less: Deduction under section 80QQB and 80TTB [Not allowable under default tax regime]			Nil
	Total Income			19,51,250

Note: Assumed the portion of ground floor and first floor is equal.

**Computation of total income of Mrs. S.C. Bose for A.Y. 2026-27
under the optional tax regime of the Income-tax Act, 1961**

	Particulars	₹	₹
	Gross Total Income as per default tax regime u/s 115BAC		19,51,250
	Less: Interest on borrowings for self-occupied property [₹ 3,37,500 / 2]	1,68,750	
	100% deduction under section 35(2AA) for amount paid to IIT Chennai from scientific research projects	35,000	2,03,750
			17,47,500
	Add: Excess deduction from family pension [₹ 25,000 - ₹ 15,000] [Lower of 33-1/3% of ₹ 3,60,000 or ₹ 15,000 as deduction is allowed from family pension under optional tax regime]		10,000
	Gross Total Income as per optional tax regime		17,57,500
	Less: Deduction under Chapter VI-A		

	Deduction under section 80QQB Deduction for royalty income of ₹ 3,50,000 [₹4,25,000 – ₹ 75,000], restricted to ₹ 3,00,000	3,00,000	
	Deduction under section 80TTB Interest on FDRs assuming FDRs are with banks, restricted to <i>[Note - If it is assumed that FDRs are not with banks, co-operative society engaged in banking business or post office, deduction under section 80TTB would not be available.]</i>	50,000	
	Total Income		14,07,500

Question 24 [MTP 1 May 25] – 15 Marks

Mr. Brajesh has set up a unit in SEZ in May, 2017. The total turnover, export turnover and net profit for the year ended 31.3.2026 were ₹ 120 lakhs, ₹ 45 lakhs and ₹ 7.50 lakhs respectively. Out of the export turnover of ₹ 45 lakhs, only ₹ 40 lakhs has been received in convertible foreign exchange by 30.9.2026.

During the P.Y. 2025-26, Mr. Brajesh has commenced a business of warehousing facility for storage of food grain. The net profit of this business as per profit & loss account is ₹ 8,50,000. The following items are debited to Profit & Loss Account:

- (i) Personal drawings ₹ 70,000
- (ii) Advance income-tax paid ₹ 1,00,000
- (iii) Purchase of warehouse building of ₹ 10 lakhs on 10.6.2025 for the purpose of storage of food grain.

The following items are credited to Profit & Loss account:

- (i) Interest on saving bank account with post office ₹ 15,000
- (ii) Interest on fixed deposit with SBI ₹ 20,000
- (iii) Dividend from Indian companies (Gross) ₹ 32,000

Mr. Brajesh is also a working partner in M/s Neelkamal Associates, a partnership firm. Mr. Brajesh has contributed ₹ 15 lakhs as capital in the firm. Further, Partnership deed authorises payment of interest to partners @ 13% and also payment of remuneration to partners @ ₹ 20,000 per month. Whole of the remuneration is allowable as deduction to M/s Neelkamal Associates.

Mr. Brajesh has also paid the premium of ₹ 60,000 on life insurance policy in the name of her married daughter. The policy was taken on 1.10.2018 and the sum assured being ₹ 5,00,000.

Compute the total income and tax payable by Mr. Brajesh for the A.Y. 2026-27 under default tax regime and normal provisions of the Act.

Solution:

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

	Particulars	Amount (in ₹)	
I	Profits and gains of business and profession		
	Profit from SEZ unit		
	Net profit from SEZ unit		7,50,000
	Income from warehousing facility for storage of food grain		
	Net profit as per profit and loss account	8,50,000	

II	Less: Income credited to profit and loss account but taxable under the head 'Income from Other Sources'			
	Interest on savings bank A/c with post office	15,000		
	Interest on fixed deposit with SBI	20,000		
	Dividend from Indian companies (Gross)	32,000		
		<u>7,83,000</u>		
	Add: Payments not allowable as deduction			
	Advance income-tax paid disallowed u/s 40(a)(ii)	1,00,000		
	Personal drawings disallowed u/s 37	70,000		
	Purchase of building	10,00,000		
		<u>19,53,000</u>		
	Less: Depreciation on building [₹ 10,00,000 × 10%]	<u>1,00,000</u>	18,53,000	
	Income from firm M/s Neelkamal Associates			
	Interest on capital@13% p.a. on ₹ 15 lakhs, restricted to 12%, which is the maximum deduction allowable in the hands of the firm	1,80,000		
	Salary to Mr. Brajesh as a working partner, which is allowable as deduction in the hands of firm (₹ 20,000 × 12)	<u>2,40,000</u>	4,20,000	
	Income from Other Sources			
	Interest on savings bank A/c with post office	15,000		
	Less: Exempt under section 10(15)	<u>3,500</u>	11,500	
	Interest on fixed deposit with SBI	20,000		
	Dividend from Indian companies (Gross)	32,000	63,500	
	Gross Total Income/Total Income			30,86,500
	[No deduction under section 80C, 80TTA and 10AA would be allowable]			

Computation of tax payable under default tax regime for A.Y. 2026-27

	₹	₹
Tax on total income of ₹ 30,86,500		
Upto Rs. 4,00,000	Nil	
Rs. 4,00,001 – Rs. 8,00,000 [@5% of Rs. 4 lakhs]	20,000	
Rs. 8,00,001 – Rs. 12,00,000 [@10% of Rs. 4 lakhs]	40,000	
Rs. 12,00,001 – Rs. 16,00,000 [@15% of Rs. 4 lakhs]	60,000	
Rs. 16,00,001 – Rs. 20,00,000 [@20% of Rs. 4 lakhs]	80,000	
Rs. 20,00,000 – Rs. 24,00,000 [@25% of Rs. 4 lakhs]	1,00,000	
Rs. 24,00,001 – Rs. 30,86,500 [@30% of Rs. 6,86,500]	2,05,950	5,05,950
Add: Health and Education cess @4%		20,238
		5,26,188
Less: Advance income-tax paid		1,00,000
Tax payable		4,26,188
Tax Payable (Rounded off)		4,26,190

