

VSMART ACADEMY

For CA/CMA INTERMEDIATE

TAXATION

SECTION A - INCOME TAX LAW

QUESTION BANK

(Volume I)

#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 1)

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.

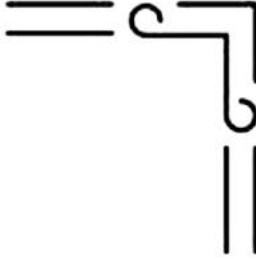
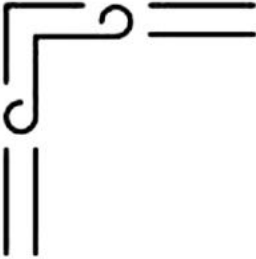
Students need to understand the concepts and logical reasoning of the Chapter. Only mugging-up shall not suffice to score in this subject. Also, students should practice as many Questions as possible.

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.

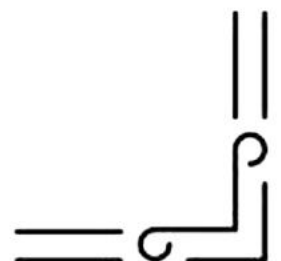
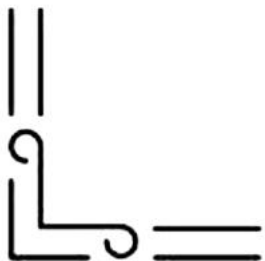
Above all, a big Thank You to all my students for showering so much love in such a short span of time. We will make it big together.

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

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*Daro Mat, This is just Volume I.
Other Chapters are covered in Volume II.*



**SUNO,
TUM SAB KAR LOGE.**

CHAPTER 1 BASIC CONCEPTS

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

Solution:

Computation of Business Income and Agriculture Income of Mr. B

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

Question 2

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

Solution:

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

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

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

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

Question 3

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

Solution:**Computation of tax liability of Mr. X for A.Y. 2026-27****Tax liability:**

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

Question 4

Mr. X has a total income of ₹ 16,00,000 for P.Y.2025-26, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2026-27 assuming his age is –

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

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

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

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

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

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

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

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

Question 5

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

Solution:

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

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

Alternative method -

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

Question 6

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

Solution:**Computation of tax liability of Mr. B for the A.Y. 2026-27****(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000**

₹ 4,00,000 – ₹ 8,00,000@5%	₹ 20,000
₹ 8,00,001 – ₹ 12,00,000@10%	₹ 40,000
₹ 12,00,001 – ₹ 16,00,000@15%	₹ 60,000
₹ 16,00,001 – ₹ 20,00,000@20%	₹ 80,000
₹ 20,00,001 – ₹ 24,00,000@25%	₹ 1,00,000
₹ 24,00,001 – ₹ 1,01,00,000@30%	<u>₹ 23,10,000</u>
Total	₹ 26,10,000
Add: Surcharge@15%	<u>₹ 3,91,500</u>
Tax liability without marginal relief	₹ 30,01,500

(B) Income-tax computed on total income of ₹ 1 crore

(₹ 3,00,000 plus ₹ 22,80,000)	₹ 25,80,000
Add: Surcharge@10%	<u>₹ 2,58,000</u>
	₹ 28,38,000

(C) Total Income Less ₹ 1 crore

₹ 1,00,000

(D) Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore (B + C)

₹ 29,38,000

(E) Tax liability: lower of (A) & (D)

₹ 29,38,000

Add: Health and education cess @4%

₹ 1,17,520**Tax liability (including cess)****₹ 30,55,520****(F) Marginal relief (A-D)**

₹ 63,500

Alternative method:**(A) Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000**

₹ 4,00,000 – ₹ 8,00,000@5%	₹ 20,000
₹ 8,00,001 – ₹ 12,00,000@10%	₹ 40,000
₹ 12,00,001 – ₹ 16,00,000@15%	₹ 60,000
₹ 16,00,001 – ₹ 20,00,000@20%	₹ 80,000
₹ 20,00,001 – ₹ 24,00,000@25%	₹ 1,00,000
₹ 24,00,001 – ₹ 1,01,00,000@30%	₹ 23,10,000
Total	₹ 26,10,000
Add: Surcharge @ 15%	<u>₹ 3,91,500</u>
	₹ 30,01,500

(B) Income-tax computed on total income of ₹ 1 crore[(₹ 3,00,000 plus ₹ 22,80,000) plus surcharge@10%] ₹ 28,38,000**(C) Excess tax payable (A)-(B)**

₹ 1,63,500

(D) Marginal Relief (₹ 1,63,500 – ₹ 1,00,000, being the amount of income in excess of ₹ 1,00,00,000)**₹ 63,500****(E) Tax liability (A) - (D)**

₹ 29,38,000

Add: Health and education cess @4%

₹ 1,17,520**Tax liability (including cess)****₹ 30,55,520****Question 7**

Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

Solution:**Computation of tax liability of Mr. C for the A.Y. 2026-27**

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

Alternative method:

(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 2,01,00,000@30%	<u>₹ 57,30,000</u>	
Total	₹ 58,42,500	
Add: Surcharge@25%	<u>₹ 14,60,625</u>	₹ 73,03,125
(B) Income-tax computed on total income of ₹ 2 crore		
[(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000)		
<i>plus</i> surcharge@15%]		<u>₹ 66,84,375</u>
(C) Excess tax payable (A)-(B)		₹ 6,18,750
(D) Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount of income in excess of ₹ 2,00,00,000)		₹ 5,18,750
(E) Tax liability (A) - (D)		₹ 67,84,375
Add: Health and education cess@4%		<u>₹ 2,71,375</u>
Tax liability (including cess)		<u>₹ 70,55,750</u>

Question 8

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2026-27. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

Solution:**Computation of tax liability of Mr. D under default tax regime for the A.Y. 2026-27**

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

₹ 4,00,000 – ₹ 8,00,000@5%	₹ 20,000
₹ 8,00,001 – ₹ 12,00,000@10%	₹ 40,000

₹ 12,00,001 – ₹ 16,00,000@15%	₹ 60,000
₹ 16,00,001 – ₹ 20,00,000@20%	₹ 80,000
₹ 20,00,001 – ₹ 24,00,000@25%	₹ 1,00,000
₹ 24,00,001 – ₹ 5,01,00,000@30%	<u>₹ 1,43,10,000</u>
Total ₹ 1,46,10,000	
Add: Surcharge@25%	<u>₹ 36,52,500</u>
	₹ 1,82,62,500
Add: Health and education cess @4%	<u>₹ 7,30,500</u>
Tax liability	<u>₹ 1,89,93,000</u>

**Computation of tax liability of Mr. D under optional tax regime
for the A.Y. 2026-27**

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

Alternative method:

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

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

Question 9

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

Solution:

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

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

Question 10

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

Solution:

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

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

Question 11

Mr. Piyush, aged 35 years and a resident in India, has a total income of ₹ 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 if he exercises the option to shift out of the default tax regime.

Solution:

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

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

Question 12

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

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

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

- (a) 45 years
(b) 70 years

Solution:

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

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

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

1. **Net agricultural income exceeds ₹ 5,000 p.a.**, and
2. **Non-agricultural income exceeds the basic exemption limit** of ₹ 4,00,000.

His tax liability is computed in the following manner:

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

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

Tax on ₹ 21,40,000 = ₹ 2,35,000

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

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

Tax on ₹ 7,10,000 = ₹ 15,500

(i.e. 5% of ₹ 3,10,000)

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

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

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

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

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

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

His tax liability is computed in the following manner:

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

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

Tax on ₹ 21,40,000 = ₹ 4,54,500

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

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

Tax on ₹ 5,60,000 = ₹ 24,500

(i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 60,000)

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

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

= ₹ 4,30,000 + 4% of ₹ 4,30,000 = ₹ 4,47,200.

(b) Computation of tax liability (age 70 years)**Computation of total income of Mr. X for the A.Y. 2026-27 under default tax regime under section 115BAC**

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

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

His tax liability is computed in the following manner:

- Step 1** : ₹ 18,30,000 + ₹ 3,10,000 = ₹ 21,40,000
 Tax on ₹ 21,40,000 = ₹ 4,52,000
 (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 11,40,000)
- Step 2** : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
 Tax on ₹ 6,10,000 = ₹ 32,000
 (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)
- Step 3** : ₹ 4,52,000 – ₹ 32,000 = ₹ 4,20,000
- Step 4 & 5** : Total tax payable = ₹ 4,20,000
 = ₹ 4,20,000 + 4% of ₹ 4,20,000 = ₹ 4,36,800.

Question 13

Who is an “Assessee”? Explain

Solution:

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

In addition, the term includes –

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

Question 14

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

Solution:

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

- (i) Where a **ship, belonging to** or chartered by a **non-resident**, carries passengers, livestock, mail or goods shipped at a port in India, the ship is **allowed to leave the port** only when the **tax has been paid** or **satisfactory arrangement** has been made for payment thereof. **7.5% of the freight paid** or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is **deemed to be his income** which is charged to tax in the same year in which it is earned.

- (ii) Where it appears to the Assessing Officer that any **individual may leave India** during the **current assessment year** or **shortly after** its expiry and he has **no present intention of returning to India**, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
- (iii) If an **AOP/BOI** etc. is formed or established **for a particular event or purpose** and the Assessing Officer apprehends that the AOP/BOI is **likely to be dissolved** in the **same year or in the next year**, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
- (iv) During the current assessment year, if it appears to the Assessing Officer that a **person is likely to charge, sell, transfer, dispose of** or otherwise part with any of his assets **to avoid payment of any liability** under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.
- (v) Where any **business or profession is discontinued** in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

Question 15

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

Solution:

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

Question 16

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

Solution:

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

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

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

Question 17

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

Solution:

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

Body of Individuals denotes the **status of persons** like executors or trustees **who merely receive the income jointly** and who may be **assessable in like manner** and to the same

extent **as the beneficiaries individually**. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

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

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

Question 18

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

Solution:

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

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

Question 19

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

Solution:

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

Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs

Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs

Question 20

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

Solution:

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

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

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

Question 21

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

Solution:

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

(A) Tax payable including surcharge on total income of ₹ 51,25,000

₹ 4,00,000 – ₹ 8,00,000 @5%	₹ 20,000	
₹ 8,00,001 – ₹ 12,00,000 @10%	₹ 40,000	
₹ 12,00,001 – ₹ 16,00,000 @15%	₹ 60,000	
₹ 16,00,001 – ₹ 20,00,000 @20%	₹ 80,000	
₹ 20,00,001 – ₹ 24,00,000 @25%	₹ 1,00,000	
₹ 24,00,001 – ₹ 51,25,000 @30%	₹ 8,17,500	
Total	₹ 11,17,500	
Add: Surcharge @ 10%	₹ 1,11,750	₹ 12,29,250

(B) Tax Payable on total income of ₹ 50 lakhs (₹ 3,00,000 plus ₹ 7,80,000) ₹ 10,80,000

(C) Total Income Less ₹ 50 lakhs ₹ 1,25,000

(D) Tax payable on total income of ₹ 50 lakhs *plus* the excess of total income over ₹ 50 lakhs (B + C) ₹ 12,05,000

(E) Tax payable: lower of (A) and (D) ₹ 12,05,000

Add: Health and education cess @4% ₹ 48,200

Tax liability **₹ 12,53,200**

(F) Marginal Relief (A – D) ₹ 24,250

Alternative method -**(A) Tax payable including surcharge on total income of ₹ 51,25,000**

₹ 4,00,000 – ₹ 8,00,000 @5%	₹ 20,000	
₹ 8,00,001 – ₹ 12,00,000 @10%	₹ 40,000	
₹ 12,00,001 – ₹ 16,00,000 @15%	₹ 60,000	
₹ 16,00,001 – ₹ 20,00,000 @20%	₹ 80,000	
₹ 20,00,001 – ₹ 24,00,000 @20%	₹ 1,00,000	
₹ 24,00,001 – ₹ 51,25,000 @30%	₹ 8,17,500	
Total	₹ 11,17,500	
Add: Surcharge@10%	₹ 1,11,750	₹ 12,29,250

(B) Tax Payable on total income of ₹ 50 lakhs (₹ 3,00,000 *plus* ₹ 7,80,000) ₹ 10,80,000

(C) Excess tax payable (A)-(B) ₹ 1,49,250

(D) Marginal Relief (₹ 1,49,250 – ₹ 1,25,000, being the amount of income in excess of ₹ 50,00,000) **₹ 24,250**

(E) Tax payable (A)-(D)	₹ 12,05,000
Add: Health and education cess @4%	₹ 48,200
Tax liability	₹ 12,53,200

Question 22

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Solution:

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

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

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

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

Question 23

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital

gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Solution:

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

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

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

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

PART B: ADDITIONAL QUESTIONS**Question 24 [MTP 1 Nov 18 – 3 Marks]**

Explain the difference between Circulars and Notifications in the context to Income-tax Act, 1961.

Solution:

Difference between Circulars and notifications

Circulars	Notifications
Circulars are issued by CBDT .	Notifications are issued by the Central Government . The CBDT is also empowered to issue notifications.
Circular are issued with certain specific problems and to clarify doubt regarding the scope and meaning of certain provisions of the Act.	Central Government issues notifications to effect the provisions of the Act and CBDT issues notifications to make and amend Income-tax Rules .
The department is bound by the circulars . While such circulars are not binding on the assesseees , they can take advantage of beneficial circulars .	Notifications are binding in nature . Both department and assesseees are bound by the notifications.

Question 25 [MTP 2 Nov 18]

Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

- Rent received for letting out agricultural land for a movie shooting.
- Income from sale of seedlings in a nursery adjacent to agricultural lands owned by an assessee.

Solution:

- Rent received for letting out agricultural land for a movie shooting:**

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

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

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

- Income from sale of seedlings in a nursery:**

As per **Explanation 3 to section 2(1A)**, income derived from **saplings or seedlings grown** in a **nursery** is **deemed to be agricultural income**, **whether or not** the **basic operations** were **carried out on land**. Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

Question 26 [May 18 – 2 Marks]

Briefly explain the purpose for which the words "PROVISO" and "EXPLANATION" are incorporated under various sections of the Income-tax Act, 1961.

Solution:

Proviso: The Proviso to a section is **incorporated to specify the exception(s)** to the provision contained in the respective section i.e., the proviso spells out the cases where the provision contained in the respective section would not apply or where the provision contained in the respective section would apply with certain modification.

Explanation: An Explanation is incorporated in a section to **provide a clarification** relating to the provision contained in that section. Generally, an Explanation is clarificatory in nature.

CHAPTER 2

RESIDENCE AND SCOPE OF TOTAL INCOME

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

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

Solution:

In this case, since Mr. Anand is an **Indian citizen and leaving India** during P.Y. 2025-26 as a **member of the crew of the Indian ship**, he would be **resident** in India **if he stayed in India for 182 days or more**.

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

Therefore, the period commencing from 6th June, 2025 and ending on 9th December, 2025, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the

P.Y. 2025-26 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2025-26 is less than 182 days, he is a non-resident for A.Y. 2026-27.

Question 2

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

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

Solution:

(a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2026-27:-

Period of stay during previous year 2025-26 = 100 days

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

2024-25	100 days
2023-24	100 days

2022-23	100 days
2021-22	100 days
Total	400 days

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

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

2024-25	100 days
2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
Total	700 days

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

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

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

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

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the A.Y. 2026-27.

- (b) If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his **stay in India** in the **current financial year** is, in any case, **less than 120 days**.
- (c) In this case, if Srinath's **total income (excluding income from foreign sources) exceeds ₹ 15 lakh**, he would be **treated as resident but not ordinarily resident in India** for P.Y.2025-26, since his stay in India is 120 days in the P.Y.2025-26 and 480 days (i.e., 120 days × 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed ₹ 15 lakh, he would be treated as non-resident in India for the P.Y.2025-26, since his stay in India is less than 182 days in the P.Y.2025-26.

Question 3

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

Solution:

During the P.Y. 2025-26, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2025-26, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does **not satisfy the basic condition** under section 6(1). Therefore, he is a non-resident for the P.Y. 2025-26.

Question 4

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2025-26 after 15 years. He comes to India on 1.4.2025 and leaves for Australia on 1.12.2025. Determine the residential status of Mr. E and the HUF for A.Y. 2026-27.

Solution:

- (a) During the P.Y. 2025-26, Mr. E has stayed in India for 245 days (i.e. 30 + 31 + 30 + 31 + 31 + 30 + 31 + 30 + 1 days). Therefore, he is a **resident**. However, since he has come to India **after 15 years**, he does **not satisfy the condition for being ordinarily resident**.

Therefore, the residential status of Mr. E for the P.Y. 2025-26 is **resident but not ordinarily resident**.

- (b) Since the **business** of the HUF is **transacted from Australia** and **policy decisions are taken there**, it is **assumed that the control and management is in Australia** i.e., the control and management is wholly outside India. Therefore, the HUF is a **non-resident** for the P.Y. 2025-26.

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

Question 5

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

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

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

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

Particulars	Resident & ordinarily resident ₹	Resident but not ordinarily resident ₹	Non-Resident ₹
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000

2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	83,500	21,000	21,000

Notes:

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

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

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

Question 6 [Study Mat, Similar Ques-MTP 1 May 19 – 4 Marks]

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

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

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

Solution:

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

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

- (i) Income **received or deemed to be received** in India; and
(ii) Income **accruing or arising or deemed to accrue or arise** in India.

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

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

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

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

Question 7

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

Solution:

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

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

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

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

Question 8

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of gains are received in India	40,000
Income earned from business in Germany which is controlled in Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company, received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai, managed from London	26,000

Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled in Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

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

Particulars	Resident and ordinarily resident ₹	Resident but not ordinarily resident ₹	Non-resident ₹
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled in Delhi, out of which ₹ 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company, received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai, managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal, received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-

Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled in Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of ₹ 10,000]	10,000	10,000	10,000
Total Income	3,42,000	2,08,000	1,73,000

Question 9

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

Solution:

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

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

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

During the previous year 2025-26, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30 + 31 + 30 + 31 + 31 + 22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2026-27.

Question 10

Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2024 for permanent settlement. What will be his residential status for A.Y. 2026-27?

Solution:

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

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

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

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

For the previous year 2025-26 (A.Y. 2026-27), his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately

preceding the P.Y. 2025-26. He was resident only in the P.Y. 2024-25. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 545 days [365 days in P.Y. 2024-25 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2025-26, which is less than 730 days.

Question 11 [ICAI Study Mat, MTP 1 Nov 23- 6 Marks]

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

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

Solution:

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

Sr. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000
2.	Dividend from British Company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-

9.	Income from house property at Bhopal (See Note 5)	70,000	42,000
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

Notes:

- Mr. Ramesh is a **non-resident** since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
- In case of a **resident and ordinarily resident**, his **global income is taxable** as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

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

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

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

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

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

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

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

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

Question 12

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

Solution:

This statement is **correct**.

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

- non-resident has a residence or place of business or business connection in India; or

(ii) the non-resident has rendered services in India.

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

Question 13

Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

- (i) Salary payable by Central Government to Mr. John, a citizen of India of ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.
- (ii) Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
- (iii) Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- (v) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

Solution:

Taxability of receipts

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

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

Question 14

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

- (a) Resident and ordinarily resident
(b) Non-resident

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

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

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

Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-
Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	3,79,000	2,87,000
<i>Less: Deduction under section 80TTB/80TTA</i>		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes –

- In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non- resident, only the following incomes are chargeable to tax:

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

Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non- resident for business outside India is not taxable in case of non- resident.

- In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non- resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA..

Question 15 [Study MAT, MTP 1 May 24 – 6 Marks]

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

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

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

Solution:

As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such

person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

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

In this case, total income, other than the income from foreign sources, of Mr. Dhanush for P.Y. 2025-26 would be

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

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

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

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

PART B: ADDITIONAL QUESTIONS**Question 16 [MTP 1 May 21 – 7 Marks]**

Determine the residential status and total income of Mr. Raghu for the assessment year 2026-27 from the information given below. Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2009. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while continuing to be based at the Gurugram office. The details of his travel outside India for the financial year 2025-26 are as under:

Country	Period of stay
USA	25 August, 2025 to 10 November, 2025
UK	20 November, 2025 to 23 December, 2025
Germany	10 January, 2026 to 24 March, 2026

During the last four years preceding the previous year 2025-26, he was present in India for 380 days. During the last seven previous years preceding the previous year 2025-26, he was present in India for 700 days. During the P.Y. 2025-26, he earned the following incomes:

- (1) Salary Rs. 15,00,000. The entire salary is paid by the Indian company in his Indian bank account.
- (2) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to Rs. 10,500 was credited to his saving account.

Assume he is opting out of default tax regime provided u/s 115BAC(1A).

Solution:**Determination of residential status**

Mr. Raghu would be a **resident** in India in P.Y. 2025-26, if he satisfies **any one** of the following conditions:

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

If he satisfies **any one** of the conditions mentioned above, he is a **resident**. If **both** the above conditions are **not satisfied**, he would be a **non-resident**. During the P.Y. 2025-26 Mr. Raghu stayed in India for 179 days i.e., 365 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y. 2026-27.

A person would be “Not ordinarily Resident” in India in any previous year, if such person:

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

For the previous year 2025-26, Mr. Raghu would be “Resident but not ordinarily resident” since he stayed for less than 729 days during the 7 previous years immediately preceding P.Y. 2025-26

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

Particulars		Amount (Rs.)
(1) Salary from Indian company received in a bank account in India	15,00,000	14,50,000
Less: Standard deduction u/s 16(ia)	50,000	
(2) Dividend of Rs. 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the resident but not ordinarily resident since the income has neither accrued or arisen in India nor has it been received in India.		Nil
(3) Interest on fixed deposit with PNB credited to his savings bank account is taxable in the hands of Mr. Raghu as Income from other sources, since it has accrued and arisen in India and is also received in India.		10,500
Gross Total Income		14,60,500
Less: Deduction u/s 80TTB		10,500
Total Income		14,50,000

Question 17 [MTP 1 Nov 19 – 7 Marks]

Determine the residential status of Mrs. Ria Bran and compute her gross total income chargeable to tax for the Assessment Year 2026-27 from the following information gathered from her documents:

Mrs. Ria Bran is an Australian, got married to Mr. Arjun of India in Australia on 2.01.2025 and came to India for the first time on 18.02.2025. She left for Australia on 15.9.2025. She returned to India again on 23.03.2026. On 01.04.2025, she had purchased a Flat in Delhi, which was let out to Mr. Sahil on a rent of Rs. 28,000 p.m. from 1.5.2025. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of Rs. 2,15,500 upto 31.03.2026. While in India, during the previous year 2025-26, she had received a gold chain from her in-laws worth Rs. 1,50,000, a Car worth Rs. 7,50,000 from married sister of her husband and Rs. 1,72,000 from very close friends of her husband.

Solution:

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

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

If an individual satisfies any **one of the conditions** mentioned above, he is a **resident**. If **both** the above conditions are **not satisfied**, the individual is a **non-resident**.

Therefore, the residential status of Mrs. Ria Bran, an Australian, for A.Y.2026-27 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2026-27 i.e. P.Y.2025-26 and in the preceding four assessment years.

Her stay in India during the previous year 2025-26 and in the preceding four years are as under:

P.Y. 2025-26	
01.04.2025 to 15.09.2026	- 168 days
23.03.2025 to 31.03.2026	- 9 days
Total	177 days

Four preceding previous years

P.Y.2024-25 [1.4.2024 to 31.3.2025]	-	43 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]	-	Nil

Total **43 days**

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 43 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the AY 2026-27.

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

Particulars	Rs.	Rs.
Income from house property		
Flat located in Delhi let-out from 01.05.2025 to 31.03.2026 @ Rs.28,000/- p.m.		
Gross Annual Value [28,000 x 11] Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.	3,08,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	3,08,000	
Less: Deduction under section 24		
- 30% of NAV	92,400	100
- Interest on loan [fully allowable as deduction, since property is let-out]	2,15,500	
	3,07,900	
Income from other sources		
• Gold chain worth Rs. 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
• Car worth Rs. 7,50,000 received from married sister of her 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 friends of her husband aggregating to Rs. 1,72,000 is taxable under section 56(2)(x) since the amount of cash gifts of Rs. 1,72,000 exceeds Rs. 50,000.	1,72,000	1,72,000
Gross Total income		1,72,100

Question 18 [MTP 2 May 23, MTP 1 May 25 – 6 Marks]

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2025-26:

	Particulars	Amount (in Rs.)
(i)	Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii)	Income accrued and arisen in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in Dubai from a profession set up in India	10,00,000

- (I) Determine the residential status of Mr. Sarthak and taxable income for the previous year 2025-26 (assuming no other income arise during the previous year).
- (II) What would be your answer if income arising in Dubai from a profession set up in India is Rs. 2 lakhs instead of Rs. 10 lakhs?
- (III) What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India?

Solution:

- (I) Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2025-26 on the basis of number of days of his stay in India as per section 6(1). However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of Rs. 23 lakhs, which **exceeds the threshold of Rs. 15 lakhs** during the previous year; and
- not liable to tax in Dubai,

he would be deemed resident in India for the P.Y. 2025-26 by virtue of section 6(1A).

A **deemed resident is always a resident but not ordinarily resident in India (RNOR).**

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

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

- (II) If income **arising in Dubai from a profession set up in India** is Rs. 2 lakhs instead of Rs. 10 lakhs, his total income (excluding income from foreign sources) would be only Rs. 15 lakhs. Since the same does **not exceed the threshold limit** of Rs. 15 lakhs, he would not be deemed resident. Accordingly, he would be non-resident in India for the P.Y. 2025-26 and hence, his total income would be only Rs. 13 lakhs (aggregate of (ii) and (iii) above i.e., Rs. 5 lakhs + Rs. 8 lakhs).
- (III) If Mr. Sarthak is **not an Indian citizen and his parents were born in India**, he would be person of **Indian origin**. In such case, the provisions relating to **deemed resident would not apply** to him. Accordingly, he would be non-resident in India during the P.Y. 2025-26 and his total income would be Rs. 13 lakhs.

Question 19 [RTP May 20, Similar Qus - MTP 2 Dec 24, MTP 2 April 22]

Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2025. His income during the financial year 2025-26 is given hereunder:

Particulars	Rs.
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during the financial year 2025-26. Compute his Gross Total Income for the Assessment year 2026-27. Assume he opted out of section 115BAC.

Solution:

Mr. Shridhar is a non-resident for the A.Y.2026-27, since he was not present in India at any time during the previous year 2025-26 [Section 6(1)].

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

- (i) Income received or **deemed to be received in India**; and
- (ii) Income **accruing or arising or income deemed to accrue or arise in India**.

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

Particulars	Rs.
Salaries	
Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shridhar, a citizen of India, even though he is a non- resident and rendering services outside India)	9,25,000
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction under section 16(ia) of Rs. 50,000, being lower of gross salary or Rs. 50,000	50,000
	8,75,000
Income from House Property	
Rent from a house situated at Australia, received in Australia (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	Nil
Income from Other Sources	
Interest on Post office savings bank account – exempt upto Rs. 3,500	1,000
Gross Total Income	8,76,000

Note – Interest on Post office saving bank account of Rs. 1,000 would be allowed as **deduction** under section 80TTA.

Question 20 [RTP May 24]

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2017. She came to India on 15.11.2025 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas education in May, 2013 and was subsequently employed outside India and never visited India thereafter. There is no income-tax in Country A. She has earned interest income of Rs. 2,40,000 (net) in Country A and salary income from AFL LLP of Rs. 15 lakhs up to the date of her return to India in the financial year 2025-26.

Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2026 is Rs. 13,50,000 and she earned dividend of Rs. 3,00,000 from shares of an Indian company.

What would be the residential status of Ms. Rita and her total income for the A.Y. 2026-27?

Solution:**Determination of residential status of Ms. Rita for the A.Y. 2026-27**

As per section 6(1), in order to be a resident of India in the P.Y.2025-26, Ms. Rita should satisfy either of the following two conditions -

- (1) Her stay in India should be for a period of **182 days or more** in the P.Y.2025-26; or
- (2) Her stay in India should be for a period of **60 days or more** in the P.Y.2025-26 and for a period of **365 days or more** in the four immediately preceding previous years.

Ms. Rita's stay in India in the P.Y.2025-26 is 138 days (i.e., 16 days + 31 days + 31 days + 28 days + 31 days). She left India in May, 2013 and never visited India thereafter. Her stay in India in the four immediately preceding previous years would be Nil.

Therefore, she does not satisfy either condition (1) or condition (2) for being a resident. As per section 6(1A), an individual who is a citizen of India would be deemed to be a resident of India if his total income, other than income from foreign sources, exceed Rs. 15 lakh during the relevant previous year and he is not liable to tax in any other country by reason of his domicile or residence or any other criteria of similar nature.

Ms. Rita's total income, other than income from foreign sources, would be Rs. 16,50,000 for A.Y.2026-27 as shown below -

Particulars	Rs.
Salary income from Autofit Ltd. [Computed] [Accrues or arises in India]	13,50,000
Dividend from shares of an Indian company [Accrues or arises in India]	3,00,000
	16,50,000

Since Ms. Rita is a citizen of India who is not liable to pay income-tax in Country A and her total income, other than income from foreign sources, exceed Rs. 15 lakhs, she would be deemed resident in India under section 6(1A) for A.Y.2026-27. A deemed resident is, by default, a resident but not ordinarily resident.

In case of a resident but not ordinarily resident, income accrues or arises, deemed to accrue or arise and received or deemed to be received in India, is taxable. In addition, Income which accrues or arises outside India would also be taxable if it is derived from a business controlled in or a profession set up in India.

Ms. Rita's total income for A.Y. 2026-27

Particulars	Rs.
Salary income from AFL LLP [Not taxable since it accrues or arises outside India]	-
Salary income from Autofit Ltd. [Computed]	13,50,000
Interest income in Country A [Not taxable since it accrues or arises outside India]	-
Dividend from shares of an Indian company	3,00,000
Total Income	16,50,000

Question 21 [MTP 1 Nov 24 – 6 Marks]

Mrs. Riya, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2026:

S. No.	Particulars	Amount (in Rs.)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000

3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid for self to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Riya and compute her total income in India for Assessment Year 2026-27 under default tax regime.

Solution:

An **Indian citizen** or a **person of Indian origin** who, being **outside India**, comes on a **visit** to India (and whose **total income, other than** from **foreign** sources, does **not exceed Rs. 15,00,000**) would be **resident** in India **only if** he or she stays in India for a period of **182 days or more** during the previous year. Even if his total income, other than from foreign sources, exceeds Rs. 15,00,000, he would be **resident** in India if stays in India for **120 days or more** during the relevant previous year **and 365 days or more during the 4 previous years** immediately preceding the relevant previous year.

Since Mrs. Riya is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2025-26, she is non-resident for the A.Y. 2026-27. A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Riya for A.Y. 2026-27

Particulars	Amt (Rs.)
Salaries	Nil
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor it is received in India]	
Income from House Property	
Annual Value [Rental Income from house property in New Delhi is 90,000 taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000
Less: Deduction u/s 24(a) @ 30%	27,000
	63,000
Capital Gains	
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]	3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]	60,000
Gross Total Income	4,23,000
Less: Deduction under Chapter VI-A	
<u>Deduction under section 80C</u>	
Life insurance premium of Rs. 75,000 [Premium paid to Russian Life Insurance Corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively].(Under default regime No such deduction allowed)	63,000
Total Income	3,60,000

Question 22 [MTP 2 May 25] – 6 Marks

On 22.09.2025, Mr. Prabhjot, aged 55 years, an Indian citizen left India for the first time to work as a CFO of a company in Australia. He visits South Africa on vacation every year for a month to visit his brother's family. He earns the following income during the previous year 2025-26:

Sr. No.	Particulars	(₹)
1.	Salary (computed) from company in Australia [Received in bank account in Australia]	18,00,000
2.	Dividend from South African company received in South Africa	20,000
3.	Interest received from South Indian Bank, India	21,000
4.	Loss from business in South Africa (controlled from India)	45,000
5.	Agricultural income from a land situated in Gujarat	45,000

Compute the total income of Mr. Prabhjot for A.Y. 2026-27 if he has opted out of the default tax regime u/s 115BAC

Solution:

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

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

In case of Indian citizen leaving India for the purpose of employment, the only condition for being a resident in India is to stay in India during the previous year for 182 days or more.

During the previous year 2025-26, Mr. Prabhjot, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2026-27.

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

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

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

S. No.	Particulars	Amount (₹)
1.	Salary (computed) from company in Australia (Not taxable, since it neither received in India nor accrue or arise in India)	-
2.	Dividend from South African Company received in South Africa (Not taxable, since it neither received in India nor accrue or arise in India)	-
3.	Interest received from South Indian Bank, India (Taxable, since it is deemed to accrue or arise in India)	21,000
4.	Loss from business in South Africa (controlled from India) (Not taxable, since it neither received in India nor accrue or arise in India)	-
5.	Agricultural income from a land in Gujarat [Exempt u/s 10(1)]	-
	Gross Total income	21,000
	Less: Deduction under Chapter VI-A	
	Section 80TTA (Interest on saving bank account upto ₹ 10,000)	10,000
	Total Income	11,000

Question 23 [MTP 1 Sept. 25] – 6 Marks

Mr. Rohan furnished the following particulars of his income for the year ended 31.3.2026.

	Particulars	₹
(a)	Income earned from business in Iran which is controlled from Delhi (₹ 65,000 is received in India)	80,000
(b)	Pension for services rendered in India but received in Iran (computed)	24,000
(c)	Dividend from an Oil Company, an Iran based company, received in Iran	15,000
(d)	Interest on money borrowed by Mr. Deepender, a non- resident, for the purpose of investment in shares of XYZ Ltd., an Indian company	55,000

Compute his gross total income for the assessment year 2026-27, if he is:

- Resident and ordinarily resident;
- Resident but not ordinarily resident;
- Non-resident

Solution:

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

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in Iran, which is controlled from Delhi, out of which ₹ 65,000 is received in India	80,000	80,000	65,000
(b)	Pension for services rendered in India but received in Iran (Computed)	24,000	24,000	24,000
(c)	Dividend received in Dubai from an Oil company, an Iran based company	15,000	-	-
(d)	Interest on money borrowed by Mr. Deepender, a non-resident, for the purpose of investment in shares of XYZ Ltd., an Indian company	55,000	-	-
Gross Total Income		1,74,000	1,04,000	89,000

Notes:

- (a) As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:

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

Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India.

Accordingly, the entire income earned from business in Iran which is controlled from Delhi would be chargeable to tax in the hands of Mr. Rohan if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.

- (b) Dividend from an Iran based company, received in Iran and interest on money borrowed by Mr. Deepender, a non-resident, for the purpose of investment in shares of XYZ Ltd., an Indian company, would be taxable in the hands of Mr. Rohan, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.

Question 24 [MTP 2 Apr 21, MTP 2 Sept. 25] – 6 Marks

Ms. Priya, a person of Indian origin and a citizen of Canada, got married to Mr. Aaron, an Indian citizen residing in Canada, on 24th January 2025. She came to India on 25th March 2025 and left for Canada on 10th July 2025. She returned to India with her husband on 24th February 2026 to spend some time with her parents-in-law for 30 days and thereafter returned to Canada. She stayed in India for a total of 400 days during the 4 years preceding the P.Y. 2025-26.

During the previous year 2025-26, Priya, while in India, received the following gifts from her husband's relatives and friends:

- | | |
|--|-------------|
| - From husband's parents | ₹ 1,51,000 |
| - From husband's sister | ₹ 21,000 |
| - From very close friends of her husband | ₹ 16,00,000 |

Determine Priya's residential status for Assessment Year 2026-27 and compute her total income and tax liability for that year, assuming she does not opt out of the default tax regime.

Solution:

Under section 6(1), an individual, being a person of Indian origin or an Indian citizen, who comes on a visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the relevant previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the relevant previous year would be resident but not ordinarily resident.

Ms. Priya is a person of Indian origin who has come on a visit to India during the previous year 2025-26. Her total income other than income from foreign sources for the A.Y. 2026-27 is as below:

**Computation of total income other than income from
foreign sources of Priya for the A.Y. 2026-27**

Particulars	₹
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.	
- ₹ 1,51,000 received from parents of husband would be exempt, since husband's parents fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 21,000 received from sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of her husband of ₹ 16,00,000 is taxable under section 56(2)(x) since the amount of cash gifts exceeds ₹ 50,000.	16,00,000
Total Income other than income from foreign sources	16,00,000

Since her total income other than income from foreign sources exceed ₹ 15,00,000, she would be considered a resident of India if she stays in India during the P.Y. 2025-26 for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year.

Her stay in India during the previous year 2025-26 is as under:

P.Y. 2025-26

01.04.2025 to 10.07.2025 - 101 days

24.02.2026 to 25.03.2026 - 30 days

Total **131 days**

Since she stayed in India for 131 days during the P.Y. 2025-26 and for 400 days during the 4 years immediately preceding the P.Y. 2025-26, she would be a resident but not ordinarily resident in India for the P.Y. 2025-26.

In such case, her total income would be ₹ 16 lakhs and tax liability would be computed in the following manner:

**Computation of tax liability of Priya for the A.Y. 2026-27
under default tax regime under section 115BAC**

Particulars		₹
Tax on total income of ₹ 16,00,000		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	60,000	
₹ 15,00,001 – ₹ 16,00,000 @ 30%	<u>30,000</u>	1,70,000
Add: Health and Education cess@4%		6,800
Tax liability		1,76,800

Question 25 [RTP Sept. 25]

Mr. Varun, an Indian citizen, engaged in consultancy business in India. He shifted to Dubai in the year 2019 to expand his consultancy business overseas. He visits India every year to supervise his office in Delhi. His stay in India for current as well as past years is as follows:

- P.Y. 2021-22: 95 days
- P.Y. 2022-23: 105 days
- P.Y. 2023-24: 95 days
- P.Y. 2024-25: 75 days
- P.Y. 2025-26: 100 days

During the P.Y. 2025-26, he earned the following income:

- | | | |
|---|---|-------------|
| 1. Income from consultancy business in India | - | ₹ 10,00,000 |
| 2. Income from consultancy business in Dubai | - | ₹ 4,00,000 |
| 3. Agricultural income from land situated in Kerala | - | ₹ 70,000 |
| 4. Dividend from an Indian company, received in Dubai | - | ₹ 50,000 |
| 5. Interest expenditure on investment in above shares | - | ₹ 15,000 |

You are required to:

- (a) Determine Mr. Varun's residential status for A.Y. 2026-27, assuming he is not liable to tax in Dubai.
- (b) Compute the Total income of Mr. Varun for P.Y. 2025-26 if he opts out of the default tax regime.

Solution:**(a) Determination of residential status**

As per section 6(1), an Indian citizen who, being outside India comes on a visit to India during the relevant previous year is said to be resident in India if he has been in India during the previous year for a total period of 182 days or more.

However, if his total income, other than the income from foreign sources exceeds ₹ 15 lakhs during the previous year, he will also be treated as resident in India if he has been in India for at least 120 days in the previous year and has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more.