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

Particulars	Amount (in ₹)	
Gross Total Income as per section 115BAC	30,86,500	
Less: Deduction under section 10AA [₹ 7,50,000 × 40,00,000/ ₹ 1,20,00,000 × 50%, being ninth year of operation]	<u>1,25,000</u>	29,61,500
Less: Deduction under section 35AD	10,00,000	
Add: Depreciation on building	1,00,000	9,00,000
		20,61,500

Less: Deduction under Chapter VI-A		
<u>Deduction under section 80C</u>		
Life insurance premium [maximum 10% of sum assured]	50,000	
<u>Deduction under section 80TTA</u>		
Interest on saving bank account with post office, restricted to	10,000	60,000
Total Income		20,01,500

**Computation of tax payable by Mr. Brajesh for A.Y. 2026-27
under the regular provisions of the Act**

Particulars	₹	₹
Tax on total income of ₹ 20,01,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakhs]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,001 - ₹ 20,01,500 [@30% of ₹ 10,01,500]	3,00,450	4,12,950
Add: Health and education cess@4%		16,518
Total tax liability		4,29,468
Less: Advance income-tax paid		1,00,000
Tax payable		3,29,468
Tax payable (rounded off)		3,29,470

Computation of adjusted total income and AMT of Mr. Brajesh for A.Y. 2026-27

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		20,01,500
Add: Deduction under section 10AA	1,25,000	
Add: Deduction under section 35AD	10,00,000	
Less: Depreciation on building	(1,00,000)	10,25,000
Adjusted Total Income		30,26,500
Alternative Minimum Tax@18.5%		5,59,903
Add: Health and education cess@4%		22,396
Total tax liability		5,82,299
Less: Advance income-tax paid		1,00,000
Tax payable		4,82,299
Tax payable (rounded off)		4,82,300

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 cess@4%. Therefore, tax liability as per section 115JC is ₹ 4,82,300.

Question 25 [MTP 1 Sept. 25] – 15 Marks

Mr. Subhash, a manufacturer and distributor of fertilizers and other agricultural products, aged 61 years, provides the following information for the A.Y. 2026-27:

Trading and Profit and Loss Account of Mr. Subhash

Particulars	Amount in ₹	Particulars	Amount in ₹
To Opening Stock	24,21,000	By Sales	3,12,50,100
To Purchases	2,28,00,500	By Closing stock	26,00,100
To Direct expenses	4,12,040		
To Freight inward	2,92,000		
To Gross Profit c/d	79,24,660		
	3,38,50,200		3,38,50,200

To Salaries and wages	17,12,000	By Gross Profit b/d	79,24,660
To General expenses	3,65,000	By Dividend income from Indian companies (Gross)	17,20,000
To Rates and taxes	2,20,000	By Interest received on FDs (Net of tax)	1,08,000
To Interest paid on late payment of GST	2,845	By Rent received	7,20,000
To Income-tax paid for F.Y. 2024-25	3,45,000	By Income-tax refund	18,000
To Interest paid to NBFC	1,20,000		
To Depreciation	1,82,000		
To Net Profit	75,43,815		
	1,04,90,660		1,04,90,660

Additional information:

- The turnover of Mr. Subhash for the financial year ending 31st March 2025 was ₹ 3.08 crores.
- Closing stock of P.Y. 2025-26 was undervalued by ₹ 25,000.
- Rates and taxes include ₹ 5,000 paid towards late filing of his Income-tax return for Assessment Year 2025-26 under section 234F of Income-tax Act, 1961.
- Salaries include ₹ 15,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while payment of interest.
- Mr. Subhash paid ₹ 45,000 by cheque during the year towards a health insurance premium for himself, his spouse, and his children.
- General expenses include an amount of ₹ 20,000 paid by cheque towards an advertisement published in a souvenir released by a local political party.
- He received an income-tax refund during the year, which includes ₹ 2,000 towards interest.
- Depreciation charged is as per Income-tax Rules, 1962, however, it does not include depreciation on a new machinery purchased and put to use on 23rd September, 2025 for manufacturing activity. The cost of the vehicle is ₹ 3,10,000.
- Advance Tax paid during the year is ₹ 15 lakhs.

You are required to compute the tax liability of Mr. Subhash for the A.Y. 2026-27 under both the regimes.

Solution:

**Computation of Total Income of Mr. Subhash for the A.Y. 2026-27
under default tax regime**

Particulars	₹	₹	₹
Income from house property			
Annual value (Rent received has been taken as annual value, due to absence of information relating to expected rent in the question)		7,20,000	
Less: Deduction u/s 24(a) 30% of Annual Value		2,16,000	5,04,000
Profits and gains of business or profession			
Net profit as per profit and loss account		75,43,815	

Add: Expenses/Payments debited to profit and loss account but not allowed		
- Fee for late filing of income-tax return for A.Y. 2025-26 – disallowed under section 37	5,000	
- Salary paid to an accountant in cash exceeding ₹ 10,000 – disallowed under section 40A(3)	15,000	
- Interest paid to NBFC on loan which is used for personal purposes (₹ 1,20,000 × 2,00,000/10,00,000) – not allowed as per section 37	24,000	
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of ₹ 96,000 [Since Mr. Subhash's turnover for the immediately preceding previous year i.e., P.Y. 2024-25 exceeds ₹ 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non- deduction of tax at source]	28,800	
- Advertisement expenses towards an advertisement in a souvenir published by local political party [Disallowed under section 37(2B)]	20,000	
- Income-tax paid for F.Y. 2024-25	3,45,000	
- Interest paid on late payment of GST - allowed, since it is not for infraction of law but is compensatory in nature.	-	4,37,800
Add: Undervaluation of Closing stock		25,000
		80,06,615
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account		
- Dividend income from Indian companies	17,20,000	
- Interest on FDs (Net of taxes) (Taxable under the head "Income from other sources")	1,08,000	
- Rent received (Taxable under the head "Income from house property")	7,20,000	
- Income-tax refund	18,000	25,66,000
		54,40,615
Less: Depreciation on machinery purchased and put to use on 23.9.2025 [₹ 3,10,000 × 15%] [Additional depreciation not available under default tax regime]		46,500
		53,94,115
Income from Other Sources		
Dividend income		17,20,000
Interest on fixed deposits (₹ 1,08,000 × 100/90)		1,20,000
Interest on income-tax refund		2,000
		18,42,000
Gross Total Income		77,40,115
Less: Deduction under Chapter VI-A		
Section 80D [Not available under default tax regime]		-
Section 80GGC [Not available under default tax regime]		-
Total Income		77,40,115
Total Income (Rounded off)		77,40,120