Mr. Varun visited India only for 100 days during the P.Y. 2025-26, hence he is a non-resident as per section 6(1) irrespective of whether his total income, other than the income from foreign sources exceeds ₹ 15 lakhs or not.

As per section 6(1A), an Indian citizen, having total income, other than the income from foreign sources, exceeding ₹ 15 lakhs during the previous year would be deemed to be resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

Computation of total income, other than the income from foreign sources, of Mr. Varun

Particulars	₹	₹
Income from consultancy business in India [Accrued or arisen in India]		10,00,000
Income from consultancy business in Dubai [Income derived from a profession set up in India]		4,00,000
Agricultural income from land in Kerela [Exempt u/s 10(1)]		-
Dividend from Indian company	50,000	
Less: Deduction for interest expenses upto 20%	10,000	40,000
		14,40,000

Since Mr. Varun's total income, other than the income from foreign sources, does not exceed ₹ 15 lakhs, he is not deemed resident as per section 6(1A).

Thus, Mr. Varun is a non-resident for A.Y. 2026-27.

(b) Computation of total income of Mr. Varun, a non-resident, for A.Y. 2026-27

Particulars	₹	₹
Income from consultancy business in India [Taxable as income accrued or arisen in India]		10,00,000
Income from consultancy business in Dubai [Not taxable since neither income accrued or arisen in India nor received in India]		-
Agricultural income from land in Kerela [Exempt u/s 10(1)]		-
Dividend from Indian company	50,000	
Less: Deduction for interest expenses upto 20%	10,000	40,000
		10,40,000

Question 26 [RTP Jan. 26]

Ms. Aanchal, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending on 31.03.2026:

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profits from business carried on in Chennai	80,000
3	Loss from business carried on in Vadodara	(20,000)

4	Loss from business carried on in USA (though profits are not received in India, business is controlled from Rishikesh)	(46,000)
5	Unabsorbed depreciation of business in USA	(16,000)
6	Profits from business in Bali (controlled from Delhi) and 60% of profit deposited in a bank in Bali and 40% received in India	70,000
7	Rent from house property situated in USA and received in USA	1,92,000

Determine the gross total income of Ms. Aanchal for the A.Y. 2026-27 assuming that she has opted out from the provisions of section 115BAC on the assumption that she is:

- (1) Resident but not ordinarily resident in India
- (2) Non-resident in India

Solution:

**Computation of gross total Income of Ms. Aanchal for the
A.Y. 2026-27 under normal provisions of the Act**

Particulars of income		Resident but not ordinarily Resident (₹)	Non- Resident (₹)
1	Salary income received in Malaysia for services rendered there (Note 1)	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	50,000	50,000
		1,50,000	1,50,000
2	Profits from business carried on in Chennai [Since it accrues or arises in India]	80,000	80,000
3	Loss from business carried on in Vadodara [Since it accrues or arises in India]	(20,000)	(20,000)
4	Loss from business carried on in USA (business is controlled from Rishikesh)	(46,000)	Nil
5	Unabsorbed depreciation of business in USA	(16,000)	Nil
6	Profit from business in Bali (business is controlled from Delhi and only 40% is received in India)	70,000	28,000
7	Rent from property situated in USA and received in USA	Nil	Nil
Gross Total Income		2,18,000	2,38,000

Note 1 – Income from “Salaries” payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.

Note 2 – In case of a non-resident, only income received or deemed to be received in India and income accruing or arising or deemed to accrue or arise in India is chargeable to tax. However, in case of a resident but not ordinarily resident, income derived from a business controlled in or profession set up in India is also taxable even though it accrues or arises outside India.

Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Ms. Aanchal in both cases if she is a resident but not ordinarily resident or if she is a non-resident.

Loss of business carried on in USA, unabsorbed depreciation of business in USA and Profit from business in Bali would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from business in Bali is taxable in case of non-resident to the extent of such profits received in India.

Question 27 [Suggested Sept. 25]

Swetha, a citizen of India, is a chartered accountant. She is a working partner in Swetha and Varun Associates, which was set up in Chennai, India. She visits foreign country A quite often and provides accounting services to corporates there in her individual capacity. In country A, she is not subject to any income tax. The details of her income for the financial year 2025-26 is as follows:

- (i) Remuneration from her CA firm in India (amount received in India) - ₹ 16 lakhs (Deductible while computing the income of the firm)
- (ii) Income received from providing accounting services in country A (received in a bank account in country A) - ₹ 5 lakhs
- (iii) Dividend (from companies incorporated in country A and received in a bank account in country A) - ₹ 8 lakhs
- (iv) Income from a business in country A which was set up in country A but is controlled from Chennai, India (received in country A) - ₹ 7 lakhs

Ascertain her residential status (briefly explaining relevant provisions) along with the taxability of income for the assessment year 2026-27 in the following independent situations:

- (i) She did not visit India during the F.Y. 2025-26.
- (ii) She visits and stays in India for 200 days every year since 12 preceding previous years including F.Y. 2025-26.
- (iii) She did not visit India during the previous year 2025-26 and her income from profession in India is ₹ 4 lakhs for the financial year 2025-26, instead of ₹ 16 lakhs.

Solution:**(i) She did not visit India during the F.Y. 2025-26**

Swetha is a citizen of India who is not liable to tax in Country A. She will be a deemed resident under section 6(1A) if her total income, other than the income from foreign sources, exceeds ₹ 15 lakhs during the previous year.

Computation of total income, other than the income from foreign sources

Particulars	₹
Remuneration from CA firm as partner [Accrued or arisen in India]	16,00,000
Income from providing accounting services in Country A and received in Country A [Income from a foreign source, hence, to be excluded]	-
Dividend from companies incorporated in Country A and received in Country A [Income from a foreign source, hence, to be excluded]	-
Income from a business in Country A but controlled from Chennai (To be included since the business is controlled from India, even though such income accrued and received outside India)	7,00,000
Total income (excluding income from foreign sources)	23,00,000

Since Swetha has total income excluding income from foreign sources exceeding ₹ 15 lakhs, she is a deemed resident and resident but not ordinarily resident in India by default.

Her total income would be ₹ 23 lakhs as computed above.

(ii) She visits and stays in India for 200 days every year since 12 preceding years including F.Y. 2025-26

Swetha is a resident in India since she stayed in India for 182 days or more during the P.Y. 2025-26. She is a resident and ordinarily resident in India since her stay in 7 previous years immediately preceding the P.Y. 2025-26 exceeds ₹ 729 days and she is resident in 2 or more previous years out of 10 previous years preceding P.Y. 2025-26.

In such case, her global income is taxable in India. Accordingly, her total income would be as follows:

Particulars	₹
Remuneration from CA firm as partner	16,00,000
Income from providing accounting services in Country A and received in Country A	5,00,000
Dividend from companies incorporated in Country A and received in Country A	8,00,000
Income from a business in Country A but controlled from Chennai	7,00,000
Total income	36,00,000

(iii) She did not visit India during the P.Y. 2025-26 and her income from profession in India is ₹ 4 lakhs instead of ₹ 16 lakhs.

In such case, Swetha's total income excluding income from foreign sources would be ₹ 11 lakhs (₹ 4 lakhs + ₹ 7 lakhs) which is not exceeding ₹ 15 lakhs. Accordingly, she will be a non-resident in India during the P.Y. 2025-26. Her total income would be ₹ 4 lakhs comprising of income from profession only.

CHAPTER 3

INCOME FROM HOUSE PROPERTY

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

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

Solution:

As per section 23(1), **Gross Annual Value (GAV)** is the **higher of Expected rent and actual rent received**. Expected rent is **higher of municipal value and fair rent but restricted to standard rent**.

Computation of GAV of each house owned by Jayashree

	Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000

Question 2

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

Solution:

For the P.Y.2025-26, Mr. Rajesh, a British national, is **resident and ordinarily resident** in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. **Municipal taxes paid in London** is to be **allowed as deduction** from the **gross annual value**.

Computation of Net Annual Value of the property of

Mr. Rajesh for A.Y.2026-27

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

Question 3

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2024. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2024 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2026-27 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

Mr. Manas can claim **benefit of Nil Annual Value** in respect of his house property at Bombay and Delhi.

He is **eligible for deduction under section 24(b)** since he has exercised the option of **shifting out** of the default tax regime provided under section 115BAC(1A).

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

Particulars	₹
Interest on loan taken for acquisition of residential house property at Bombay $30,00,000 \times 10\% = ₹ 3,00,000$ Restricted to ₹ 2,00,000	2,00,000
Interest on loan taken for repair of residential house property at Delhi $₹ 5,00,000 \times 11\% = ₹ 55,000$ Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Question 4

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

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

Particulars	Amount in ₹
Computation of GAV	
Step 1 Compute ER ER = Higher of MV of ₹ 1,30,000 p.a. and FR of ₹ 1,10,000 p.a., but restricted to SR of ₹ 1,20,000 p.a.	1,20,000
Step 2 Compute actual rent received/receivable Actual rent received/receivable less unrealized rent as per Rule 4 = ₹ 1,32,000 - ₹ 11,000	1,21,000
Step 3 Compare ER of ₹ 1,20,000 and Actual rent received/receivable of ₹ 1,21,000	
Step 4 GAV is the higher of ER and Actual rent received/receivable	1,21,000
Gross Annual Value (GAV)	1,21,000

Less:	Municipal taxes (paid by the owner during the previous year) = 10% of ₹ 1,30,000		13,000
Net Annual Value (NAV)			1,08,000
Less:	Deductions under section 24		
	(a) 30% of NAV	32,400	
	(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
Income from house property			35,600

Note – Alternatively, if **as per income-tax returns**, unrealized rent is deducted from GAV, then GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

Question 5

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

Solution:

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

Particulars	Amount in ₹	
Computation of GAV		
Step 1 Compute ER		
Higher of MV of ₹ 2,50,000 p.a. & FR of ₹ 2,00,000 p.a., but restricted to SR of ₹ 2,10,000 p.a.	2,10,000	
Step 2 Compute Actual rent received/receivable		
Actual rent received/receivable for let out period less unrealized rent as per Rule 4 = ₹ 2,00,000 – ₹ 20,000	1,80,000	
Step 3 Compare ER & Actual rent received/receivable		
Step 4 In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2026). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property		47,000

Note – Alternatively, if **as per income-tax returns**, unrealized rent is deducted from GAV, then GAV would be ₹ 2,00,000, being the actual rent, since the actual rent is lower than the expected rent of ₹ 2,10,000 owing to vacancy. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 20,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,60,000.

Question 6

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

Solution:**Computation of income from house property of Smt. Poorna for A.Y.2026-27**

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

Question 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2025. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2025 could not be realized in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2026-27.

Solution:**Computation of income from house property of Smt. Rajalakshmi for A.Y.2026-27**

Particulars		Amount in ₹
Computation of GAV		
Step 1 Compute ER for the whole year ER = Higher of MV of ₹ 5,00,000 and FR of ₹ 4,20,000, but restricted to SR of ₹ 4,80,000		4,80,000
Step 2 Compute Actual rent received/receivable Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 × 9) - (₹ 50,000 × 2) = ₹ 4,50,000 - ₹ 1,00,000		3,50,000
Step 3 Compare ER for the whole year with the actual rent received/receivable for the let out period i.e. ₹ 4,80,000 and ₹ 3,50,000		

Step 4 GAV is the higher of ER computed for the whole year and Actual rent received/receivable computed for the let-out period	4,80,000	
Gross Annual Value (GAV)		4,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 5,00,000		60,000
Net Annual Value (NAV)		4,20,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 4,20,000	1,26,000	
(b) Interest on borrowed capital	25,000	1,51,000
Income from house property		2,69,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV then, GAV would be ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000. Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.

Question 8

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

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.5.2019
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2018 for purchase of property			₹ 1,75,000

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

Solution:

Let us first calculate the income from each house property assuming that they are deemed to be let out.

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

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

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

Under default tax regime under section 115BAC**OPTION 1 (House I and II- self-occupied and House III – deemed to be let out)**

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

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

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

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

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

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

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

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

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

If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)**OPTION 1 (House I and II- self-occupied and House III – deemed to be let out)**

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

Particulars	Amount in ₹
House I (Self-occupied)	Nil
House II (Self-occupied) (Interest deduction restricted to ₹ 30,000)	(30,000)
House III (Deemed to be let-out)	73,640
Income from house property	43,640

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

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

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

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

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

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

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

Question 9

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

What would be Prem's income from house property under the default tax regime?

Solution:

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

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

Particulars		Amount in ₹	
Unit I (2/3rd area – self-occupied)			
Annual Value			Nil
Less: Deduction under section 24(b) 2/3rd of ₹ 1,20,000			80,000
Income from Unit I (self-occupied)			(80,000)
Unit II (1/3rd area – let out)			
Computation of GAV			
Step 1	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹ 1,10,000 (1/3 rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3 rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3 rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2	Compute actual rent received/receivable ₹ 8,000 × 12 = ₹ 96,000	96,000	
Step 3	Compare ER and Actual rent received/receivable		

Step 4	GAV is the higher of ER and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	
	Gross Annual Value(GAV)		1,00,000
<i>Less:</i>	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3 rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹ 10,000		10,000
	Net Annual Value(NAV)		90,000
<i>Less:</i>	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 90,000	27,000	
	(b) Interest paid on borrowed capital (relating to let out portion) 1/3 rd of ₹ 1,20,000	40,000	67,000
	Income from Unit II (let-out)		23,000
	Loss under the head “Income from house property” = (₹ 80,000) + ₹ 23,000 = (₹ 57,000)		

Under the default tax regime, Prem would not be entitled to interest deduction of ₹ 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be ₹ 23,000, being income from Unit II, which is let out.

Question 10

Mr. Anand sold his residential house property in March, 2025.

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

Further, he had let out his property from April, 2021 to February, 2025 to Mr. Satish. In April, 2023, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2025, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2023 to February, 2025.

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

Solution:

Since the **unrealised rent was recovered** in the P.Y.2025-26, the same would be taxable in the A.Y.2026-27 under section 25A, **irrespective** of the fact that Mr. Anand was **not** the **owner of the house** in that year. Further, the **arrears of rent** was also **received in the P.Y.2025-26**, and hence the same would be taxable in the **A.Y.2026-27** under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2026-27.

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

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

Question 11

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10%

taken on 1.4.2024 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2024 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2026-27, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

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

Particulars	₹
I. Interest on loan taken for acquisition of residential house property at Calcutta $₹ 50,00,000 \times 10\% = ₹ 5,00,000$ Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
II. Interest on loan taken for repair of flat at Pune $₹ 3,00,000 \times 12\% = ₹ 36,000$ Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

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

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

Question 12

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

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

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

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

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2026-27.

Solution:

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

Particulars	₹	₹
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		

(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (See Note 3 below)		48,000

Notes:**1. Computation of Gross Annual Value (GAV)**

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	₹	₹	₹	₹
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [₹ 15,000 × 12]			1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]				1,80,000

- Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
- Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

Question 13

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

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

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

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

Particulars	₹	₹
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 × ½)	95,000	

Fair rent ($\text{₹ } 1,85,000 \times \frac{1}{2}$)	92,500	
Standard rent ($\text{₹ } 1,62,000 \times \frac{1}{2}$)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II – Actual Rent		
Rent received/receivable for the let out period ($\text{₹ } 8,000 \times 10$)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 ($\text{₹ } 80,000 + \text{₹ } 16,000$, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (5% of ₹ 95,000)		4,750
Net Annual value		75,250
Less : Deductions under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital ($\text{₹ } 750 \times 12$)	9,000	31,575
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital ($\text{₹ } 750 \times 12$)	9,000	9,000
Loss from self occupied portion		(9,000)
Income from house property		34,675

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

Question 14

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2025-26, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2018 and was completed on 31-5-2021. Vikas took a loan of ₹ 1,00,000 on 1-7-2018 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

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

Solution:

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

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) ($\text{₹ } 18,600 \times \frac{2}{3}$) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self occupied property		(12,400)

II. Let-out portion (One third)		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 × 12)	₹ 60,000	
(b) Expected rent [higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 × 1/3	₹ 36,000	
Higher of (a) or (b)	60,000	
Less: Municipal taxes (₹ 96,000 × 11% × 1/3)	3,520	
Net Annual Value	56,480	
Less: Deductions under section 24		
(a) 30% of NAV	16,944	33,336
(b) Interest on loan (See Note below) (₹ 18,600 × 1/3)	6,200	20,936
Income from house property		20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2025 to 31.3.2026) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2018 to 31.3.2021) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2021-22 till F.Y. 2025-26.

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

Question 15

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

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

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

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

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

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

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

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

Solution:

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

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2026-27 will be calculated as under:

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

Note: Interest on borrowed capital

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

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

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

Question 16

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

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

	₹
(i) Repairs	40,000
(ii) Insurance premium (paid)	15,000

(iii) Interest payable on loan taken for construction of house 3,00,000

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

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

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

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

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

Solution:

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

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

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

Working Note

Computation of Income from Let-Out Portion of House Property

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

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

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

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		

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

Question 17

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

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

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

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2025-26.

Compute the income chargeable from house property of Mr. Roxx for the A.Y.2026-27 if he has shifted out of the default tax regime.

Solution:

Since Mr. Roxx, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from house property of Mr. Roxx for A.Y.2026-27 will be calculated as under:

Particulars		₹	₹
1. Self-occupied house at Delhi			
Annual value			Nil
Less: Deduction under section 24		Nil	
Interest on borrowed capital (See Note below)			2,00,000
Chargeable income from this house property			(2,00,000)
2. Let out house property at Bangalore			
Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000		
Actual rent [₹ 40,000 × 12]	4,80,000		
Gross Annual Value, being higher of expected rent and actual rent			4,80,000

Less: Municipal taxes		5,400
Net Annual Value		4,74,600
Less: Deduction under section 24		
- 30% of net annual value $[30\% \times ₹ 4,74,600]$	1,42,380	
- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
		82,220
Loss under the head “Income from house property” (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

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

Question 18

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

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

Solution:

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

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

Particulars	₹	
Unit I (3/4th area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		(1,13,250)
Unit II (1/4th area – let out)		
Computation of GAV		
Step 1 – Computation of Expected Rent (ER)		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		

Step 2 – Computation of actual rent received/ receivable $\text{₹ } 12,000 \times 9 = 1,08,000$ [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2026 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]	1,08,000	
Step 3 – Computation of GAV The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2026, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
Gross Annual Value (GAV) <i>Less:</i> Municipal taxes paid by the owner during the previous year relating to let-out portion $\frac{1}{4}^{\text{th}}$ of (10% of ₹ 4,50,000 = ₹ 45,000/4 = ₹ 11,250		1,08,000 11,250
Net Annual Value (NAV)		96,750
<i>Less:</i> Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 96,750	29,025	
(b) Interest paid on borrowed capital (relating to let out portion) [$\frac{1}{4}^{\text{th}}$ of ₹ 1,51,000]	37,750	66,775
Income from Unit II (let-out)		29,975
Loss under the head “Income from house property” (-₹ 1,13,250 + ₹ 29,975)		-83,275

Note – Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.

PART B – ADDITIONAL QUESTIONS**Question 19 [MTP 1 May 22, RTP May 20, Nov 18 – 4 Marks]**

You are required to compute the income from "House Property" for the A.Y. 2026-27 of Mrs. Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is Rs. 7,50,000, Fair Rent of the property is Rs. 6,30,000 and Standard Rent is Rs. 7,20,000 per annum.

The property was let out for Rs. 80,000 per month for the period April 2025 to November 2025. Thereafter, the tenant vacated the property and Mrs. Rajni used the house for self-occupation. Rent for the months of October and November 2025 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of Rs. 50,000 during the year for amount borrowed towards repairs of the house property.