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

Particulars		₹
Upto Rs. 4,00,000	Nil	
Rs. 4,00,001 – Rs. 8,00,000 [@5% of Rs. 4 lakhs]	20,000	
Rs. 8,00,001 – Rs. 12,00,000 [@10% of Rs. 4 lakhs]	40,000	
Rs. 12,00,001 – Rs. 16,00,000 [@15% of Rs. 4 lakhs]	60,000	
Rs. 16,00,001 – Rs. 20,00,000 [@20% of Rs. 4 lakhs]	80,000	
Rs. 20,00,000 – Rs. 24,00,000 [@25% of Rs. 4 lakhs]	1,00,000	
Rs. 24,00,001 – Rs. 77,40,120 [@30% of Rs. 53,40,120]	16,02,036	19,02,036
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		1,90,204
		20,92,240
Add: Health and Education cess@4%		83,690
Tax Liability		21,75,930

**Computation of Total Income of Mr. Subhash for the A.Y. 2026-27
under optional tax regime**

Particulars	₹	₹	₹
Gross Total Income as per default tax regime			77,40,115
Less: Additional depreciation on machinery [₹ 3,10,000 × 20%]			<u>62,000</u>
Gross Total Income under optional tax regime			76,78,115
Less: Deduction under Chapter VI-A			
Section 80D			
Health insurance premium of ₹ 45,000 paid for self, spouse and his children allowable as deduction since Mr. Subhash is a senior citizen		45,000	
Section 80GGC			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		-	45,000
Total Income			76,33,115
Total Income (rounded off)			76,33,120

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

Particulars		₹
Upto ₹3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 above [i.e., ₹ 66,33,120 @30%]	19,89,936	20,99,936
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,09,994
		23,09,930
Add: Health and Education cess@4%		92,397
Tax Liability		24,02,327
Tax Liability (Rounded off)		24,02,330

Question 26 [RTP Jan. 26]

Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account under section 44AB. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended on 31.3.2026 shows a net profit of ₹ 51,42,000 after debiting/crediting the following:

- (i) During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees was amounted to ₹ 1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2026.
- (ii) Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹ 2,50,000 which is reasonable to the extent of ₹ 1,50,000.
- (iii) He purchased goods worth ₹ 30,000 from Vishnu & Co., a micro enterprise, on March 01, 2026. According to the written agreement between them, the payment was to be made by 05th April 2026. However, he made payment to Vishnu & Co on 15th April 2026.
- (iv) Depreciation as per profit and loss account is ₹ 13,66,000.

Additional Information:

- (a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹ 6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2026.

Vaibhav claimed the entire interest amount of ₹ 6,00,000 as an expense while computing his business income.

- (b) Depreciation as per Income-tax Rules, 1962 is ₹ 12,00,000.
- (c) He contributed ₹ 50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹ 1.5 lakhs.
- (d) He employed 90 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 (₹)
20	1.4.2025	Regular	24,000
25	1.5.2025	Casual	24,500
30	1.8.2025	Regular	26,000
15	1.9.2025	Casual	23,500

The regular employees participate in recognized provident fund while the casual employees do not.

- (e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2015, for ₹ 1,80,000. Later on, in F.Y. 2023-24, he started sculpture business and converted these capital assets into stock-in-trade for his business. Fair market value at the time of conversion was ₹ 3,50,000. Subsequently, he sold the stock-in-trade on June 10, 2025, for ₹ 5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

You are required to compute the total income and tax liability of Mr. Vaibhav for the A.Y. 2026-27 if he opts out of the default tax regime.

CII for F.Y. 2014-15: 240; F.Y. 2024-25: 348; F.Y. 2025-26: 376

Solution:

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

Particulars		₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		51,42,000	
	Add: Items of expenditure not allowable while computing business income			
	- Depreciation as per books of accounts	13,66,000		
	- Payment for professional services [Since the tax was deducted on time, but such tax has not been paid on or before the due date specified in section 139(1), ₹ 30,000 [₹ 1,00,000 × 30%] has to be disallowed in F.Y. 2025-26 under section 40(a)(ia) and has to be added back]	30,000		
	- Payment for renovation of office [Unreasonable payment made to brother for renovating his office has to be added back as per section 40A(2)]	1,00,000		
	- Payment to M/s Vishnu & Co, a micro enterprise, for purchase of raw material [Not Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was not within the time specified in the written agreement]	30,000		
	- Conversion of interest into loan [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 into loan shall be allowed as deduction only in the year in which the converted loan is actually paid.] Accordingly, only ₹ 30,000 shall be allowed as deduction in P.Y. 2025-26 [₹ 6 lakhs/20 installments]	5,70,000		
	- Payment received from sale of stock-in-trade converted from capital assets [Sale consideration - FMV as on date of conversion]	1,50,000	22,46,000	
			73,88,000	
	Less: Depreciation as income- tax Rules, 1962		12,00,000	
				61,88,000
II	Capital Gains			
	Sale consideration		3,50,000	
	Less: Indexed cost of acquisition [₹ 1,80,000 × 348/ 240]		2,61,000	
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]			89,000
	Gross Total Income			62,77,000

Less: Deduction under Chapter VI-A			
Deduction under section 80C			
- Investment in five-year deposit		1,50,000	
Deduction under section 80CCD(1B)			
- Contribution in NPS		50,000	
Deduction under section 80JJAA (See working note below)		17,28,000	19,28,000
Total Income			43,49,000