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

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

Question 20 [MTP 1 May 21, MTP 2 May 23 – 7 Marks]

Mr. Naveen and Mr. Vikas constructed their houses on a piece of land purchased by them at Delhi. The built up area of each house was 1,800 sq. ft. ground floor and an equal area in the first floor. Naveen started construction on 1-04-2022 and completed on 1-04-2025. Vikas started the construction on 1-04-2022 and completed the construction on 30-09-2025. Naveen occupied the entire house on 01-04-2025. Vikas occupied the ground floor on 01-10-2025 and let out the first floor for a rent of Rs.20,000 per month. However, the tenant vacated the house on 31-12-2025 and Vikas occupied the entire house during the period 01-01-2026 to 31-03-2026.

Following are the other information:

(i)	Fair rental value of each unit (ground floor /first floor)	Rs. 1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	Rs. 72,000 per annum
(iii)	Municipal taxes paid by	Naveen – Rs. 8,000 Vikas – Rs. 8,000
(iv)	Repair and maintenance charges paid by	Naveen – Rs. 28,000 Vikas – Rs. 30,000

Naveen has availed a housing loan of Rs. 15 lakhs @ 12% p.a. on 01-04-2022. Vikas has availed a housing loan of Rs. 10 lakhs @ 10% p.a. on 01-07-2022. No repayment was made by either of them till 31-03-2026. Compute income from house property for Naveen and Vikas for the previous year 2025-26. Ignore provision of default tax regime u/s 115BAC.

Solution:

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

Particulars	Rs.	Rs.
Annual value is nil (since house is self occupied)		Nil
Less: Deduction under section 24(b)		
Interest paid on borrowed capital Rs.15,00,000 @ 12%	1,80,000	
Pre-construction interest Rs.3,60,000/5	72,000	
	2,52,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
Loss under the head “Income from house property” of Mr. Naveen		(2,00,000)

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

Particulars	Ground floor Self occupied)	First floor
Gross annual value (See Note below)	Nil	60,000
Less: Municipal taxes (for first floor)		4,000
Net annual value (A)	Nil	56,000
Less: Deduction under section 24		
(a) 30% of net annual value		16,800
(b) interest on borrowed capital		
Current year interest		
Rs.10,00,000 × 10% = Rs.1,00,000	50,000	50,000
Pre-construction interest		
Rs.10,00,000 × 10% × 21/12 = Rs.1,75,000		
Rs.1,75,000 allowed in 5 equal installments		
Rs.1,75,000/5 = Rs.35,000 per annum	17,500	17,500
Total deduction under section 24	67,500	84,300
Income from house property (A)-(B)	(67,500)	(28,300)
Loss under the head “Income from house property” of Mr. Vikas (both ground floor and first floor)	(95,800)	

Note: Computation of Gross Annual Value (GAV) of first floor of Vikas’s house

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

The Expected Rent is the higher of fair rent and municipal value.

This should be considered for 6 months since the construction of property was completed only on 30.9.2025.

Expected rent = Rs.50,000 being higher of -
rent

Fair rent = $1,00,000 \times 6 / 12 = \text{Rs.}50,000$ Municipal value = $72,000 \times 6 / 12 = \text{Rs.}36,000$

Actual rent = Rs.60,000 (Rs.20,000 p.m. for 3 months from October to December, 2025)

Gross Annual Value = Rs.60,000 (being higher of Expected Rent of Rs.50,000 and actual rent of Rs.60,000)

Question 21 [MTP 2 Dec 24, July 21, RTP May 23 – 6 Marks]

Mr. Yogesh constructed a house in P.Y. 2018-19 with 3 independent units. During the P.Y. 2025-26, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of Rs. 20,000. Rent of January, 2026 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Yogesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2026 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Yogesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows:

- Municipal valuation - Rs. 2,88,000
- Fair rent - Rs. 2,98,000
- Standard rent under the Rent Control Act - Rs. 2,78,000
- Municipal taxes - Rs. 30,000 paid by Mr. Yogesh
- Repairs - Rs. 7,000
- Interest on capital borrowed for the construction of the property - Rs. 90,000,
- Ground rent - Rs. 6,000 and
- Fire insurance premium paid - Rs. 60,000
- Income of Yogesh from the business is Rs. 2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Yogesh for the assessment year 2026-27 if he pays tax under section 115BAC.

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property (A)		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
• Expected rent Rs. 1,39,000 [Higher of Municipal Value of Rs. 1,44,000 p.a. and		
• Fair Rent of Rs. 1,49,000 p.a., but restricted to Standard Rent of Rs. 1,39,000 p.a.]		
• Actual rent Rs. 1,80,000 i.e., [Rs. 20,000 x 10] less unrealized rent of January, 2025 Rs. 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of Rs. 30,000]	15,000	

Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of Rs. 90,000]	45,000	70,500
Unit – 3 [25% of floor area – Self occupied]		
Less: Interest on loan [Not allowed as Mr. Yogesh is paying tax under section 115BAC.]	-	-
Net Annual Value		70,500
Profits and gains from business or profession (B)		
Business Income [without deducting expenditure of Unit – 2, 25% floor area used for business purposes]	2,40,000	
Less: Expenditure in respect of Unit -2		
• Municipal taxes [25% of Rs. 30,000]	7,500	
• Repairs [25% of Rs. 7,000]	1,750	
• Interest on loan [25% of Rs. 90,000]	22,500	
• Ground rent [25% of Rs. 6,000]	1,500	
• Fire Insurance premium [25% of Rs. 60,000]	15,000	
	48,250	1,91,750
Taxable Income (A+B)		2,62,250

Note:

Alternatively, if **as per income-tax returns**, unrealised rent is deducted from GAV, then GAV would be Rs. 2,00,000, being higher of unexpected rent of Rs. 1,39,000 and actual rent of Rs. 2,00,000. Thereafter, unrealised rent of Rs. 20,000 and municipal taxes of Rs. 15,000 would be deducted from GAV of Rs. 2,00,000 to arrive at the NAV of Rs. 1,65,000

Question 22 [RTP May 20]

Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. The Municipal value of the property is Rs. 8,50,000, Fair Rent of the property is Rs. 7,30,000 and Standard Rent is Rs. 8,20,000 per annum. The property was let out for Rs. 85,000 per month for the period April 2025 to December 2025.

Thereafter, the tenant vacated the property and Mrs. Daya used the house for self-occupation. Rent for the months of November and December 2025 could not be realized from the tenant. Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent. She paid municipal taxes @ 12% during the year and paid interest of Rs. 50,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from house property for the A.Y. 2026-27.

Solution:**Computation of income from house property of Mrs. Daya for the A.Y.2026-27**

Particulars	Amount in Rs.	
Computation of Gross Annual Value		
Expected Rent for the whole year = Higher of Municipal Value of Rs. 8,50,000 and Fair Rent of Rs. 7,30,000, but restricted to Standard Rent of Rs. 8,20,000	8,20,000	
Actual rent receivable for the let-out period = Rs. 85,000 (x) 9	7,65,000	
[Unrealised rent is not deductible from actual rent in this case since		
Mrs. Daya has not instituted any legal proceedings for recovery of unpaid rent. Hence, one of the conditions laid out in Rule 4 has not been fulfilled]		

GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	8,20,000	
Gross Annual Value (GAV)		8,20,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of Rs. 8,50,000		1,02,000
Net Annual Value (NAV)		7,18,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of Rs. 7,18,000	2,15,400	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let-out property)	50,000	2,65,400
Income from house property		4,52,600

Question 23 [MTP 1 May 25] – 5 Marks

Mr. Ravi, a resident in India, owns two house property, one in Delhi and another in Kanpur. The property in Kanpur is self-occupied by Mr. Ravi, however, the property in Delhi is let out throughout the year. The particulars of the Delhi house for the P.Y. 2025-26 are as under:

Standard rent	₹ 1,72,000 p.a.
Municipal valuation	₹ 2,05,000 p.a.
Fair rent	₹ 1,95,000 p. a
Rent received	₹ 15,000 p.m.
Municipal tax (Paid by Mr. Ravi)	5% of municipal valuation

Municipal tax paid by Mr. Ravi on 10.6.2025 for Kanpur house is ₹ 3,500. Mr. Ravi had taken a loan from SBI of ₹ 35 lakhs@12 p.a. in April, 2022 for purchase of Delhi house. The stamp duty value of this house was ₹ 40 lakhs. Mr. Ravi purchased a plot in Kanpur in May, 2022 and the construction of the Kanpur house was began in June, 2022 and was completed on December, 2023. Mr. Ravi took a loan of ₹ 25,00,000@10% on 1-7-2022 for the construction of this house. No repayment has been done so far for both the loans.

During the P.Y. 2025-26, Mr. Ravi has earned a salary income of ₹ 18,00,000. Compute total income of Mr. Ravi for the A.Y. 2026-27 under default tax regime.

Solution:**Computation of total income of Mr. Ravi for A.Y. 2026-27 under default tax regime**

Particulars		₹	₹
I. Salaries			
Gross salary		18,00,000	
Less: Standard deduction under section 16(ia)		75,000	17,25,000
II. Income from house property			
<u>Rented property at Delhi</u>			
Step I - Computation of Expected Rent			
Expected Rent = Higher of Municipal Value of ₹ 2,05,000 and Fair Rent of ₹ 1,95,000, but restricted to Standard Rent of ₹ 1,72,000		1,72,000	
Step II - Actual Rent			
Actual rent received or receivable (₹ 15,000 × 12)		1,80,000	
Step III – Computation of Gross Annual Value			
GAV is the higher of Expected Rent and Actual rent received/receivable		1,80,000	
Gross Annual Value		1,80,000	
Less: Municipal taxes (5% of ₹ 2,05,000)		10,250	
Net Annual value		1,69,750	

Less: Deductions under section 24 -		
(i) 30% of net annual value	50,925	
(ii) Interest on loan (₹ 35 lakhs x 12%)	4,20,000	(3,01,175)
Self occupied property at Kanpur		
Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital [Not allowable under section 115BAC]	Nil	Nil
Income from house property		(3,01,175)
Gross Total Income [Loss from house property neither allowed to be set off against income under any other head nor it can be carry forward to subsequent year while computing income under section 115BAC]		17,25,000
Less: Deduction under section 80EEA [Not allowable under section 115BAC]		Nil
Total Income		17,25,000

Question 24 [MTP 2 May 25] – 5 Marks

Mrs. Anjali, a U.S. citizen, is a resident and ordinarily resident in India for the financial year 2025-26. She owns a house property in Chicago, U.S.A., which she uses as her residence. The annual value of this property is \$ 20,000, with the exchange rate assumed at ₹ 75 per USD. In addition, she took ownership and possession of a flat in Surat on 1st July 2025, which she used for self-occupation during her stay in India. The flat was occupied by her for seven months in the financial year. The municipal valuation of the property is ₹ 3,84,000 per annum, and the fair rent is ₹ 4,20,000 per annum. She has paid property tax of ₹ 16,200 and sewerage tax of ₹ 1,800 to the Corporation of Surat.

For the purchase of the Surat flat, she had taken a loan from Standard Chartered Bank in June 2023. The interest on the loan amounts to ₹ 49,200 for the period before 1st April 2025, ₹50,800 for the period from 1st April 2025 to 30th June 2025, and ₹ 1,31,300 for the period from 1st July 2025 to 31st March 2026. Additionally, she owned a house property in Ranchi, which was sold in March 2024. In respect of this property, she received arrears of rent amounting to ₹ 60,000 in March 2026, which had not been previously taxed.

Compute the income chargeable from house property of Mrs. Anjali for the A.Y. 2026-27 if she has exercised the option of shifting out of the default tax regime.

Solution:

Since Mrs. Anjali is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Chicago as well as at Surat. She can take the benefit of "Nil" Annual Value in respect of both the house properties.

As regards the Ranchi house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction as per section 25A(2).

Accordingly, the income from house property of Mrs. Anjali for A.Y.2026-27 will be calculated as under:

Particulars	₹	₹
Self-occupied house at Chicago		
Annual Value	Nil	Nil
Less: Deduction under section 24	Nil	
Self-occupied house property at Surat		
Annual Value	Nil	(1,91,940)
Less: Deduction under section 24		
Interest on borrowed capital (<i>Refer note below</i>)	(1,91,940)	
Arrears in respect of Ranchi property (Section 25A)		
Arrears of rent received	60,000	
Less: Deduction @30% u/s 25A(2)	18,000	42,000
Loss under the head "Income from house property"		(1,49,940)

Note: Interest on borrowed capital

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

Question 25 [MTP 1 Sept. 25] – 6 Marks

Mr. Arjun and Mr. Rohit started constructing independent residential houses on plot of land situated in Delhi. Each house comprises a ground floor and a first floor, having a built-up area of 1,800 sq. ft each. Mr. Arjun commenced construction on 1st April 2023 and completed it on 1st April 2025. He occupied the entire house for his personal residence from the date of completion.

Mr. Rohit also commenced construction on 1st April 2023 and completed it on 30th September 2025. He occupied the ground floor from 1st October 2025 for his own residence and let out the first floor at a monthly rent of ₹ 20,000 for the period from 1st October 2025 to 31st December 2025. The tenant vacated the premises on 31st December 2025 and Mr. Rohit occupied the entire house from 1st January 2026 onwards.

The following additional information is provided:

- The fair rent and municipal value of each floor (ground and first) is ₹ 1,00,000 and ₹ 72,000 per annum, respectively.
- Municipal taxes paid: ₹ 8,000 each by Mr. Arjun and Mr. Rohit.
- Repair and maintenance expenses: ₹ 28,000 by Mr. Arjun and ₹ 30,000 by Mr. Rohit.
- Housing loans:
 - Mr. Arjun availed a loan of ₹ 15,00,000 @12% p.a. on 01-04-2023.
 - Mr. Rohit availed a loan of ₹ 10,00,000 @10% p.a. on 01-07-2023.
 - No principal repayment was made by either till 31-03-2026.

You are required to compute the income from house property of Mr. Arjun and Mr. Rohit for the A.Y. 2026-27, assuming both Mr. Arjun and Mr. Rohit opt out of the default tax regime.

Solution:

Computation of income from house property of Mr. Arjun for A.Y. 2026-27 under normal provision of the Act

Particulars	₹	₹
Annual value is nil (since house is self-occupied)		Nil
Less: Deduction under section 24(b)		
Interest on borrowed capital ₹ 15,00,000 @ 12%	1,80,000	

Pre-construction interest [Interest from 1.4.2023 to 31.3.2025 in 5 equal installments] [₹ 3,60,000/5]	72,000	
	2,52,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
Loss under the head “Income from house property” of Mr. Arjun		(2,00,000)

**Computation of income from house property of Mr. Rohit for A.Y. 2026-27
under normal provision of the Act**

Particulars	Ground floor (Self occupied) ₹	First floor ₹
Gross annual value (See Note below)	Nil	60,000
Less: Municipal taxes (for first floor)		4,000
(A) Net annual value	Nil	56,000
Less: Deduction under section 24		
(a) 30% of net annual value		16,800
(b) Interest on borrowed capital		
Current year interest		
₹10,00,000 × 10% = ₹1,00,000	50,000	50,000
Pre-construction interest		
₹ 10,00,000 × 10% × 21/12 = ₹ 1,75,000		
₹ 1,75,000 allowed in 5 equal installments		
₹ 1,75,000/5 = ₹35,000 per annum	17,500	17,500
(B) Total deduction under section 24	67,500	84,300
Income from house property (A)-(B)	(67,500)	(28,300)
Loss under the head “Income from house property” of Mr. Rohit (both ground floor and first floor)	(95,800)	

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

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 6 months since the construction of property was completed only on 30.9.2025.

Expected rent = ₹ 50,000 being higher of -

Fair rent = $1,00,000 \times 6/12 = ₹ 50,000$

Municipal value = $72,000 \times 6/12 = ₹ 36,000$

Actual rent = ₹ 60,000 (₹ 20,000 p.m. for 3 months from October to December, 2025)

Gross Annual Value = ₹ 60,000 (being higher of Expected Rent of ₹ 50,000 and actual rent of ₹ 60,000)

Question 26 [MTP 2 Sept. 25] – 5 Marks

Mr. Verma is a manager in ABC (P) Limited. He owns two house properties during the previous year 2025-26. In addition to these properties, he possesses two cars, one of which he uses exclusively for personal purposes, while the other is let out to a friend on rent for ₹ 20,000 per month. The following details (annual) are furnished in respect of two-house properties for the previous year 2025-26.

	House 1	House 2
Fair rent	1,25,000	3,95,000
Actual rent	1,20,000	2,85,000
Municipal Valuation	1,24,000	3,90,000

Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000

Additional information:

Mr. Verma has paid ₹ 57,000 as interest on a loan that was secured by mortgaging House 1 in order to fund the construction of House 2.

Additionally, in the previous year 2025-26, Mr. Verma acquired a rural agricultural land for ₹ 2,50,000, whereas the stamp duty value of the property was ₹ 3,00,000.

Determine the taxable income of Mr. Verma for the A.Y. 2026-27 assuming he does not opt out of the default tax regime.

Solution:

**Computation of taxable income of Mr. Verma for A.Y. 2026-27
under default tax regime**

Particulars	₹	₹	₹
<u>Income from house property</u>	<u>House 1</u>	<u>House 2</u>	
Municipal value (A)	1,24,000	3,90,000	
Fair rent (B)	1,25,000	3,95,000	
Higher of (A) and (B) = (C)	1,25,000	3,95,000	
Actual rent received	1,20,000	2,85,000	
Gross Annual Value	1,25,000	3,95,000	
[Higher of (C) and Actual rent]			
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	1,07,000	3,25,000	
Less: Deductions u/s 24			
30% of NAV	32,100	97,500	
Interest on loan	Nil	57,000	
	74,900	1,70,500	
Income from house property [₹ 74,900 + ₹ 1,70,500]			2,45,400
Income from Other Sources			
Rental income from Car [₹ 20,000 × 12]		2,40,000	
Purchase of rural agricultural land for Inadequate consideration a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]		Nil	2,40,000
Taxable Income			4,85,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

CHAPTER 4

PROFITS AND GAINS OF BUSINESS OR PROFESSION

PART A: STUDY MATERIAL QUESTIONS

Question 1

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

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2025 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2024-25)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2025	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2025	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2026	3,00,000

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

Solution:

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

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

Working Notes:

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

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

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

Particulars	Plant & Machinery (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (WDV) + ₹ 20,00,000 (purchased on 8.6.2025)]	50,00,000	

Plant and machinery put to use for < 180 days	8,00,000	-
Computers put to use for < 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- (1) Where an **asset acquired during the previous year** is put to use **for less than 180 days in that previous year**, the amount of **deduction allowable as normal depreciation** and **additional depreciation** would be **restricted to 50% of amount computed** in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2025 and computer acquired and installed on 02.01.2026, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh.

Mr. X is **eligible for additional depreciation** since he has exercised the option of **shifting out** of the default tax regime provided under section **115BAC(1A)**.

- (2) As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2027-28.
- (3) As per section **32(1)(ia)**, additional depreciation is allowable in the case of any **new machinery or plant acquired and installed after 31.3.2005** by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, **@20% of the actual cost** of such machinery or plant.

However, additional depreciation shall **not be allowed** in respect of, inter alia, any machinery or plant installed in **office premises, residential accommodation** or in any **guest house**.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Question 2

A car purchased by Dr. Soman on 10.08.2022 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2025 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the A.Y. 2026-27 assuming the rate of depreciation to be 15%.

Solution:

As per **section 43(1)**, the expression “**actual cost**” would mean the **actual cost of asset to the assessee**.

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the A.Y.2026-27 would be ₹ 78,750, being ₹ 5,25,000 × 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

Question 3

A newly qualified Chartered Accountant, Mr. Dhaval commenced practice and has acquired the following assets in his office during F.Y. 2025-26 at the cost shown against each item.

Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2026-27. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept., 25	1 Oct., 25	35,000
2.	Computer UPS	2 Oct., 25	8 Oct., 25	8,500
3.	Computer printer	1 Oct., 25	1 Oct., 25	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr., 25	1 Apr., 25	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 25	1 Apr., 25	3,00,000
6.	Laptop	26 Sep., 25	8 Oct., 25	43,000

Solution:

Computation of depreciation allowable for A.Y.2026-27

Asset		Rate	Depreciation (₹)
Block 1	Furniture [See working note below]	10%	30,000
Block 2	Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable			64,500

Working Note:

Computation of depreciation

Block of Assets	₹
Block 1: Furniture – [Rate of depreciation - 10%] Put to use for more than 180 days [₹ 3,00,000@10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500 @20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2025-26 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Question 4

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2025. The manufacturing unit was set up on 1.5.2025. He commenced his manufacturing operations on 1.6.2025. The total cost of the plant and machinery installed in

the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution:

**Computation of depreciation allowable for the A.Y. 2026-27
in the hands of Mr. Gamma**

Particulars		₹ in crore	
Total cost of plant and machinery		120.00	
Less: Used for Scientific Research (Note 1)		15.00	
		105.00	
Normal Depreciation at 15% on ₹ 105 crore			15.75
Additional Depreciation:			
Cost of plant and machinery		120.00	
Less: Second-hand plant and machinery (Note 2)	20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	35.00	
		85.00	
Additional Depreciation at 20%			17.00
Depreciation allowable for A.Y.2026-27			32.75

Notes:

- As per section 35(2)(iv), **no depreciation** shall be **allowed** in respect of **plant and machinery purchased for scientific research** relating to assessee's business, since **deduction is allowable** under section 35 in respect of such capital expenditure.
- Mr. Gamma is **entitled to additional depreciation** since he has **exercised** the option of **shifting out** of the default tax regime provided under section **115BAC(1A)**. As per section 32(1)(iia), **additional depreciation** is **allowable** in the case of any **new machinery or plant acquired and installed after 31.3.2005** by an assessee engaged in, inter alia, the business of **manufacture or production** of any article or thing, at the rate of **20% of the actual cost** of such machinery or plant.

However, **additional depreciation** shall **not be allowed** in respect of, inter alia, –

- any machinery or plant which, **before its installation** by the assessee, was used **either within or outside India** by any other person;
- any machinery or plant, the **whole of the actual cost** of which is **allowed as a deduction** (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

In view of the above provisions, **additional depreciation cannot be claimed** in respect of –

- Second hand** plant and machinery;
- New plant and machinery purchased for **scientific research** relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

Question 5

Mr. A, furnishes the following particulars for the P.Y.2025-26. Compute the deduction allowable under section 35 for A.Y.2026-27, while computing his income under the head “Profits and gains of business or profession”, if.

- he is paying tax under default tax regime under section 115BAC
- he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

	Particulars	₹
1.	Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2.	Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3.	Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority	4,00,000
4.	Expenditure incurred on in-house scientific research and development facility as approved by the prescribed authority related to his business	
	(a) Revenue expenditure on scientific research	3,00,000
	(b) Capital expenditure (including cost of acquisition of land ₹ 5,00,000) on scientific research	7,50,000

Solution:

- If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction under section 35 for the A.Y.2026-27.

Particulars	₹	Section	Allowability	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)		Nil
X Ltd.	4,00,000	35(1)(ia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)		2,50,000
Deduction allowable under section 35				5,50,000

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

Computation of deduction under section 35 for the A.Y.2026-27

Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000

IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(ia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable under section 35				13,00,000

Question 6

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2025. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2025 to March, 2025 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2025. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2025-26, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2026-27 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2026-27 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

Solution:

Computation of profits and gains of business or profession for A.Y.2026-27

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

Particulars		Food Grains	Sugar	Total
		₹ (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
	Less: Deduction under section 35AD			

(B)	Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C)	Capital expenditure incurred during the P.Y. 2025-26	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains/sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2026-27	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- Deduction of **100% of the capital expenditure is available** under section 35AD for A.Y.2026-27 in respect of specified business of **setting up and operating a warehousing** facility for **storage of sugar** and setting up and operating a warehousing facility for **storage of agricultural produce** where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- However, since **setting up and operating a warehousing facility for storage of edible oils** is **not a specified business**, Mr. A is **not eligible** for deduction under section 35AD in respect of **capital expenditure** incurred in respect of such business.
- Mr. A can, however, **claim depreciation@10%** under section 32 in respect of the **capital expenditure** incurred on buildings. It is **presumed** that the **buildings were put to use for more than 180 days** during the P.Y.2025-26.
- Loss from a specified business** can be **set-off only against profits** from **another specified business**. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar **cannot be set-off** against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is **not a specified business**. Such loss can, however, be **carried forward indefinitely** for set-off against profits of the same or any other specified business.

Question 7

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2025. He incurred capital expenditure of ₹ 50 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in his books of account as on 1 st April, 2025. Further, during the P.Y. 2025-26, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2026-27, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of

running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y. 2026-27. Also, assume that payments for capital expenditure were made by net banking.

Solution:

Computation of profits and gains of business or profession for A.Y. 2026-27

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2025-26 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2025 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2025	50 lakh
Total deduction under section 35AD for A.Y.2026-27	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

Question 8

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹ 100 lakhs incurred on purchase of two buildings for ₹ 50 lakhs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2025-26. However, in February, 2026, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

Solution:

Since the **capital asset**, in respect of which **deduction** of ₹ 50 lakhs **was claimed u/s 35AD**, has **been transferred** by Unit A carrying on **specified business** to Unit B carrying on non-specified business in the P.Y.2025-26, the **deeming provision u/s 35AD(7B)** is attracted during the A.Y.2026-27.

Particulars	₹
Deduction allowed u/s 35AD for A.Y.2025-26	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lakhs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of **proviso to Explanation 13 to section 43(1)**, can claim depreciation u/s 32 on the building in Unit B for A.Y.2026-27. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2025-26 [10% of ₹ 50 lakhs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

Question 9

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2026 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2025-26, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in ₹
(1)	Salary to its employee, Mr. X (credited and paid in March, 2026)	14,00,000
(2)	Directors' remuneration (credited in March, 2026 and paid in April, 2026)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2026 at the time of payment and remitted the same in July, 2026?

Solution:

Non-deduction of tax at source on any **sum payable** to a **resident** on which tax is deductible at source as per the provisions of Chapter XVII-B would **attract disallowance u/s 40(a)(ia)**.

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract **disallowance@30% u/s 40(a)(ia)**. Whereas in case of **salary**, tax has to be deducted u/s 192 **at the time of payment**, in case of **directors' remuneration**, tax has to be deducted at the time of credit of such sum to the account of the payee **or at the time of payment**, whichever is **earlier**. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y.2025-26, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y.2026-27 is as follows –

Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia) @30%
Salary [tax is deductible under section 192]	14,00,000	4,20,000
Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)		4,28,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2026-27 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2027-28.

Question 10

During the financial year 2025-26, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2025 was ₹ 99 lakhs):

- Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- ₹ 15,00,000 was paid as salary to a resident individual without deduction of tax at source;
- Commission of ₹ 26,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2025 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

Solution:

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee **fails to deduct tax at source** as is required under the Act, or having deducted tax at source, **fails to remit** the same to the **credit of the Central Government** within the stipulated time limit.

- (i) The **obligation** to deduct tax at source **from interest paid** to a resident arises u/s 194A in the case of an **individual**, whose **total turnover** in the immediately preceding P.Y., i.e., P.Y.2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is **not liable** to deduct tax at source. Hence, disallowance u/s 40(a)(ia) is not attracted in this case.
- (ii) The **disallowance of 30%** of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The **obligation to deduct tax at source under section 192 arises**, in the hands **all assessee-employer** even **if the turnover** amount **does not exceed ₹ 1 crore** in the **immediately preceding previous year**.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only **30% of the amount of salary paid** without deduction of tax at source would be **disallowed**.

- (iii) The **obligation to deduct tax at source** under section 194H from **commission paid in excess of ₹ 20,000** to a resident **arises** in the case of an **individual**, whose **total turnover** in the immediately preceding previous year, i.e., P.Y.2024-25 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is **less than ₹ 1 crore**, **he is not liable to deduct tax** at source u/s 194H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2025-26. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 11

A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2025-26, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakhs. What is the remuneration allowable as deduction?

Solution:

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	₹
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000
On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 – ₹ 7,80,000) would be disallowed as per section 40(b)(v).

Question 12

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

- (1) Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.

- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
(ii) Allowable working partner salary for the A.Y. 2026-27 as per section 40(b).

Solution:

- (i) As per Explanation 3 to section 40(b), “**book profit**” shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars		₹	₹
Net Profit (before deduction of depreciation, salary and interest)			17,00,000
Less:	Depreciation under section 32	1,50,000	
	Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 × 12%)	60,000	2,10,000
Book Profit			14,90,000

- (ii) **Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 9,60,000.**

As per the provisions of **section 40(b)(v)**, the salary paid to the working partners is allowed subject to the following **limits** –

On the first ₹ 6,00,000 of book profit or in case of loss	₹ 3,00,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the A.Y. 2026-27 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 14,90,000 - ₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the A.Y.2026-27 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

Question 13

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Solution:**Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)**

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,96,000)	1,96,000
Excess contribution disallowed under section 40A(9)	4,000

Question 14

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

	₹
(i) Andhra Pradesh State Financial Corporation (P.Y. 2024-25 & 2025-26)	15,00,000
(ii) Indian Bank (P.Y. 2025-26)	30,00,000
	45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2026, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

Solution:

According to **section 43B**, any **interest payable** on the term loans to specified financial institutions and any **interest payable on any loans and advances** to, inter alia, scheduled banks shall be **allowed only** in the **year of payment** of such interest irrespective of the method of accounting followed by the assessee. Where there is **default in the payment** of interest by the assessee, such **unpaid interest may be converted into loan**. Such conversion of unpaid interest into loan shall **not be construed as payment of interest** for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be **allowed** as deduction **only in the year** in which the converted loan is **actually paid**.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2026-27 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Question 15

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	₹
Financial year 2022-23	1,15,000
Financial year 2023-24	1,80,000
Financial year 2024-25	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2026-27 under section 44AA of Income-tax Act, 1961?

Solution:

Section 44AA(1) requires every person carrying on any **profession, notified** by the Board in the Official Gazette (in addition to the professions already specified therein), to **maintain such books of account and other documents** as may **enable the Assessing Officer** to **compute his total income** in accordance with the provisions of the Income-tax Act, 1961.

As per **Rule 6F**, a **person carrying on a notified profession** shall be required to **maintain specified books of accounts**:

- (i) if his **gross receipts** in **all the three years** immediately **preceding** the relevant previous year has **exceeded ₹ 1,50,000**; or
- (ii) if it is a new profession which is setup in the relevant previous year, it is **likely to exceed ₹ 1,50,000** in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2022-23, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Question 16

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2025-26. Amount received in cash during the P.Y. 2025-26 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2026. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D “Profits and gains from business or Profession” of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2026-27?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iii) What is the due date for filing his return of income under both the options?

Solution:

- (i) Yes. Since his cash receipts during the P.Y. **does not 5%** of the **total turnover** ($14,00,000/2,98,50,000 \times 100$) and his total turnover for the F.Y.2025-26 is below ₹ 300 lakhs, he is **eligible for presumptive taxation scheme** under section 44AD in respect of his retail trade business.

- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen **had declared profit** for the previous year 2024-25 in accordance with the **presumptive provisions** and if he **wants to declare profits** as per **books of account** which is **lower than the presumptive income** for any of the **five consecutive assessment years** i.e., A.Y. 2026-27 to A.Y. 2030-31, **he would not be eligible** to claim the **benefit of presumptive taxation** for **five assessment years subsequent** to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2025-26 relevant to A.Y.2026-27, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2027-28 to A.Y. 2031-32.
- Consequently, Mr. Praveen is **required to maintain the books of accounts** and **get them audited under section 44AB**, since his **income exceeds** the **basic exemption limit**.
- (iv) In case he declares presumptive income under section 44AD, the **due date would be 31st July, 2026**.
- In case he declares profits as per books of account which is **lower than the presumptive income**, he is **required to get his books of account audited**, in which case **the due date for filing of return** of income would be **31st October, 2026**.

Question 17

Mr. X commenced the business of operating goods vehicles on 1.4.2025. He purchased the following vehicles during the P.Y.2025-26. Compute his income under section 44AE for A.Y.2026-27.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2025
(2)	6,500	1	15.03.2026
(3)	10,000	3	16.07.2025
(4)	11,000	1	02.01.2026
(5)	15,000	2	29.08.2025
(6)	15,000	1	23.02.2026

Would your answer change if the goods vehicles purchased in April, 2025 were put to use only in July, 2025?

Solution:

Since Mr. X **does not own more than 10 vehicles** at **any time** during the previous year 2025-26, he is **eligible to opt for presumptive taxation scheme under section 44AE**. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months $\times$ No. of vehicles [(1) $\times$ (3)]
For Heavy goods vehicle			
2	29.08.2025	8	16
1	23.02.2026	2	2
			18

For goods vehicle other than heavy goods vehicle			
2	10.4.2025	12	24
1	15.3.2026	1	1
3	16.7.2025	9	27
1	02.1.2026	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2026-27 would be –

₹ 6,82,500, i.e., $55 \times ₹ 7,500$, being for other than heavy goods vehicle + $18 \times ₹ 1,000 \times 15$ ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2025 were put to use only in July, 2025, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 18

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2026:

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

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2026-27.

Solution:

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2026-27

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

Notes:

1. Where **income is derived from sale of coffee grown, cured, roasted and grounded**

by the **seller in India**, 40% of such income is taken as **business income** and the **balance as agricultural income**. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. **Receipt of sale proceeds in India does not make this agricultural income**. In the case of an assessee, being a **resident and ordinarily resident**, the **income arising outside India is also chargeable to tax**.

2. Explanation 3 to section 2(1A) provides that the income derived from **saplings or seedlings grown in a nursery** would be **deemed to be agricultural income** whether or not the basic operations were carried out on land. Therefore, such income would be **exempt u/s 10(1)**.

Question 19

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2025	30.00
Depreciation including additional depreciation for P.Y. 2024-25	4.75
New machinery purchased on 1-9-2025	10.00
New machinery purchased on 1-12-2025	8.00
Computer purchased on 3-1-2026	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2025 and computer have been installed in the office.
- During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2024, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2025.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2026 if -

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

Solution:

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2026

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
Written down value (as on 31.3.2025)	30.00	Nil
<i>Less:</i> Depreciation including additional depreciation for P.Y. 2024-25	4.75	-
Opening balance as on 1.4.2025	25.25	
<i>Add:</i> Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2025	10.00	-

New machinery purchased on 1.12.2025	8.00	-
Computer purchased on 3.1.2026	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2026)	43.25	4.00

(i) If Mr. Venus exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for A.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lakhs × 15%)	3.79	-
	- New Machinery purchased on 1.9.2025 (₹ 10 lakhs × 15%)	1.50	-
	(A)	5.29	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2025 (₹ 10 lakhs × 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2024 and put to use for less than 180 days in the P.Y. 2024-25 (₹ 10 lakhs × 20% × 50%)	1.00	-
	(B)	3.00	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	<u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2025 [₹ 8 lakhs × 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2026 [₹ 4 lakhs × 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A + B + C)	8.89	0.80

Notes:

- (1) As per **section 32(1)(iia)**, **additional depreciation** is allowable in the case of any **new machinery or plant acquired and installed after 31.3.2005**, by an assessee engaged, *inter alia*, in the business of manufacture or production of any article or thing, at the rate of **20% of the actual cost** of such machinery or plant.

However, additional depreciation shall **not be allowed** in respect of, *inter alia*,–

- (i) any **office appliances** or **road transport vehicles**;
- (ii) any machinery or plant installed in, *inter alia*, **office premises**.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

- (i) Machinery purchased on 1.12.2025, installed in office and
- (ii) Computer purchased on 3.1.2026, installed in office.

- (2) **Balance additional depreciation@10%** on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be **allowed in the immediately succeeding previous year**.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2024-25 and put to use for less than 180 days in that year can be claimed in P.Y. 2025- 26 being immediately succeeding previous year.

(ii) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2026-27

	Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation <u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lakhs × 15%)	3.79	-
	- New Machinery purchased on 1.9.2025 (₹ 10 lakhs × 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation <u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2025 [₹ 8 lakhs × 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2026 [₹ 4 lakhs × 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A + B + C)	5.89	0.80

Question 20

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax

Act, 1961 for the A.Y. 2026-27, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lakhs)
(i)	WDV of block as on 31.3.2025 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2024-25	7.50
(iii)	New machinery purchased on 12-10-2025	10.00
(iv)	Machinery imported from Colombo on 12-4-2025 This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2025	2.00

All assets were purchased by A/c payee cheque.

Solution:

Computation of depreciation under section 32 for A.Y.2026-27

Particulars	₹	₹
Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2025 of ₹ 50,00,000 – Depreciation for P.Y. 2024-25 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	
Depreciation@40% on computers purchased ₹ 2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2025]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		10,67,500

Note:-

Mr. Abhimanyu is **eligible for additional depreciation** since he has exercised the **option of shifting out** of the default tax regime provided under section 115BAC(1A). The **benefit of additional depreciation** is available to new plant and machinery **acquired and installed in power sector undertakings**. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, *inter alia*, in the business of generation, transmission or distribution of power, at the **rate of 20%** of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2025, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2026-27. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, **additional depreciation is not allowable** in respect of imported machinery, **since it was used in Colombo, before its installation** by the assessee.

Question 21

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the P.Y. 2024-25 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid ₹ 20,000 on sale of bullion.

Solution:

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), **only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively** for the purposes of the business is **allowed as a deduction** while computing business income.

However, **any expenditure incurred** by an assessee on the activities relating to corporate social responsibility referred to in **section 135** of the Companies Act, 2013 **shall not be deemed to have been incurred for the purpose of business** and hence, shall **not** be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards **construction of school building in compliance with CSR activities** shall **not be allowed as deduction** under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would **be eligible for investment-linked tax deduction under section 35AD**, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). **The deduction u/s 35AD would be 100%** of ₹ 4,50,000, being the amount invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y.2025-26, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an **individual** is **required to deduct tax** at source on the amount of **interest on loan** paid to Mr. X, since his turnover during the previous year 2024-25 exceeds ₹ 100 lakhs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is **allowable as deduction**, provided the income arising from such taxable commodities transactions is included in the income computed under the head “Profits and gains of business or profession”.

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 22

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- (ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head “Profits and Gains from Business and Profession”.
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2025 is a deductible expenditure under section 36.
- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Solution:

- (i) **True: Section 36(1)(xv)** allows a deduction of the amount of **securities transaction tax paid** by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per **section 40A(3A)**, in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and **payment exceeding ₹ 10,000** has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the Explanation 5 to section 32(1), **allowance of depreciation is mandatory**. Therefore, depreciation has to be provided mandatorily while calculating income from business/profession whether or not the assessee has claimed the same while computing his total income.

- (iv) **True:** Section 36(1)(ib) provides deduction in respect of **premium paid by an employer to keep in force an insurance on the health of his employees** under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his **voluntary retirement** either in the year of retirement or in any subsequent year, will be entitled to **deduction in 5 equal annual installments** beginning from the year in which each payment is made to the employee.
- (vi) **False:** **Additional depreciation** can be **claimed** only in respect of **eligible plant and machinery acquired and installed** by an assessee engaged in the business of **manufacture or production of any article or thing** or in the business of **generation or transmission or distribution of power**.

In this case, the **individual is engaged in trading activities** and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(iia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Question 23

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the A.Y. 2026-27:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- (iv) Payment of ₹ 50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

Solution:

- (i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
- (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

- (ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

- (iii) Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

- (iv) Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

- (v) Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 10,00,000 outside India by a company without deduction of tax at source.

- (vi) Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

Question 24

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

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2026 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).
- (b) (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
- (ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

Solution:

- (a) True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b) (i) True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
- (ii) True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 25

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2026:

Trading and Profit and Loss Account for the year ended 31.03.2026

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	₹ 9,000
Closing stock	₹ 18,000

- (ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.
- (iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2025 minus depreciation for P.Y. 2024-25) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2025 for ₹ 70,000. Two old plants were sold on 1.10.2025 for ₹ 50,000.

- (v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2026.
- (vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Solution:**Computation of business income of Mr. Sivam for the A.Y. 2026-27**

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	

Printing and stationery – whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
<i>Less: Items to be deducted:</i>		
Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head “Income from Other Sources”]	2,400	11,400
Business income before depreciation		1,96,900
<i>Less: Depreciation (See Note 1)</i>		66,000
		1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 × 6 / 100 = ₹ 6,72,690

Notes:

1. Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2026	4,40,000
Depreciation@15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Question 26

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2025, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2025, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2025. This new vehicle could, however, be put to use only on 15th June, 2025.

Compute the total income of Mr. Sukhvinder for the A.Y. 2026-27, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Solution:

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (**See Notes 1 & 2 below**) and his total income would be ₹ 14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:**1. Computation of total income of Mr. Sukhvinder for A.Y. 2026-27**

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
<u>Heavy goods vehicle</u>				
1 goods carriage upto 1 st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
<u>Goods vehicle other than heavy goods vehicle</u>				
1 goods carriage from 6 th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
			Total	13,72,500

Question 27

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026:

**Manufacturing, Trading and Profit & Loss Account
for the year ended 31.03.2026**

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2025-26:

- (i) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- (ii) The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2025. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- (iii) A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- (iv) Bank term loan interest actually paid upto 31.03.2026 was ₹ 20,000 and the balance was paid in November 2026.
- (v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2024-25 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- (vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	₹
WDV as on 31.03.2025 minus Depreciation for P.Y. 2024-25	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2026-27 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

Solution:

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

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000

Add:	Excess commission paid to brother disallowed under section 40A(2)	10,000	
	Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	2,55,000
Less:	Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	7,55,000
	Income from agriculture [Exempt under section 10(1)]	1,80,000	
	Salary paid to staff not recorded in the books (Assumed it was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession) [See Note 1 below]	48,000	
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,66,500
	Income from house property		2,88,500
	Annual value of self-occupied property	Nil	
Less:	Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
	Income from Other Sources		
	Dividend from domestic companies		15,000
	Gross Total Income		3,03,500
Less:	Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
	Total Income		3,03,500

Working Note:**Computation of depreciation under the Income-tax Act, 1961**

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2025 less depreciation for P.Y. 2024-25 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(ia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as

per section 69C and would be taxable @ 60% under section 115BBE. In such a case, no deduction allowable in respect of such expenditure.

- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,94,500.

Question 28

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

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2025 (i.e. WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	3,00,000
Opening balance of machinery as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y. 2024-25)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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

Compute the income arising from the above activities for the A.Y. 2026-27.

Solution:

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

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

Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of depreciation for P.Y. 2025-26

Particulars	₹	₹
Car		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2025 (i.e., WDV as on 31.3.2025 (-) depreciation for P.Y.2024-25)		15,00,000
Depreciation @ 15% for P.Y. 2025-26		2,25,000

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

Question 29

Mr. Prem has following assets used for business purpose as on 01.04.2025:

- A machinery costing ₹ 4 lakh, which was used for scientific research related to business and deduction u/s 35 was allowed and claimed.
- A laptop received as a gift from his friend costing ₹ 60,000. It was purchased on 01.04.2024 by his friend.
- A temporary wooden structure costing ₹ 70,000 erected in December, 2025.

Compute the depreciation allowed on these assets for A.Y. 2026-27.

Solution:

Computation of Depreciation to Mr. Prem for A.Y. 2026-27

Particulars	Amount (₹)
Depreciation on machinery used for scientific research – Actual cost is nil as ₹ 4,00,000, being actual cost – ₹ 4,00,000, being deduction allowed and claimed u/s 35]	Nil
Depreciation on laptop received as a gift @40% on ₹ 36,000 [₹ 60,000, being actual cost to previous owner – ₹ 24,000, being depreciation for P.Y. 2024-25 allowable to assessee if it was the only asset]	14,400
Depreciation on temporary wooden structure @40% x 50% on ₹ 70,000 [Since it is put to use for less than 180 days]	14,000
	28,400

Question 30

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2026, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

		₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23	85,000
(iii)	Unabsorbed depreciation of A.Y. 2017-18	52,000
(iv)	Current year depreciation under section 32	4,70,000
(v)	Brought forward business loss of A.Y. 2021-22	49,000
(vi)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the book profit and remuneration allowable in the hands of AB Light LLP for A.Y. 2026-27. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Solution:**Computation of book profit of AB Light LLP for the A.Y. 2026-27**

Particulars	Amount (₹)	Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
<i>Less: Expenditure allowable from business income</i>		
- Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% × 2)	3,60,000	
- Current year revenue expenditure on scientific research under section 35(1)(i)	2,40,000	
- Current year depreciation under section 32(1)	4,70,000	
- Current year capital expenditure on scientific research under section 35(1)(iv)	3,45,000	
- Unabsorbed depreciation of A.Y. 2017-18 under section 32(2)	52,000	
- Unabsorbed capital expenditure on scientific research relating to P.Y. 2022-23 under section 35(4)	85,000	15,52,000
Book Profit		10,34,000

Note: Brought forward business loss of A.Y. 2021-22 is not allowed to be set off while computing book profit.

Remuneration actually paid or payable to working partners = [₹ 50,000 × 12 + ₹ 40,000 × 12]
= ₹ 10,80,000

Partners' remuneration allowable under section 40(b)

On the first ₹ 6,00,000 of book profit [₹ 6,00,000 × 90%]	5,40,000
On the balance ₹ 4,34,000 [₹ 4,34,000 × 60%]	2,60,400
	8,00,400

Hence, allowable working partners salary in the hands of AB Light LLP for the A.Y. 2026-27 is ₹ 8,00,400

Remuneration taxable in the hands of Mr. Anand as business income = ₹ 8,00,400 × 6,00,000/10,80,000 = ₹ 4,44,667

Remuneration taxable in the hands of Mr. Bheem as business income = ₹ 8,00,400 × 4,80,000/10,80,000 = ₹ 3,55,733

Question 31 [ICAI Study Mat, MTP 1 Nov 24, MTP 2 Apr 21 – 6 Marks]

Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2025. The depreciation on these machines is charged @15%. The written down value of these machines as on 1st April, 2025 was ₹ 7,70,000. Two of the old machines

were sold on 15th July, 2025 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2025.

Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2026:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satyawati College	17

Compute the following for Assessment Year 2026-27

- Claim of depreciation
- Deduction available under section 35 if he has shifted out of the default tax regime

Solution:

(i) Computation of depreciation for A.Y.2026-27

Particulars	₹
W.D.V. of the block as on 1.4.2025	7,70,000
Add: Purchase of second hand plant during the year [in December, 2025]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2025]	10,00,000
W.D.V of the block as on 31.03.2026	3,80,000
Depreciation @ 15% but restricted to 50% thereon. [Since the value of the block as on 31.3.2026 represents part of actual cost of second hand plant purchased in December, 2025, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	28,500

(ii) Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
UV University, an approved University	15	35(1)(ii)	100%	15
Satyawati College [Since it is not mentioned as an approved University]	17	-	NIL	NIL
Deduction allowable under section 35				15

PART B – ADDITIONAL QUESTIONS**Question 32 [May 20, Nov 18 – 4 Marks]**

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2025, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2025 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2026-27, if this is the only asset in the block. If this car would also be used in the subsequent Previous Year 2026-27 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

Solution:

Computation of depreciation allowance

Particulars	Rs.
Since the car was put to use for more than 180 days in the P.Y.2025-26, full depreciation@15% of Rs. 19,20,000, which is the total price (inclusive of GST) would be allowable.	
However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable	
Depreciation for P.Y.2025-26 = 15% × Rs. 19,20,000 × 75% =	2,16,000
Written Down Value as on 1.4.2026 = Rs. 19,20,000 – Rs. 2,16,000 = Rs.	
Depreciation for P.Y. 2026-27 = 15% × Rs.17,04,000 × 75%	1,91,700

Note - As per section 17(5) of the CGST Act, 2017, **input tax credit would not be available** in respect of **motor vehicles for transportation of persons** having approved seating capacity of **not more than thirteen persons** (including the driver), **except when they are used for making the taxable supplies**, namely, further supply of such motor vehicles; or transportation of passengers; or imparting training on driving such motor vehicles. Since Dr. Arjun used the car for his professional purpose and not for any purpose stated in exception cases, **input tax credit would not be available and hence, both CGST & SGST would form part of actual cost of car.**

Question 33 [RTP May 25]

Mr. Ganesh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing furniture. He is subject to tax audit under section 44AB of Income-tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2026

Particulars	(Rs.)	Particulars	(Rs.)
To Administrative expenses	64,30,000	By Gross Profit	2,57,30,000
To Salaries & wages	80,00,000	By Winning from lottery	31,500
To Interest on loans	7,50,000	(Net of TDS @ 30%)	
To Depreciation	6,17,000	Bad debt recovered	3,00,000
To Professional fees	12,70,000		

To Rent, rates & taxes	22,80,000		
To Travelling & conveyance	11,40,000		
To Loss on sale of asset of scientific research	2,00,000		
To Net Profit	53,74,500		
Total	2,60,61,500	Total	2,60,61,500

Other information:

- (i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of Rs. 14,50,000 and Closing stock of Rs. 15,58,000 was shown.
- (ii) Salaries & wages include following items:
 - (a) Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ramesh who has withdrawn basic salary of Rs. 5,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
 - (b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of Rs. 3,40,000 was paid to them on 1st January, 2026.
- (iii) Interest on loan includes interest paid @ 15% per annum on loan of Rs. 12,00,000 which was taken from State Bank of India on 01.05.2022 for purchase of new electric car of Rs. 15,00,000. The car is used for personal purpose. No amount is repaid so far.
- (iv) Depreciation allowable as per Income-tax Rules, 1962 is Rs. 4,50,000 but during the calculation of such depreciation following addition was not considered: Motor car purchased for Rs. 3,00,000 for supply of finished goods to dealers on 25-08-2025.
- (v) An asset was purchased for Rs. 6,00,000 on 23.7.2022 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2025 for a consideration of Rs. 4,00,000.
- (vi) Administrative expenses includes expenditure of Rs. 1,75,000, paid to a scientific research association approved under section 35. Out of Rs. 1,75,000, Rs. 50,000 was utilised towards the purchase of land by the research association.
- (vii) He received Rs. 3,00,000 from a debtor which was written off as bad in the year 2018-19. 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 2018-19.

Compute the total income and tax liability of Mr. Ganesh for the assessment year 2026-27 assuming that he wants to pay tax under section 115BAC.

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

	Particulars	Rs.	Rs.	Rs.
I.	Income from business or profession			
	Net Profit			
	Add: Items debited but not allowable/item not credited but taxable while computing business income		53,74,500	
	• Undervaluation of stock [(Rs. 15,58,000 - Rs. 14,50,000) × 10/90]	1,2000		
	• Employer's contribution to NPS in excess of 14% of salary - Employer's contribution to the extent of 14% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess	16,000		

contribution i.e. Rs. 16,000 [Rs. 1,00,000, being 20% of Rs. 5,00,000 less Rs. 84,000 being 14% of Rs. 6,00,000 (Rs. 5,00,000 + 20% of Rs. 5,00,000)] has to be added back.			
• VRS expenditure - 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to Profit and Loss A/c, 4/5 th has to be added back [Rs. 3,40,000 × 4/5].	2,72,000		
• Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, Rs. 1,80,000 [Rs. 12,00,000 × 15%] has to be added back, since the same forms part of interest on loan debited to profit and loss account.	1,80,000		
• Loss on sale of asset of scientific research debited in Profit & Loss account [Not allowed]	2,00,000		
• Sale proceeds of asset acquired for conducting scientific research taxable as business income under section 41(3) in the year of sale to the extent of lower of amount of sale proceeds i.e., Rs. 4,00,000 or the amount of deduction allowed u/s 35 i.e., Rs. 6,00,000	4,00,000		
• Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	1,75,000		
• Depreciation as per books of A/c	6,17,000	18,72,000	
<i>Less:</i> Depreciation as per Income-tax Rules	4,50,000	72,46,500	
Depreciation on Motor car purchased for supply of finished goods [Rs. 3,00,000 × 15%]	45,000	4,95,000	
<i>Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income</i>		67,51,500	
• Bad debt recovered [The excess of amount recovered i.e., Rs. 3,00,000 over the amount due after bad debt allowance i.e., Rs. 2,00,000 will be taxable as business income u/s 41(4). Since the entire Rs. 3 lakhs is credited to the profit and loss account, Rs. 2 lakhs has to be reduced]	2,00,000		

• Winning from lottery [Taxable under the head “Income from other sources”]	31,500		
		2,31,500	
Income from other sources			65,20,000
Winning from lottery [Rs. 31,500 × 100/70]			45,000
Gross Total Income			65,65,000
<i>Less: Deduction under Chapter VI-A</i>			
Deduction under section 80EEB [Not allowable under default tax regime]			Nil
Total Income			65,65,000

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

Particulars	Rs.	Rs.
Tax on winning from lottery @30% of Rs. 45,000		13,500
Tax on total income (excluding winning from lottery) of Rs. 65,20,000		
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. 20,00,001- Rs. 24,00,000[@25% of Rs. 4 lakhs]	1,00,000	
Rs. 24,00,0001 - Rs. 65,20,000 [30% of Rs. 41,20,000]	12,36,000	
		15,36,000
<i>Add: Surcharge @10% [Since total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]</i>		15,49,500
		1,54,950
		17,04,450
<i>Add: Health and education cess@4%</i>		68,178
Tax liability		17,72,628
Tax liability (rounded off)		17,72,630

CHAPTER 5 CAPITAL GAINS

PART A: STUDY MATERIAL QUESTIONS

Question 1

How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

Solution:

- (1) **Shares held in a company in liquidation** – The **period after** the date on which the company goes into **liquidation** shall be **excluded while calculating the period of holding**. Therefore, the **period of holding** shall **commence** from the **date of acquisition** and **end with** the **date** on which the **company goes into liquidation**.
- (2) **Bonus shares** – The period of holding shall be reckoned from the **date of allotment** of bonus shares and will **end with the date of transfer**.
- (3) **Flat in a co-operative society** – The period of holding shall be reckoned from the **date of allotment of shares** in the society and **will end with the date of transfer**.

Note – Any transaction whether by way of **becoming a member** of, or **acquiring shares in**, a **co-operative society** or by way of any **agreement** or any **arrangement** or in any other manner whatsoever which has the **effect of transferring**, or **enabling enjoyment** of, any **immovable property** is a **transfer** as per **section 2(47)(vi)**.

Hence, it is possible to take a view that any date from which such **right is obtained** may be taken as the **date of acquisition**.

Question 2

A is the owner of a car. On 1-4-2025, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

Solution:

Since **car is a personal asset**, **conversion** or **treatment** of the same **as the stock-in-trade** of his business will **not be trapped** by the provisions of **section 45(2)**. Hence, A is **not liable** to **capital gains tax**.

Question 3

X converts his capital asset (acquired on June 10, 2006 for ₹ 60,000) into stock-in-trade on March 10, 2025. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2025. Discuss the year of chargeability of capital gain and business income.

Solution:

Since the **capital asset** is **converted into stock-in-trade** during the previous year 2024-25 relevant to the A.Y. 2025-26, it **will be a transfer** u/s 2(47) during the P.Y. 2024-25. However, the **profits or gains** arising from the above conversion will be **chargeable to tax** during the A.Y. 2026-27, since the **stock-in-trade has been sold** only on June 10, 2025. For this purpose, the **fair market value** on the **date of such conversion** (i.e. 10th March, 2025) will be the **full value of consideration** for computation of capital gains. The capital gains would be computed by **reducing the cost of acquisition** therefrom. The business income of ₹ 50,000 (i.e., ₹ 6,00,000(-) ₹ 5,50,000, being the fair market value on the date of conversion)

would also be **taxable in the A.Y.2026-27**. Thus, **both capital gains and business income** would be chargeable to **tax in the A.Y.2026-27**.

Question 4

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31.3.2026. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by ₹ 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax ₹ 50,000 as capital gain. Is he justified?

Solution:

In the above example, the **transaction is squarely covered** by the **exemption** explained above and the **proposal of the Assessing Officer** to treat the **transaction as a transfer** is **not justified**.

Question 5

In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2025-26, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2025-26 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2025 by the company.

Solution:

We know that **capital gains arises only when we transfer a capital asset**. The **liability** of capital gains tax in the situations given above is discussed **as follows**:

- (i) As per the provisions of **section 47(iii)**, **gift of a capital asset by an individual is not** regarded as transfer for the purpose of capital gains. Therefore, **capital gains tax liability does not** arise in the given situation.
- (ii) As per the provisions of **section 47(i)**, **distribution of a capital asset** (being in kind) on the **total or partial partition** of Hindu undivided family is **not** regarded as **transfer** for the purpose of capital gains. Therefore, **capital gains tax liability does not arise** in the given situation.
- (iii) As per the provisions of **section 47(x)**, **conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures** of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, **capital gains tax liability does not arise** in the given situation.

Question 6

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Solution:

Section 47(xvi) provides that any **transfer of a capital asset** in a transaction of **reverse mortgage** under a scheme made and **notified by the Central Government** shall **not** be **considered as a transfer** for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will **not** be regarded as a **transfer**. Therefore, **no capital gain** will be charged on such transaction.

Further, **section 10(43)** provides that the **amount received** by the **senior citizen** as a **loan**, either in **lump sum** or in **installment**, in a **transaction of reverse mortgage** would be **exempt** from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would **not be taxable**.

Question 7

Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.
- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

Solution:

- (i) **False:** As per **section 47(xvi)**, such **alienation** in a **transaction of reverse mortgage** under a scheme made and notified by the Central Government is **not regarded as "transfer"** for the purpose of capital gains.
- (ii) **True:** **Section 2(42A)** defines the term '**short-term capital asset**'. Under the **proviso to section 2(42A)**, **zero coupon bond held for not more than 12 months** will be **treated as a short-term capital asset**. Consequently, such bonds held for **more than 12 months** will be a **long-term capital asset**.
- (iii) **True:** As per **section 2(48)**, '**Zero Coupon Bond**' means a **bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005**, in respect of which **no payment and benefit** is received or receivable **before maturity** or redemption from such **issuing entity** and which the **Central Government** may **notify** in this behalf.

Question 8

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2004 into stock-in-trade in the month of November, 2024. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2025. What will be the tax treatment?

Solution:

The capital gains on the sale of the **capital asset converted to stock-in-trade** is taxable in the given case. It **arises in the year of conversion** (i.e. P.Y. 2024-25) but will be **taxable** only in the year in which the **stock-in-trade is sold** (i.e. P.Y. 2025-26). **Profits from business** will also be **taxable in the year of sale** of the stock-in-trade (P.Y. 2025-26).

The LTCG and business income for A.Y.2026-27 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Cost of acquisition	50,000	4,00,000

Note: For the purpose of **indexation**, the **cost inflation index** of the **year** in which the **asset is converted** into stock-in-trade should be considered. However, **since capital asset is converted on or after 23.7.2024, no indexation benefit is allowed.**

Question 9

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2024. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2024-25 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2025 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2025.