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

Particulars	₹	₹
Tax @20% on LTCG of ₹ 89,000 on sale of Sculptures [Since the property is transferred before 23.7.2025]		17,800
Tax at slab rate on balance income of ₹ 42,60,000		
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 - ₹ 42,60,000 [@ 30% of ₹ 32,60,000]	9,78,000	10,90,500
		11,08,300
Add: Health and education cess@4%		44,332
Tax liability		11,52,632
Tax liability (Rounded off)		11,52,630

Computation of adjusted total income and AMT of Mr. Vaibhav for A.Y. 2026-27

Particulars	₹	₹
Total Income		43,49,000
Add: Deduction under section 80JJAA		17,28,000
Adjusted Total Income		60,77,000
Alternate Minimum Tax @18.5%		11,24,245
Add: Surcharge @10% since adjusted total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,12,425
		12,36,670
Add: Health and education cess@4%		49,467
Tax liability		12,86,137
Tax liability (Rounded off)		12,86,140

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@10% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 12,86,140.

AMT Credit to be carried forward under section 115JEE

	₹
Tax liability under section 115JC	12,86,140
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	11,52,630
	1,33,510

Working Note

Computation of Deduction under section 80JJAA

Particulars	₹
Additional employee cost	17,28,000
= ₹ 24,000 × 12 × 20 = ₹ 57,60,000	

Deduction under section 80JAA = 30% of ₹ 57,60,000

Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 30 regular employees employed on 1.8.2025 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000.

Therefore, only 20 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.

Question 27 [Suggested Sept. 25]

Mr. Ram, a resident individual aged 58 years, is engaged in the manufacturing of textile items. Statement of Profit and Loss shows a net profit (after depreciation but before tax) of ₹ 52,00,000 for the financial year ended 31st March, 2026 after debiting/crediting the following items:

- (i) Depreciation as per Income-tax Rules: ₹ 28,00,000 including additional depreciation on new plant & machinery of ₹ 1,50,000.
- (ii) Interest amounting to ₹ 2,10,000 for short payment of advance tax as per section 234B relating to the assessment year 2025-26.
- (iii) ₹ 3,50,000 paid to a contractor for carrying out whitewash work at factory premises. Tax was not deducted at source on this payment and the contractor did not file his return of income for the relevant PY.
- (iv) Contribution to Prime Minister National Relief Fund - ₹ 3,00,000 paid by way of cheque.
- (v) Expenditure towards advertising charges in a brochure of a political party registered under section 29A of Representation of the People Act, 1951- ₹ 40,000 paid by way of cheque.
- (vi) Interest on term loans obtained from a co-operative bank not paid before the due date of filing of return of income - ₹ 2,60,000.
- (vii) Contribution towards pension scheme of employees - ₹ 1,50,000. The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.
- (viii) Industrial power tariff concession of ₹ 2,50,000 received from the Central Government.
- (ix) Interest from banks on fixed deposits (gross) - ₹ 1,50,000
- (x) Cash gift from father - ₹ 90,000

Additional Information:

- (i) Expenditure pertaining to previous financial year (F.Y. 2024-25) was allowed on due basis, but paid in current financial year in cash on 18.01.2026: ₹ 35,000
- (ii) Audit fee for the previous year 2024-25: ₹ 75,000. TDS deducted but not deposited in the relevant previous year. However, TDS was deposited on 31.12.2025.

You are required to compute the total income and tax liability of Mr. Ram under both the taxation regimes (normal as well as under section 115BAC) and suggest the one which is more beneficial to him. Ram prepares his accounts on mercantile basis.

Cost Inflation Index for F.Y. 2022-23: 317; F.Y. 2025-26: 372.

Solution:

**Computation of total income and tax liability of Mr. Ram for
A.Y. 2026-27 under default tax regime under section 115BAC**

	Particulars		₹	₹
I	Profits and gains from business or profession			
	Net profit as per Statement of Profit and Loss		52,00,000	
	Add: Items of expenditure not allowable while computing business income			
	- Additional depreciation [Not allowable under default tax regime]	1,50,000		
	- Interest u/s 234B on short payment of advance tax [Not allowed]	2,10,000		
	- Payment to contractor without deduction of TDS [30% of payment made to contractor is disallowed under section 40(a)(ia) since tax was not deducted at source and contractor did not file his return of income]	1,05,000		
	- Contribution to Prime Minister Relief Fund [Disallowed since it is not wholly and exclusively incurred for business purpose]	3,00,000		
	- Advertising charges in a brochure of a political party [Disallowed under section 37(2B)]	40,000		
	- Interest on term loan to co- operative bank [Disallowed under section 43B, since interest is not paid before due date of filing of return of income]	2,60,000		
	- Contribution towards pension scheme of employees [14% of salary and dearness allowance is allowed as deduction in respect of contribution towards pension scheme. Accordingly, excess contribution of ₹ 10,000, being ₹ 1,50,000 – ₹ 1,40,000 (14% of ₹ 10 lakhs) is disallowed]	<u>10,000</u>	<u>10,75,000</u>	
				62,75,000
	Less: Items of income to be treated separately under the respective head of income			
	- Industrial power tariff concession received from Central Government [Any assistance in the form of concession received from the Central Government would be treated as income. Since it is already credited to statement of profit and loss, no adjustment is required]	-		
	- Interest from banks on fixed deposits [Taxable or otherwise under the head "Income from Other Sources"]	1,50,000		