You are required to:

- determine the claim of depreciation for Assessment Year 2026-27.
- compute the capital gains liable to tax for Assessment Year 2026-27.
- If Singhania & Co. had sold the three machines in June, 2025 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

Solution:

(i) Computation of depreciation for A.Y.2026-27

Particulars	₹
Opening balance of the block as on 1.4.2025 [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2026	6,00,000

Since the **value of the block** as on 31.3.2026 **comprises of a new asset** which has been **put to use for less than 180 days**, depreciation is **restricted to 50%** of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 45,000, being 7½% of ₹ 6,00,000.

(ii) The provisions under **section 50** for computation of **capital gains** in the case of **depreciable assets** can be **invoked only under the following circumstances:**

- When **one or some** of the assets in the block are sold for **consideration more than the value of the block**.
- When **all the assets** are **transferred** for a **consideration more than the value of the block**.
- When **all the assets** are transferred for a **consideration less than the value of the block**.

Since in the **first two cases**, the **sale consideration** is **more than the written down value** of the block, the computation would result in **short term capital gains**.

In the third case, since the **written down value** of the block **exceeds the sale consideration**, the **resultant figure** would be a **short-term capital loss** of the block.

In the given case, **capital gains will not arise** as the **block of asset continues to exist**, and **some of the assets are sold** for a **price which is lesser** than the **written down value** of the **block**.

- If the three machines are **sold in June, 2025** for ₹ 21,00,000, then **short term capital gains** would arise, since the **sale consideration** is **more than the aggregate of the written down value** of the block **at the beginning** of the year **and the additions** made **during the year**.

Particulars	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2025 [i.e., W.D.V. as on 31.3.2025 after providing depreciation for P.Y. 2024-25]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

Question 10

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2025 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2025 is ₹ 30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the land of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2023 for ₹ 50,000 on which no depreciation has been charged.
- The value of machinery represents the written down value as per the Income- tax Act, 1961.

Compute the capital gain for the assessment year 2026-27.

Solution:**Computation of capital gains on slump sale of Unit 1**

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2025 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Notes:**1. Computation of net worth of Unit 1 of Akash Enterprises**

Particulars	₹	₹
Land (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000

Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. □ **Written down value of patents as on 1.4.2025**

Value of patents:	₹
Cost as on 1.7.2023	50,000
Less: Depreciation @ 25% for Financial Year 2023-24	12,500
Balance as on 1.4.2024	37,500
Less: Depreciation for Financial Year 2024-25	9,375
Balance as on 1.4.2025	28,125

3. □ Since the Unit is **held for more than 36 months**, capital gain arising would be **long term capital gain**. However, **indexation benefit** is **not available** in case of **slump sale**.

Question 11

Mr. Cee purchased a residential house on July 20, 2023 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2023. He sold the house property in April 2025 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2025.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2026-27?

Solution:

The **house is sold before 24 months** from the date of purchase. Hence, the house is a **short-term capital asset** and **no benefit of indexation** would be available.

Particulars	₹
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

Note - The **exemption of capital gains** under **section 54** is **available** only in case of **long-term capital asset**. As the **house is short-term capital asset**, Mr. Cee **cannot claim exemption** under section 54. Thus, the amount of taxable short-term capital gains is ₹ 8,00,000.

Question 12

Long term capital gain of ₹ 75 lakhs arising from transfer of building on 1.5.2025 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Solution:

False: The **exemption** under **section 54EC** has been **restricted**, by limiting the **maximum investment** in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to **₹ 50 lakhs**, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of ₹ 50 lakhs, provided the investment is made before 1.11.2025 (i.e., **within six months from the date of transfer**).

Question 13

Calculate the income-tax liability for the assessment year 2026-27 in the following cases:

Status	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
	Non-resident	Non-resident	Resident	Non-resident
Total income other than long-term capital gain	2,40,000	4,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
(ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

Solution:

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

Computation of income-tax liability for the A.Y.2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹ 4,00,000	₹ 4,00,000	₹ 4,00,000	₹ 4,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @12.5% u/s 112]	₹ 10,000 [Exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 4,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 10,625	-	-	-
On Other income	Nil	₹ 500	₹ 9,500	₹ 4,000
	₹ 10,625	₹ 500	₹ 9,500	₹ 4,000
Less: Rebate u/s 87A	-	-	₹ 9,500	-
	₹ 10,625	₹ 500	Nil	₹ 4,000
Add: Health & education cess (HEC) @4%	₹ 425	₹ 20	Nil	₹ 160
Total tax liability	₹ 11,050	₹ 520	Nil	₹ 4,160

Note: Since Mr. C is a **resident** whose **total income** does **not exceed ₹ 12 lakhs**, he is **eligible for rebate of ₹ 60,000** or the **actual tax payable**, whichever is **lower**, under **section 87A**.

- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

Computation of income-tax liability for the A.Y.2026-27

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non- resident	Non-resident	Resident	Non- resident
Applicable basic exemption limit	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @12.5% u/s 112]	₹ 10,000 [Exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 4,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 10,625	-	-	-
On Other income	Nil	₹ 8,000	₹ 18,000	₹ 11,500
	₹ 10,625	₹ 8,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹ 10,625	₹ 8,000	₹ 18,000	₹ 11,500
Add: Health & education cess (HEC) @4%	₹ 425	₹ 320	₹ 720	₹ 460
Total tax liability	₹ 11,050	₹ 8,320	₹ 18,720	₹ 11,960

Notes:

Since Mrs. B and Mr. D are **non-residents**, they **cannot avail the higher basic exemption** limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being **non-residents** are **not eligible for rebate under section 87A** even though their total income does not exceed ₹ 5 lakh.

Question 14

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2024. He has also received dividend of ₹ 10 per share on 01.05.2025.

He has sold all the shares on 01.10.2025 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2026-27 if Mr. Mithun opts out of the default tax regime, assuming that he is having other income of ₹ 8,00,000. Fair market value of each share of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Solution:**Computation of total income & tax liability of Mr. Mithun for A.Y. 2026-27**

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 × ₹ 2,000) (Refer Note 1)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]	NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Other income	8,00,000
Total Income	13,94,000
Tax Liability	
Tax on STCG u/s 111A	
20% of ₹ 3,96,000	79,200
Tax on LTCG u/s 112A	
12.5% of (₹ 1,96,000 - ₹ 1,25,000)	8,875
Tax on other income of ₹ 8,02,000	
₹ 2,50,000 to ₹ 5,00,000@5%	12,500
₹ 5,00,000 to ₹ 8,02,000 @20%	60,400
	72,900
	1,60,975
Add: Health and education cess @4%	6,439
Tax liability	1,67,414
Tax liability (rounded off)	1,67,410

Notes:

(1) **Cost of acquisition** of such **equity shares** acquired **before 1.2.2018** is **higher of**

- **Cost of acquisition** i.e., ₹ 1,000 per share and
- **lower of**

Fair market value of such asset i.e., ₹ 2,000 per share and

Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) **Securities transaction tax** is **not allowable** as **deduction**.

Question 15

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2025. The fair market value as on 31.3.2025 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2026.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2024-25: 363; F.Y. 2025-26: 376;

Solution:

Conversion of a capital asset into stock-in-trade is a **transfer** within the meaning of **section 2(47)** in the **previous year in which the asset is so converted**. However, the **capital gains** will be **charged to tax** only in the **year in which the stock-in-trade is sold**.

The fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2026-27.

Particulars	₹	
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3,25,000	
Less: Fair market value on the date of conversion	3,00,000	
Capital Gains		25,000
Full value of consideration (Fair market value on the date of conversion)	3,00,000	
Less: Cost of acquisition [No indexation benefit since conversion took place on or after 23.7.2024]	80,000	
Long-term capital gain		2,20,000
Taxable Income		2,45,000

Question 16

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2026. She sold 10 flats at ₹ 30 lakhs per flat in March, 2026. The remaining 5 flats were held in stock as on 31st March, 2026.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2026 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2026.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2026-27 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2025-26: 376].

Solution:

**Computation of capital gains and business income of
Harshita for A.Y. 2026-27**

Particulars	₹
Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lakhs × 2/3]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2026-27	60,00,000

Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$\text{₹ } 35,00,000 \times 348/113$]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2026-27 [$\text{₹ } 1,02,21,239 \times 2/3$]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2026-27	18,14,159

Notes:

- (1) The **conversion** of a **capital asset** into **stock-in-trade** is treated as a **transfer** under section 2(47). It would be treated as a **transfer in the year** in which the capital asset is **converted into stock-in-trade** (i.e., P.Y.2023-24, in this case).
- (2) As per section 45(2), the **capital gains** arising from the **transfer** by way of **conversion of capital assets into stock-in-trade** will be **chargeable** to tax only in the **year in which the stock-in-trade is sold**.
- (3) Since the capital asset is converted into stock in trade in P.Y. 2023-24 i.e., before 23.7.2024, the **indexation benefit** would be available. However, it will be **available only up to the year of conversion** of capital asset into stock-in-trade (i.e., P.Y.2023-24) and **not** up to the **year of sale** of stock-in-trade (i.e., P.Y.2025-26).
- (4) For the purpose of computing capital gains in such cases, the **fair market value** of the capital asset on the **date on which it was converted** into stock-in-trade shall be **deemed to be the full value of consideration** received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2025-26, only **proportionate capital gains** (i.e., 2/3rd) would be chargeable to tax in the A.Y.2026-27.

- (5) **On sale** of such stock-in-trade, **business income** would arise. The business income chargeable to tax would be the **difference between** the price at which the **stock-in-trade is sold** and the **fair market value** on the **date of conversion** of the capital asset into stock-in-trade.
- (6) In case of **conversion** of capital asset into stock-in-trade and subsequent sale of stock-in-trade, **the period of 6 months** is to be **reckoned from the date of sale** of stock-in-trade for the purpose of **exemption under section 54EC** [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2025-26 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2026-27, both within the stipulated six month period, the **maximum deduction allowable** for A.Y. 2026-27, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2025-26, is **only ₹ 50 lakhs**.

Question 17

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2025.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2025 (i.e., WDV as on 31.3.2025 after providing depreciation for P.Y. 2024-25) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

(i) Towards loss of stock	₹ 4,80,000
(ii) Towards damage of machinery	₹ 6,00,000
(iii) Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

Solution:

(i) Compensation towards loss of stock: Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.

(ii) Compensation towards damage to machinery: The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) Compensation towards loss of gold chain and diamond ring: Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Question 18

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2025 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- 20% through account payee bank draft on the date of agreement.
- 60% on the date of the possession of the property.
- Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2025 and the registration process was completed on 14.01.2026. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2025 was ₹ 1,70,00,000;
- (b) on 15.12.2025 was ₹ 1,71,00,000; and
- (c) on 14.01.2026 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2026 and another in Delhi for ₹ 35,00,000 on 28.5.2026.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2026-27.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2025-26 – 376

Solution:

**Computation of income chargeable under the head "Capital Gains"
of Mr. Sarthak for A.Y. 2026-27**

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000	
[As per section 50C , where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration , then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration . In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement . In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]		
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]		1,70,00,000
Less: Cost of acquisition of residential house		30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]		1,40,00,000
Less: Exemption u/s 54		55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore , he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.		
Long term capital gains chargeable to tax		85,00,000

Note: It may be noted that since Sarthak has **transferred residential house** which was acquired before **23.7.2024**, he can **opt to pay tax @20%** on LTCG (computed **with indexation**) or 12.5% on LTCG (computed **without indexation**) **whichever is beneficial** to him while computing his tax liability.

Question 19

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23.4.2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2025 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14.07.2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- (i) Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2026 and 15.5.2026
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2026.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30.11.2025 and for ₹ 40 lakhs on 9-1-2026.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2026-27. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2025-26 - 376.

Solution:

Computation of income chargeable under the head “Capital Gains” of Mrs. Yuvika for A.Y.2026-27

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building Actual sale consideration ₹ 810 lakhs Value adopted by Stamp Valuation Authority ₹ 890 lakhs [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration , then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or		

through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]		
Gross Sale consideration (Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, <i>plus</i> registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land	88	
- Construction cost of residential building	100	188.00
Long-term capital gains		613.90
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00
Where long-term capital gains exceed ₹ 2 crore , the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK . It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2026), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs , whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2026 (i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		433.90

Notes:

- (1) Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head **“Income from other sources”**, in the A.Y. 2016-17, as per **section 56(2)(ix)**,

since the same was **forfeited on or after 01.4.2014** as a result of failure of negotiation. Hence, the same should **not be deducted while computing indexed cost of acquisition**.

- (2) It may be noted that since Yuvika has transferred residential building which was acquired before 23.7.2024, she can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to her while computing her tax liability.

Question 20

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2025, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2026. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2025 was ₹ 39,00,000 and on 20th February, 2026 was ₹ 41,00,000.]

Compute the capital gains in the hands of Mr. Shiva for A.Y.2026-27. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2025-26: 376

Solution:

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration , stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement .	39,00,000	

In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars	Amount (₹)
On LTCG of ₹ 25,20,500 × 12.5%	3,15,063
Add: Health and Education cess @4%	12,603
	3,27,666
On LTCG with indexation benefit	
Net Sale consideration	38,69,500
Less: Indexed cost of acquisition (₹ 9,59,000 × 376/100)	36,05,840
Less: Indexed cost of Improvement [₹ 3,90,000 × 376/254]	5,77,323
Long-term capital loss	(3,13,663)
Since the computation results in a long term capital loss , if indexation benefit is given , the tax u/s 112 would be Nil . However, this computation is only for determining tax liability , the said loss can neither be set-off nor carried forward .	

Notes:**(1) Computation of cost of acquisition**

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition, Being the higher of		10,70,000
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The **advance retained by the assessee** will go to **reduce the cost of acquisition**. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, **where the advance money is forfeited** during the previous year **2014-15 or thereafter**, the amount forfeited would be **taxable** under the head **“Income from Other Sources”** and such amount will **not be deducted** from the **cost of acquisition** of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

Question 21

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2026-27 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2025-26 in respect of these assesseees:

- (i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2025 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units of equity-oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2025 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

Solution:

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

- (a) cost of acquisition of such asset, i.e., actual cost; and
- (b) lower of
 - (i) the fair market value of such asset as on 31.1.2018; and
 - (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.
- (i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., $(₹ 1,200 - ₹ 700) \times 300$ shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@12.5% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @13% would be ₹ 3,250 $(₹ 25,000 \times 13\%)$

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- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 ($₹ 900 - ₹ 750 \times 200$ units).

Since the long-term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.

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PART B – ADDITIONAL QUESTIONS**Question 22 [MTP 1 Nov 23, May 19 – 7 Marks]**

Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2013 for Rs. 30,00,000. He sold it for Rs. 1,57,00,000 on 07.01.2023. Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for Rs. 2,05,00,000 on 20.07.2023. The said house property was sold on 31.05.2025 and he purchased another residential house in Delhi for Rs. 2,57,00,000 on 02.03.2026. The property at Panchkula was sold for Rs. 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2023-24 and 2026-27. All workings should form part of your answer:

Cost inflation index for various financial years are as under:

2013-14	-	220
2022-23	-	331
2023-24	-	348
2025-26	-	376

Solution:

Computation of capital gains chargeable to tax for A.Y. 2024-25

Particulars	Rs.
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Cost of acquisition	30,00,000
Long-term capital gain	1,27,00,000
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for Rs. 2,05,00,000 on 20.7.2023 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	1,27,00,000
Taxable long term capital gain	Nil

Computation of capital gains chargeable to tax for A.Y. 2026-27

Particulars	Rs.
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Cost of acquisition	
[As per section 54, if the new residential house purchased (i.e., on 20.7.2023, in this case) is transferred within 3 years of its purchase (i.e., on 31.05.2025, in this case), and the cost of acquisition of the new house (i.e., Rs. 2,05,00,000) is higher than the long-term capital gain (i.e., Rs. 1,27,00,000) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [Rs. 78,00,000 (Rs. 2,05,00,000 – Rs. 1,27,00,000)]	78,00,000
Long-term capital gain [Since the residential house is held for more than 24 months]	2,47,00,000
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for Rs. 2,57,00,000 on 2.3.2026 i.e., within two years from 31.05.2025, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	2,47,00,000
Taxable long term capital gain	Nil

Question 23 [MTP 2 May 23, Similar in Nov 18, Nov 22 – 7 Marks]

Mr. Ramesh entered into an agreement with Mr. Vikas to sell a plot on 5.4.2025 for Rs. 45 lakhs. He received an advance of Rs. 15 lakhs from him on the date of agreement by account payee cheque. Transfer took place on 10-9-2025. The valuation determined by the stamp valuation authority on the date of agreement and transfer was Rs. 49 lakhs and Rs. 53 lakhs, respectively. Mr. Vikas has sold this plot to Ms. Babli on 21-3-2026 for Rs. 55 lakhs. The valuation as per stamp valuation authority was Rs. 54 lakhs on 21-3-2026. Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vikas. Also, compute the capital gain in the hands of Mr. Vikas.

Note: None of the parties viz Mr. Ramesh, Mr. Vikas & Ms. Babli are related to each other; the transactions are between outsiders.

Solution:

I.	Tax consequences in the hands of Mr. Ramesh
	As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since Rs. 15 lakhs is received through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration. Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2025-26, taking the actual consideration of Rs. 45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration. Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA.
II.	Tax consequences in the hands of Mr. Vikas
	In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of Rs. 50,000 and 10% of actual sales consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since Rs. 15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered. Therefore, nothing would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2026-27 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed Rs. 4,50,000, being the higher of Rs. 50,000 and 10% of consideration. At the time of subsequent sale of property by Mr. Vikas to Ms. Babli (on 21.3.2026), short-term capital gains would arise in the hands of Mr. Vikas in A.Y.2026-27, since the property is held by him for less than 24 months.

Particulars	Rs.
Full value of consideration (Since actual consideration of Rs. 55 lakh is higher than stamp duty value of Rs. 54 lakh)	55 lakh
Less: Cost of acquisition	45 lakh
Short-term capital gains	10 lakh

Question 24 [MTP 2 May 21, Nov 19 – 7 Marks]

Calculate the amount chargeable to tax under the head 'Capital Gains' for A.Y. 2026-27 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2025-26, assuming that the other incomes of Mr. Naveen exceeds the maximum amount not chargeable to tax. (Ignore surcharge and cess):

- (1) Sold 10,000 shares of Y Ltd. on 05-08-2025 @ Rs. 650 per share. Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2017 @Rs. 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under :
- Highest price - Rs. 300 per share
Average price - Rs. 290 per share
Lowest price - Rs. 280 per share
- (2) Sold 1,000 units of AB Mutual Fund on 20-05-2025 @Rs. 50 per unit. AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ Rs. 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of AB Mutual Fund was Rs. 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.