II	- Cash gift from father [Taxable or otherwise under the head "Income from Other Sources"]	<u>90,000</u>	<u>2,40,000</u>	
	Add: Disallowance under section 40A(3A) for aggregate cash payment exceeding ₹ 10,000 in a single day which was allowed in the P.Y. 2024-25 on due basis		60,35,000	
			<u>35,000</u>	
	Less: 30% of ₹ 75,000, representing audit fees for the P.Y. 2024-25 for which tax was deducted but not deposited would have been disallowed while computing deduction for P.Y.2024-25. Since the tax is deposited in P.Y.2025-26, ₹ 22,500 would be allowable as deduction in the A.Y.2026-27		60,70,000	
			<u>22,500</u>	
				60,47,500
	Income from Other Sources			
	Interest from banks on fixed deposits		1,50,000	
	Cash gift from father [Cash gift received from father, being a relative is not taxable]		-	1,50,000
	Gross Total Income			61,97,500
	Less: Deduction under section 80G [Not allowable under default tax regime]			Nil
	Total Income			61,97,500
	Tax on ₹ 61,97,500			
	Upto ₹ 4,00,000		Nil	
	₹ 4,00,001 – ₹ 8,00,000 [₹ 4 lakhs @5%]		20,000	
	₹ 8,00,001 – ₹ 12,00,000 [₹ 4 lakhs @10%]		40,000	
	₹ 12,00,001 – ₹ 16,00,000 [₹ 4 lakhs @15%]		60,000	
	₹ 16,00,001 – ₹ 20,00,000 [₹ 4 lakhs @20%]		80,000	
	₹ 20,00,001 – ₹ 24,00,000 [₹ 4 lakhs @25%]		1,00,000	
	₹ 24,00,000 – ₹ 61,97,500 [₹ 37,97,500 @30%]		<u>11,39,250</u>	
	Add: Surcharge @10% [Since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]			14,39,250
				<u>1,43,925</u>
				15,83,175
	Add: HEC@4%			63,327
	Tax liability			16,46,502
	Tax liability (Rounded off)			16,46,500

**Computation of total income and tax liability of Mr. Ram for
A.Y. 2026-27 under the optional tax regime of the Income-tax Act, 1961**

Particulars	₹	₹
Gross Total Income/Total Income as per default tax regime u/s 115BAC		61,97,500
Less: Additional depreciation		<u>1,50,000</u>
Gross Total Income as per optional tax regime		60,47,500
Less: Deduction under Chapter VI-A		
Deduction under section 80G		
Contribution to Prime Minister Relief Fund		3,00,000

Deduction under section 80GGC – Expenditure towards advertising charges in a brochure of a political party incurred by an individual not allowed as deduction		Nil
Total Income		57,47,500
Tax on ₹ 57,47,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,000 – ₹ 5,00,000 [₹ 2.50 lakhs @5%]	12,500	
₹ 5,00,000 – ₹ 10,00,000 [₹ 5 lakhs @20%]	1,00,000	
₹ 10,00,000 – ₹ 57,47,500 [₹ 47,47,500 @30%]	<u>14,24,250</u>	
		15,36,750
<i>Add: Surcharge @10%</i> [Since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		<u>1,53,675</u>
		16,90,425
<i>Add: HEC@4%</i>		<u>67,617</u>
Tax liability		17,58,042
Tax liability (Rounded off)		17,58,040
Since the tax liability of Mr. Ram under optional tax regime is higher than the tax liability computed under section 115BAC, it would be beneficial for him to opt for the default tax regime under section 115BAC for A.Y. 2026-27.		

CHAPTER 13

PROVISIONS FOR FILING RETURN OF INCOME AND SELF ASSESSMENT

PART A: STUDY MATERIAL QUESTIONS

Question 1 [ICAI Study Mat, MTP 2 May 24, July 21, Jan 21, Similar Question in MTP 2 Nov 22, May 23, May 24]

Paras aged 55 years is a resident of India. During the F.Y. 2025-26, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Solution:

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 4,00,000 under default tax regime u/s 115BAC(1A) and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2026-27).

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

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
Total Income	33,000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2026-27, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2026-27.

Note: In the above solution, interest of ₹ 2,88,000 earned from **Non-resident (External) account** has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the **basic exemption limit of ₹ 2,50,000** in case he opts out of default tax regime. Consequently, he would be required to file return of income for A.Y.2026-27. However, if he pays tax under default tax regime, he is not required to file return of income for A.Y.2026-27 as the basic exemption limit is ₹ 4,00,000 u/s 115BAC.

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.

Question 2

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

Solution:

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time **before three months prior to the end of the relevant assessment year** or **before the completion of assessment**, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A **belated return** filed under section 139(4) can be **revised**.
- (ii) A **return revised earlier** can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A **return of loss** filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Question 3

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.

Solution:

An updated return can be furnished for the previous year relevant to the assessment year at any time within 48 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to 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.

Question 4

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 ₹ 15,35,000. She wants to furnish her return of income for A.Y. 2026-27 through a tax return preparer. Can she do so?

Solution:

Section 139B provides a scheme for submission of return of income for any assessment year through a **Tax Return Preparer**. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2026-27 through a Tax Return Preparer.

Question 5

State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2026 whether or not declaring presumptive income under section 44AD, is 31st October, 2026.

Solution:**(a) Disagree**

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.

Question 6 [ICAI Study Mat, Similar Question RTP May 18]

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12.07.2026 for A.Y. 2026-27 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 21.12.2026, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21.03.2027?

Solution:

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does **not fall under the category** of a person **whose accounts are required to be audited** under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2026-27 under section 139(1), in his case, is **31st July, 2026**. Since Mr. Vineet had filed his return under optional regime on 12.7.2026, the said return is within the time provided under section 139(1).

As per section 139(5), a return furnished under section 139(1) can be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(1) 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.

Question 7 [ICAI Study Mat, MTP 2 Dec 24, MTP 1 Nov 21 – 3 Marks]

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

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Solution:

- (i) **True: 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.

Question 8 [ICAI Study Mat, MTP 2 Nov 18 Similar in MTP 1 May 24, MTP 1 Nov 22, July 2021]

Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

Solution:

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).

Question 9 [ICAI Study Mat, MTP 1 Nov 19, PP May 18, MTP 1 Nov 18, MTP 1 May 24]

Mr. Aakash has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Solution:

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2025-26 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.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.

PART B: ADDITIONAL QUESTIONS**Question 10 [Sept 24 - 4 Marks]**

Rani, an Indian resident aged 34 years did not file her return of income for the A.Y. 2024-25 and 2025-26. She gives the following information regarding each of the A.Ys.

A.Y. 2024-25

- (i) Tax payable on the total income of Rani - Rs. 5,60,000
- (ii) TDS deducted - Rs. 10,00,000

A.Y. 2025-26

- (i) Tax payable on the total income of Rani - Rs. 6,30,000
- (ii) TDS deducted - Rs. 2,00,000
- (iii) Interest payable u/s 234A, 234B and 234C - Rs. 90,000 (calculated till 31st May 2026)
- (iv) Self-assessment tax paid - Rs. 1,00,000

She approaches you to file updated return under section 139(8A) on 16.5.2026. You are required to prepare a suggestion to be given to her in this respect. Your suggestion should include the financial aspect also (like payment of tax) briefly outlining the relevant provisions of the Income- tax Act.

Solution:

An **updated return** can be furnished for the previous year relevant to the assessment year at any time **within 48 months from the end of the relevant assessment year**. Accordingly, the following are the suggestions to Rani with respect to updated return on 16.5.2026 for A.Y. 2024-25 and 2025-26:

A.Y. 2024-25

For **A.Y. 2024-25**, updated return can be furnished up to **31.3.2029**. Thus, updated return can be furnished on 16.5.2026. Since updated return would be furnished **after** the expiry of **12 months but before 24 months** from the end of 31.3.2025, **additional income tax would be payable @50% of aggregate of tax** (after taking into consideration tax deducted at source) and interest payable. Accordingly, Rani is required to pay additional income-tax in addition to the tax payable of Rs. 5,60,000, interest and late fee of Rs. 5,000.

Alternate answer:

*The main solution has been worked out in line with the provisions of section 140B taking **tax payable as the net figure of tax after adjusting TDS**. However, since the term “**tax payable**” used in the ITR form for updated return is **before the adjustment of TDS, TCS, Advance tax, interest payable etc.**, it is possible to take a **view that the amount of tax payable** of Rs. 5,60,000 is **before adjusting TDS** of Rs. 10,00,000. In such case, since the refund of Rs. 4,40,000 would arise, updated return cannot be furnished for A.Y. 2024-25.*

A.Y. 2025-26

For **A.Y. 2025-26**, updated return can be furnished up to **31.3.2030**. Thus, updated return can be furnished on 16.5.2026. Since updated return would be furnished **before the expiry of 12 months** from the end of 31.3.2026, **additional income tax** would be payable **@25% of aggregate of tax** (after taking into consideration tax deducted at source and self-assessment tax paid) and **interest payable**. Accordingly, Rani is required to pay additional income-tax of Rs. 1,80,000 i.e., 25% of Rs. 7,20,000 (Rs. 6,30,000 + Rs. 90,000) in addition to tax payable of Rs. 6,30,000, interest payable of Rs. 90,000 and late fees of Rs. 5,000.

Alternate answer:

*The main solution has been worked out in line with the provisions of **section 140B** taking **tax payable as the net figure of tax after adjusting TDS and self-assessment tax paid**. However, since the term “**tax payable**” used in the ITR form for updated return is **before the adjustment of TDS, TCS, Advance tax, interest payable etc.**, it is possible to take a **view that the amount***

of tax payable of Rs. 6,30,000 is before adjusting TDS of Rs. 2,00,000 and self-assessment tax paid of Rs. 1,00,000. In such case, Rani is required to pay additional income-tax of Rs. 1,05,000 i.e., 25% of Rs. 4,20,000 [Rs. 3,30,000 (Rs. 6,30,000 – Rs. 2,00,000 – Rs. 1,00,000) + Rs. 90,000] in addition to tax payable of Rs. 3,30,000, interest payable of Rs. 90,000 and late fees of Rs. 5,000.

Question 11 [RTP May 18, similar concept in MTP 1 Nov 24, MTP 2 Nov 23, Dec 21, May 22, MTP 1 May 23, MTP 1 May 21, RTP May 20]

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for P.Y. 2025-26:

- (i) Income of Rs. 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- (ii) Income from other sources Rs. 2,70,000.
- (iii) Tax deducted at source Rs. 25,000.
- (iv) Advance tax paid Rs. 1,03,000 during the P.Y. 2025-26. Return of income filed on 11-12-2026.

Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. (Ignore provisions of default regime u/s 115BAC.)

Solution:

Computation of interest payable under section 234B by Mr. Sachal

Particulars	Rs.
Tax on total income of Rs. 10,80,000 [Business income of Rs. 8,10,000 + Income from other sources of Rs. 2,70,000]	1,36,500
Add: Health and Education Cess @ 4%	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of Rs. 1,03,000 paid is less than Rs. 1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2026 to 11th December, 2026, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on Rs. 14,000 [i.e., difference between assessed tax of Rs. 1,16,960 and advance tax of Rs. 1,03,000 paid, being Rs. 13,960 which is rounded off to nearest hundred being Rs. 14,000 under Rule 119A of Income-tax Rules, 1962]	1,260

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income **beyond the due date** specified under section 139(1).

Interest under section 234A

Since Mr. Sachal's accounts are audited under section 44AB, the **due date** for filing of return for A.Y. 2026-27, in his case, is **31.10.2026**. Mr. Sachal has **filed his return on 11.12.2026** i.e., **interest under section 234A** will be payable for 2 months (from 1.11.2026 to 11.12.2026) @ **1% per month** or part of month on the amount of tax payable on the total

income, as reduced by TDS and advance tax paid i.e., Rs. 13,960 rounded off to Rs. 14,000 under Rule 119A of Income-tax Rules, 1962 Interest u/s 234A = Rs. 14,000 x 1% x 2 = Rs. 280

Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income **after the due date but before 31.12.2026** and his total income exceeds Rs. 5 lakhs, a **fee** of Rs. 5,000 will be payable by him.

Question 12 [MTP 2 May 24, July 21- 4 Marks]

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 Rs. 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 Rs. 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

Solution

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of Rs. 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the **total income without giving effect to exemption** u/s 54EC is Rs. 12 lakhs, **exceeds the basic exemption limit**, the HUF is **required to file** its return of income for A.Y. 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. 2026-27 on account of owning a car for personal purposes in Germany.

***Note** – “Asset” for the purpose of the fourth proviso to section 139(1) has **not been specifically defined** in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, **requires details of foreign assets** for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes “any other capital assets outside India”. Car used for personal purposes is not a capital asset as it is a “personal effect”.*

Hence, it is not included in the meaning of “asset” for the purpose of the fourth proviso to section 139(1). The above answer is based on the view taken regarding the ambit of the term “asset”, based on the list of assets detailed in the relevant schedule of the income-tax return forms.

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

- (iii) If an individual has incurred expenditure **exceeding Rs. 1 lakh** towards consumption of **electricity** during the previous year, he would be **required to file a return** of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of Rs. 1,20,000 in the P.Y.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).

Question 13

State persons who are required to apply for the allotment of PAN under section 139A(1) of the Income-tax Act, 1961. Mention the time limit for making such application also.

Solution:

First Alternative

As per section 139A(1), following persons are required to apply for the allotment of PAN within the specified time limit

	Persons required to apply for PAN	Time limit for making such application
(1)	Every person, if his total income or the total income of any other person in respect of which he is assessable under the Act during any previous year exceeds the maximum amount which is not chargeable to income-tax.	On or before 31 st May of the assessment year for which such income is assessable
(2)	Every person carrying on any business or profession whose total sales, turnover or gross receipts are or is likely to exceed ₹ 5 lakhs in any previous year.	Before the end of that financial year.
(3)	Every person being a resident, other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year.	On or before 31 st May of the immediately following financial year.
(4)	Every person who is a managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of any person referred in (3) above or any person competent to act on behalf of such person referred in (3) above	On or before 31 st May of the immediately following financial year in which the person referred in (3) enters into financial transaction specified therein.
Every person who has not been allotted a PAN and intends to enter into the following prescribed transaction is also required to apply for PAN:		
(5)	Every person, who intends to deposit cash in his one or more accounts with a banking company, co-operative bank or post office, if the cash deposit or the aggregate amount of cash deposit in such accounts during a financial year is ₹ 20 lakh or more.	At least 7 days before the date on which he intends to deposit cash over the specified limit, i.e., ₹ 20 lakh or more.

(6)	Every person, who intends to withdraw cash from his one or more accounts with a banking company, co-operative bank or post office, if the cash withdrawal or the aggregate amount of cash withdrawal from such accounts during a financial year is ₹ 20 lakh or more.	At least 7 days before the date on which he intends to withdraw cash over the specified limit, i.e., ₹ 20 lakh or more.
(7)	Any person, who intends to open a current account or cash credit account with a banking company or a co-operative bank, or a post Office.	At least 7 days before the date on which he intends to open such account.

Question 14 [Suggested May 25] – 4 Marks

Specify all the documents in which quoting of Aadhaar Number is mandatory u/s 139AA of the Income-tax Act, 1961. Also explain to whom provisions of section 139AA does not apply.

Solution:

Every person who is eligible to obtain Aadhaar number is required to mandatorily quote Aadhaar Number in the application form for allotment of Permanent Account Number and in the return of income.

The provisions of section 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per the Income-tax Act, 1961;
- (iv) of the age of 80 years or more at any time during the previous year;
- (v) not a citizen of India.

Question 15 [MTP 1 May 25] – 4 Marks

Mr. Vijay, an Indian citizen residing in Chennai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2025. He approached you on 1.9.2025 and asked you about the consequences of not doing so.

What would be your answer if Mr. Vijay wants to intimate his Aadhaar number to the prescribed authority now?

Solution:

Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative.

Consequences of failure to intimate Aadhar Number

A person, whose PAN has become inoperative, would be liable for further consequences till the date it becomes operative, namely –

- (i) refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- (ii) interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- (iii) where tax is deductible under Chapter XVIIB in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;

- (iv) where tax is collectible at source under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

If Mr. Vijay wants to intimate his Aadhaar number to the prescribed authority on 1.9.2025, he would be liable to pay a fee of ₹ 1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative.

Question 16 [MTP 1 May 25] – 4 Marks

In each of the following independent situations, you are required to examine whether these persons are required to file their return of income or loss for A.Y.2026-27 if their total income for the P.Y. 2025-26 do not exceed the basic exemption limit:

- (i) The turnover of Mr. Ankit's business is ₹ 65 lakhs during the P.Y. 2025-26.
- (ii) Mr. Suyash has incurred a total expenditure of ₹ 90,000 towards consumption of electricity during the P.Y. 2025-26.

Solution:

- (i) If an individual has total sales, turnover or gross receipts, as the case may be, in the business exceeding ₹ 50 lakhs 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. Ankit's turnover from the business is ₹ 65,00,000 for the P.Y. 2025-26, he is required to file his return of income for A.Y. 2026-27 on or before the due date under section 139(1).

- (ii) If an individual has incurred aggregate amount of 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. Suyash does not have total income exceeding the basic exemption limit and has incurred a total expenditure of ₹ 90,000 only in the P.Y.2025-26 towards consumption of electricity, he is not required to file his return of income for A.Y. 2026-27.

Question 17 [MTP 2 May 25] – 4 Marks

Who is authorized to verify return of income in case of the following assessee:

- i. Local authority
- ii. Firm, having no managing partner
- iii. Foreign Company
- iv. HUF where the karta is absent from India

Solution:

	Assessee	Authorised person to verify return of income
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor
(iii)	Foreign Company	• The managing director of the company (or) • a person who holds a valid power of attorney from such company to do so (such power of attorney should be attached to the return)
(iv)	HUF where the karta is absent from India	Any other adult member of the HUF

Question 18 [MTP 2 May 25] – 4 Marks

Enumerate list of circumstances where an updated return u/s 139(8A) cannot be furnished?

Solution:

The provision of updated return is not applicable, if the updated return of any person for that assessment year

- is a loss return; or
- has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1) or section 139(4) or section 139(5); or
- results in refund or increases the refund due on the basis of return furnished under section 139(1) or section 139(4) or section 139(5).

An updated return cannot be furnished by any person for the relevant assessment year, where

- an updated return already been furnished under section 139(8A) for the relevant assessment year; or
- any proceeding for assessment, reassessment, re-computation, or revision of income is pending or has been completed for the relevant assessment year.

Question 19 [MTP 1 Sept. 25] – 4 Marks

Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2026-27:

- Mr. Arjun makes a cash payment of ₹ 50,000 to Hotel Vista, Dehradun against a bill raised by the hotel.
- Ms. Kavita enters into a contract for the purchase of debentures, for a value of ₹ 1,85,000.
- Mr. Ramesh makes a payment of ₹ 57,000 for the purchase of units of a mutual fund.
- Ms. Sneha makes a payment for the purchase of immovable property valued at ₹ 9,50,000. Stamp duty value of the property is ₹ 9,75,000.

Solution:

Requirement of quoting PAN in respect of certain transactions

- PAN is not required to be quoted:** Mr. Arjun is not required to quote his PAN while making payment ₹ 50,000 in cash to a hotel Vista, Dehradun, since such payment does not exceed ₹ 50,000.
- PAN is mandatorily required to be quoted:** Ms. Kavita is required to quote her PAN while making payment of ₹ 1,85,000 for purchase of debentures, since the amount of the transaction exceeds ₹ 50,000.
- PAN is mandatorily required to be quoted:** PAN has to be mandatorily quoted while making payment of ₹ 57,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹ 50,000
- PAN is not required to be quoted:** Ms. Sneha is not required to quote her PAN while making payment ₹ 9,50,000 towards purchase of immovable property, since such payment does not exceed ₹ 10,00,000

Question 20 [MTP 1 Sept. 25] – 4 Marks

Mr. Shahid, an individual who is a resident and ordinarily resident in India, has earned a salary income of ₹ 8,25,000 during the Financial Year 2025-26. He is eligible to claim deductions under section 80C, 80D and 80G amounting to ₹ 2,75,000. On 30th July, 2026, he approaches you for assistance in filing his return of income.

As a tax consultant, what would be your advice regarding the filing of his return of income?

What will be your advice if he approaches you on 1st August, 2026.

Note - The due date of filing return of income for A.Y. 2026-27 is 31st July, 2026. Ignore interest u/s 234A, 234B and 234C.

Solution:

Mr. Shahid approaches on 30th July 2026, which is before the due date for filing the return under section 139(1).

Mr. Shahid has an option to pay tax under default tax regime or to opt out of the default tax regime and pay tax under normal provisions of the Act. However, under the default tax regime, he will not be able to claim deductions under section 80C, 80D and 80G.

Under default tax regime, Mr. Shahid's total income would be ₹ 7,50,000 after providing standard deduction of ₹ 75,000 and tax liability will be ₹ 26,000.

Under optional tax regime, Mr. Shahid's total income would be ₹ 5,00,000 after providing standard deduction of ₹ 50,000 and deduction under Chapter VI-A of ₹ 2,75,000. Since Mr. Shahid is resident in India, he is eligible of rebate under section 87A and his tax liability would be Nil.

Accordingly, Mr. Shahid should file his return of income on or before 31st July, 2026 and opt out of the default tax regime.

In case Mr. Shahid approaches on 1st August, 2026, he has to file his return of income and pay tax under default tax regime. In which case his tax liability will be ₹ 26,000 and he has to pay fee of ₹ 5,000 under section 234F for late filing of return of income.

Question 21 [MTP 2 Sept. 25] – 4 Marks

Who is an eligible person to file a return through a Tax Return Preparer (TRP) under section 139B of the Income-tax Act, 1961? Also, specify the circumstances in which an eligible person cannot furnish his return of income through a TRP.

Solution:

Any person, being an individual or a Hindu undivided family is an eligible person who can file their return through a Tax Return Preparer (TRP).

However, the following eligible person (an individual or a HUF) cannot furnish a return of income for an assessment year through a Tax Return Preparer:

- (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited under section 44AB or under any other law for the time being in force; or
- (ii) who is not a resident in India during the previous year.

An eligible person cannot furnish a revised return of income for any assessment year through a Tax Return Preparer unless he has furnished the original return of income for that assessment year through such or any other Tax Return Preparer.

Question 22 [MTP 2 Sept. 25] – 4 Marks

Mr. Avinash filed his return of income for the Assessment Year 2026-27 on 30th September, 2026. In the month of October 2026, he came to know that he forgot to show interest on fixed deposit in his income-tax return. Can Mr. Avinash file a revised return in October, 2026?

Assume that the due date for furnishing return of income was 31st July, 2026 and the assessment was not completed till the month of October 2026?

Solution:

As per section 139(5), if any person, having furnished a return within the due date or a belated return, discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (a) before three months prior to the end of the relevant assessment year; or
- (b) before the completion of assessment,

whichever is earlier.

Since Mr. Avinash has filed his return after 31.7.2026, being the due date under section 139(1) in his case, the said return is a belated return under section 139(4).

Mr. Avinash can file a revised return in October, 2026, since he has found an omission in the belated return filed by him for A.Y.2026-27 before 31.12.2026 and assessment is yet to be completed.

Question 23 [Suggested Sept. 25]

State, with appropriate reasons, whether the following statements are "true" or "false".

- (i) An income-tax return can be revised only once.
- (ii) Updated return under section 139(8A) cannot be filed if original return is a loss return under section 139(3).

Solution:**Second Alternative**

- (i) **False:** A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if an 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.
- (ii) **False:** If any person has a loss in any previous year and has furnished a return of loss on or before the due date of filing return of income under section 139(1), he shall be allowed to furnish an updated return if such updated return is a return of income.