Solution:

**Computation of amount chargeable to tax under the head
“Capital Gains” in the hands of Mr. Naveen**

	Particulars	Rs.
(i)	Sale of 10,000 shares of Y Ltd. on 5.8.2025 @ 650 per share	
	Sales consideration (10,000 x Rs. 650)	65,00,000
	Less: Cost of acquisition	Rs. 30,00,000
	Higher of:	
	- Actual cost (10,000 x Rs. 100)	10,00,000
	- Lower of:	30,00,000
	- Rs. 30,00,000 (Rs. 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and - Rs. 65,00,000, being full value of consideration on transfer	35,00,000
	Long-term capital gain under section 112A	
	[Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	
(ii)	Sale of 1,000 units of AB Mutual Fund on 20.5.2025 @ Rs. 50 per unit	50,000
	Sale consideration (1,000 x Rs. 50)	
	Less: Cost of acquisition - Higher of -	50,000
	- Actual cost (1,000 x Rs. 10)	10,000
	- Lower of:	50,000
	Rs. 55,000 (Rs. 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and	

Rs. 50,000, being full value of consideration on transfer	
Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	Nil

Question 25 [MTP 2 Nov 23 – 4 Marks]

Mr. Kalyan has a residential house property which was acquired on 12-08-2005 for Rs. 6,00,000. The property is sold for Rs. 22,00,000 in December 2024. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was Rs. 28,00,000. Mr. Kalyan preferred an appeal to the revenue divisional officer who fixed the value of the house Rs. 25,00,000. He acquired another residential house on 31-03-2025 for Rs. 17,00,000 for self-occupation. On 01-03-2026, he sold such new residential house for Rs. 30,00,000. Compute his capital gain for the A.Y. 2025-26 and 2026-27. (Cost Inflation Index: 2001-02; 2005-06 and 2024-25 are, 100; 117 and 348)

Solution:**Computation of capital gain in the hands of Mr. Kalyan for A.Y. 2025-26**

Particulars	Rs.
Full value of consideration [As per section 50C, in case the actual sale consideration (i.e., Rs. 22 lakhs, in this case) is less than the stamp duty value (i.e., Rs. 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration . However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., Rs. 25 lakh, in this case) less than stamp duty value (i.e. Rs. 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	25,00,000
<i>Less: Cost of acquisition [Rs. 6,00,000]</i>	(6,00,000)
Long-term capital gain [Since the residential house is held for more than 24 months]	19,00,000
<i>Less: Exemption under section 54</i> Purchase of new residential house property on 31.3.2025 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	2,00,000

Computation of capital gains in the hands of Mr. Kalyan for A.Y. 2026-27

Particulars	Rs.
Full value of consideration	30,00,000
Less: Cost of acquisition [As per section 54 , if the new residential house purchased (i.e., on 31.3.2025, in this case) is transferred within 3 years of its purchase (i.e., on 1.3.2026, in this case), and the cost of acquisition of the new house (i.e., Rs. 17 lakhs, in this case) is lower than the long-term capital gain (i.e., Rs. 19,00,000, in this case), the cost of acquisition of such new residential house shall be taken as Nil , while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	30,00,000

Question 26 [RTP May 19, May 18 – 10 Marks]

Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2025. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	Amount (Rs. In lacs)	Assets	Amount (Rs. In lacs)
Own Capital	1,850	<u>Fixed Assets:</u>	
Accumulated P & L balance	870	Unit PT	250
<u>Liabilities:</u>		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	<u>Other Assets:</u>	
Unit RS	340	Unit PT	790
		Unit QL	860
		Unit RS	490
Total	3,510	Total	3,510

Other information:

- (1) Fair Market Value of Slump sale consideration on transfer of Unit RS was Rs. 1540 lacs.
- (2) Fixed Assets of Unit RS includes land which was purchased at Rs. 90 lacs in the year 2014 and was revalued at Rs. 180 lacs.
- (3) Other fixed assets are reflected at Rs. 770 lacs, (i.e., Rs. 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is Rs. 630 lacs as per Income-tax Act, 1961.
- (4) Unit RS was set up by Mr. Pratap in December, 2006.

Compute Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for AY 26-27.

Note: Cost Inflation Indices for FY 2012-13 and FY 2025-26 are 200 and 376, respectively.

Solution:**Computation of capital gain on slump sale of Unit RS for A.Y. 2026-27**

Particulars	Rs.
Full value of consideration	15,40,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	6,70,00,000

Working Note: Net worth of Unit-RS

Particulars	Rs.
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	8,70,00,000

Notes:

- (1) In case of slump sale, **net worth of the undertaking** transferred shall be **deemed** to be the **cost of acquisition** and **cost of improvement** as per **section 50B**.
- (2) **“Net worth”** of the undertaking shall be the **aggregate value** of **total assets** of the undertaking or division **as reduced by the value of liabilities** of such undertaking or division **as appearing in the books of accounts**.
- (3) However, **any change** in the value of assets on account of **revaluation** shall **not be considered** for this purpose.

- (4) ☐ For calculating **aggregate value of total assets** of the **undertaking** or **division** in case of slump sale in case of **depreciable assets**, the **written down value** of block of assets determined in accordance with the provisions contained in **section 43(6)** of Income-tax Act, 1961 is to be considered and for **all other assets**, **book value** is to be considered.
- (5) ☐ Since Unit RS is held by the assessee for **more than 36 months**, the capital gain arising from **slump sale is a long-term capital gain**.
- (6) ☐ **Indexation** benefit is **not available** in case of **slump sale**.

Question 27 [May 24 – 4 Marks]

Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2026. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01.04.2001 is Rs. 33 lakhs. In the year 2013-2014, further construction and improvements costing of Rs. 16 lakhs. The House was originally purchased by his father on 01.03.2000 for Rs. 20 Lakhs. On 10.05.2025, the House was sold for Rs. 75 Lakhs. Expenditure in connection with transfer is Rs. 50,000. On 20.12.2025, he purchased a Residential House for Rs. 20 lakhs and he does not own any other house. Compute the taxable Capital Gain for the assessment year 2026-27. (Cost Inflation Index: F.Y. 2013-14=220, F.Y.2025-26=376, F.Y. 2009-10 = 148 and F.Y. 2001-02=100)

Solution:**Computation of Taxable Capital Gains for A.Y.2026-27**

Particulars	Rs.
Full Value of Consideration [as on 10.05.2025]	75,00,000
Less: Expenditure in connection with transfer	50,000
Net Sales Consideration	74,50,000
Less: Cost of acquisition [Cost or FMV as on 1.4.01 w.e. is higher 33,00,000]	33,00,000
Less: Cost of improvements [Rs. 16 lakhs]	16,00,000
	25,50,000
Less: Exemption u/s 54 – in respect of residential house purchased on 20.12.2025 (being lower of invested or actual gain)	20,00,000
Taxable Long Term Capital Gains	5,50,000

Note: Since House Property is acquired before 23.07.24, the assessee will have an option while payment of Tax, i.e. he can choose between 20% with indexation or 12.5% without indexation, w.e. is more beneficial to him.

Question 28 [Sept 24 – 4 Marks]

Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for Rs. 75,00,000 to Mr. Vipul on December 15, 2025 when the stamp duty value of agricultural land was Rs. 95 lakhs. However, the “agreement to sell” the agricultural land was entered on July 15, 2025 and Mr. Vipul gave Rs. 4 lakhs as advance through IMPS.

The stamp duty value at the time of agreement was Rs. 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for Rs. 10.85 lakhs and it was being used for agricultural purposes by him since its purchase. Mr. Raj purchased another agricultural land in rural area on January 1, 2026 for Rs. 40 lakhs and this land was sold by him on March 12, 2026 for Rs. 45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for assessment year 2026-27 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Cost Inflation Index for: F.Y. 2002-03 = 105; F.Y. 2025-26 - 376.

Solution:**Computation of Capital Gains of Mr. Raj for A.Y.2026-27**

Particulars	Rs.
<u>Capital gain on sale of urban agricultural land</u>	
Actual sale consideration	75,00,000
Stamp duty value as on date of agreement i.e., on 15.7.2025 [Since part consideration is received through IMPS on the date of agreement]	85,00,000
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]	85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., Rs. 75 lakhs]	75,000
Net Sales Consideration	84,25,000
Less: Cost of acquisition	10,85,000
	73,40,000
Less: Exemption u/s 54B – In respect of rural agricultural land purchased on 1.1.2025. Mr. Raj is eligible to claim exemption u/s 54B since he has used the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer. [See Note for alternative answer]	40,00,000
Long term capital gain	33,40,000
<u>Capital gain on sale of rural agricultural land</u>	
As per section 54B, if the new agricultural land is transferred within 3 years from the date of its purchase, while computing the capital gains on transfer of such new agricultural land, the cost of acquisition of such land would be reduced by the amount of capital gain claimed as exempted.	
However, since rural agricultural is not a capital asset, no capital gain would arise on sale of such land even though it is transferred within 3 years from the date of its purchase.	

Note: [Alternative answer]

Mr. Raj transferred urban agricultural land on 15.12.2025 and purchased rural agricultural land on 1.1.2026 which is sold on 12.3.2026. Since the rural agricultural land is sold within the same previous year in which original asset was transferred i.e., P.Y. 2025-26, a view can be taken that the exemption under section 54B would not be available as at the time of filing return of income such acquired land does not exist. In such case, long term capital gain would be Rs. 73,40,000.

Question 29 [RTP May 25]

Ms. Priya has always been financially aware and strategic with her investments. In January 2023, she saw an opportunity in gold and purchased gold jewellery worth Rs. 3,25,000, believing it would be a safe investment for the future. In October 2025, gold prices increased and she decided to sell her jewellery on 31.10.2025 for Rs. 4,75,000.

She also sold her house property in Delhi on 01.12.2025 for Rs. 80 lakhs. The stamp duty value of property at the time of transfer was Rs. 90 lakhs. She purchased this property on 15.07.1998 for Rs. 8.80 lakhs. The FMV of the property as on 1st April, 2001 was Rs. 10.8 lakhs and Stamp duty value on the said date was Rs. 10 lakhs. She had incurred brokerage and other expenses @1% on purchase price at that time.

Compute the capital gain tax to be paid by Ms. Priya for A.Y. 2026-27 assuming her other income exceeds the basic exemption limit. CII – F.Y. 2001-02: 100; F.Y. 2022-23: 317; F.Y. 2025-26:376.

Solution:

Computation of capital gain tax paid by Ms. Priya for A.Y. 2026-27

Particulars	Rs.	Rs.
On sale of jewellery		
Sale consideration	4,75,000	
Less: Cost of acquisition (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	3,25,000	
Long term capital gains [Since jewellery is held for more than 24 months]		1,50,000
On sale of house property		
Full Value of Consideration [Stamp duty value of Rs. 90 lakhs, since stamp duty value of Rs. 90 lakhs exceed actual consideration of Rs. 80 lakhs by more than 10%]	90,00,000	
Less: Cost of acquisition [Rs. 10,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)	10,00,000	80,00,000
Cost of acquisition		
Higher of -		
• Actual cost Rs. 8,80,000 + Rs. 8,800 = Rs. 8,88,800 and		
• Lower of Fair Market Value (FMV) as on 1.4.2001 of Rs. 10.8 lakhs and stamp duty value of Rs. 10 lakhs.		
Capital Gain chargeable to tax		81,50,000
<u>Tax on capital gains</u>		
Tax on LTCG on sale of jewellery [Rs. 1,50,000 × 12.50%]	18,750	
Tax @12.5% on LTCG on sale of house property	10,00,000	
[As the asset is a long term capital asset, being land or building acquired before 23.07.2024 and transferred on or after 23.07.2024 by resident individual, the tax shall be computed with indexation @20% OR without indexation @12.5%, whichever is beneficial to the assessee.]		
<u>Tax @20% with indexation</u>		
Sale consideration Rs. 90,00,000		
Less: Indexed cost of acquisition Rs. 10,00,000		
x 376/100 = Rs. 37,60,000		
LTCG = Rs. 52,40,000		
Tax @20% = Rs. 52,40,000 × 20% = Rs. 10,48,000		
<u>Tax @12.5% without indexation</u>		
Tax @12.5% = Rs. 80,00,000 × 12.5% = Rs. 10,00,000		
		10,18,750
Add: Surcharge @10% [Since total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]		1,01,875
		11,20,625
Add: HEC@4%		44,825
Tax on capital gain		11,65,450

Question 30 [MTP 2 May 25] – 5 Marks [Similar]

Mr. Amit, the proprietor of Amit Enterprises, owns two business units. On 1st April 2025, he transferred Bawana unit by way of a slump sale for a total consideration of ₹ 75 lakhs. The fair market value of the capital assets of Bawana unit as on the date of transfer was ₹ 90 lakhs. Bawana unit was established in the financial year 2005-06. The expenses incurred for the transfer amounted to ₹ 28,000. His Balance Sheet as on 31.3.2025 is as under:

2

Liabilities	Total (₹)	Assets	Bawana unit (₹)	Mayapuri unit (₹)	Total (₹)
Own Capital	45,00,000	Land	36,00,000	6,00,000	42,00,000
Revaluation Reserve (for land of Bawana unit)	9,00,000	Building	9,00,000	3,00,000	12,00,000
Bank loan (70% for Bawana unit)	6,00,000	Machinery	3,00,000	1,20,000	4,20,000
Trade creditors (25% for Mayapuri unit)	4,50,000	Other assets	4,50,000	1,80,000	6,30,000
Total	64,50,000	Total	52,50,000	12,00,000	64,50,000

Other Information

- The transfer deed did not assign individual values to any specific assets.
- The value of the building and machinery was taken as per the written-down value as per the Income-tax Act, 1961.

Compute the Capital Gain for the assessment year 2026-27.

Solution:**Computation of capital gains on slump sale of Bawana Unit**

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Bawana unit on 1.4.2025 or FMV of monetary consideration received]	90,00,000
Less: Expenses for transfer	28,000
	89,72,000
Less: Net worth (<i>Refer Note below</i>)	35,92,500
Long-term capital gain [Since the Unit is held for more than 36 months. Indexation benefit is not available in case of slump sale.]	53,79,500

Note:**Computation of net worth of Bawana unit of Amit Enterprises**

Particulars	₹	₹
Land (excluding ₹ 9 lakhs on account of revaluation)		27,00,000
Building		9,00,000
Machinery		3,00,000
Other assets		4,50,000
Total assets		43,50,000
Less: Creditors (75% of ₹ 4,50,000)	3,37,500	
Bank Loan (70% of ₹ 6,00,000)	4,20,000	7,57,500
Net worth		35,92,500

Question 31 [RTP Sept. 25]

Mr. Aryan, a resident individual, is working in Nishchay Ltd. and earns salary of ₹ 90,000 per month during P.Y. 2025-26. He holds 20,000 equity shares of Alpha Ltd., an Indian listed company, purchased on 1st January 2016 at ₹ 200 per share. These were acquired through a recognized stock exchange and STT was paid on both acquisition and sale.

In August, 2025, Mr. Aryan transferred a plot in Chandigarh for ₹ 70 lakhs which was acquired by him in May 2016 for ₹ 22 lakhs. He paid brokerage of 1% on transfer.

In November, 2025, Alpha Ltd. decided to buy back 50% of its shares at ₹ 250 per share. Alpha Ltd. bought back proportionate shares of Mr. Aryan. In May 2026, Mr. Aryan acquired a residential house property in Kanpur for ₹ 40 lakhs. Fair Market value of equity shares of Alpha Ltd. as on 31.1.2018 was ₹ 190 per share.

You are required to compute the total income of Mr. Aryan if he is paying tax under default tax regime.

CII for F.Y. 2015-16: 254; F.Y. 2016-17: 264; F.Y. 2017-18: 272; F.Y. 2025-26: 376

Solution:

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

	Particulars	₹	₹
I	Salaries		
	Salary from Nishchay Ltd. [₹ 90,000 × 12]	10,80,000	
	Less: Deduction under section 16 – Standard deduction upto ₹ 75,000	<u>75,000</u>	10,05,000
II	Capital Gains		
	On buy back of equity shares of Alpha Ltd.		
	Consideration received on buy back of shares	Nil	
	Less: Cost of acquisition	<u>20,00,000</u>	
	Higher of		
	– Actual cost of acquisition of ₹ 20 lakhs [10,000 shares @ ₹ 200 per share]		
	– Lower of FMV as on 31.1.2018 i.e., ₹ 19 lakhs and full value of consideration i.e., Nil		
	Long term capital loss on buy back of shares	(20,00,000)	
	On sale of plot		
	Sale consideration	70,00,000	
	Less: Brokerage @1%	<u>70,000</u>	
	Net sale consideration	69,30,000	
	Less: Cost of acquisition [Indexation benefit is not available on transfer which took place on or after 23.7.2024]	<u>22,00,000</u>	
		47,30,000	
	Less: Exemption under section 54F	<u>27,30,159</u>	
	Amount invested in residential house within 2 years would qualify for exemption against long-term capital gain arising from transfer of plot. Since the amount invested is less than the net consideration, proportionate capital gains is exempt [₹ 47,30,000 × ₹ 40,00,000/₹ 69,30,000]		
	Long-term capital gain on transfer of plot	19,99,841	
	Less: Set off of long-term capital loss on buy back of original shares against long-term capital gain on transfer of plot to the extent of Balance long-term capital loss of ₹ 159 on buy back of original shares is to be carried forward to A.Y. 2027-28	<u>19,99,841</u>	Nil
III	Income from Other Sources		
	Dividend on buy back of shares [10,000 × 250]		<u>25,00,000</u>
	Total Income		<u>35,05,000</u>

Question 32 [Suggested Sept. 25]

Mr. Mani, a resident individual aged about 45 years, acquired a plot of land in March 2002 for ₹ 12,25,000 and paid stamp duty of ₹ 1,00,000 on registry of the land. He sold this land on 10th October 2025 for ₹ 80,00,000. The stamp duty valuation assessed by sub registrar was ₹ 83,50,000. Advise Mani about which option of computation of capital gains is most suitable

for him as far as his tax liability is concerned on the assumption that he has no other income chargeable to tax and has not opted out of the provision of section 115BAC.

Costs Inflation Index for various financial years are as under:

2001-02	100
2002-03	105
2006-07	122
2025-26	376

Solution:

**Computation of tax liability of Mr. Mani for the A.Y. 2026-27
as per the default tax regime**

Particulars	₹	₹
Capital Gain		
Actual sale consideration	80,00,000	
Valuation as per Stamp duty Authority on the date of agreement (Since the stamp duty value does not exceed 110% of the actual sale consideration, the actual sales consideration shall be taken to be the full value of consideration as per section 50C)	<u>83,50,000</u>	80,00,000
Less: Cost of acquisition of Plot (₹ 12,25,000 + ₹ 1,00,000)		<u>(13,25,000)</u>
Long Term Capital Gain/ Total Income		66,75,000
Tax on LTCG u/s 112		
Since land is acquired before 23.7.2024 and transferred on or after 23.7.2024, Mr. Mani has an option to pay tax @12.5% on LTCG computed without indexation benefit or @20% on LTCG computed with indexation benefit.		
Capital Gain without Indexation (Tax @12.5%)		
[₹ 80,00,000 - ₹ 13,25,000] = ₹ 66,75,000		
Tax = [₹ 66,75,000 - ₹ 4,00,000, being unexhausted basic exemption limit] × 12.5% = ₹ 7,84,375 (A)		
Capital Gain with Indexation (Tax @20%)		
[₹ 80,00,000 - (₹ 13,25,000 × 376/100)] = ₹ 30,18,000		
Tax = [₹ 30,18,000 - ₹ 4,00,000, being unexhausted basic exemption limit] × 20% = ₹ 5,23,600 (B)		
Lower of (A) or (B)		5,23,600
Add: Surcharge @10% [Since the total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore]		52,360
		5,75,960
Add: HEC @4%		23,038
Tax liability		5,98,998
Tax liability (Rounded off)		5,99,000

Note: Indexation option is more beneficial to the assessee

Alternative solution - As per second proviso to section 112(1)(a), in the case of transfer of a long-term capital asset, being land or building or both, which is acquired before the 23.7.2024, where the income-tax computed under item (B) exceeds the income-tax computed in accordance with the provisions of this Act, as they stood immediately before their amendment by the Finance (No. 2) Act, 2025, such excess shall be ignored.

As per item (B), long-term capital gains arising from transfer on or after 23.7.2024 are taxed @12.5%. Such tax is to be computed considering the first proviso to section 112(1)(a), which provide for utilization of unexhausted basic exemption limit.

On literal interpretation of the provisions of section 112(1)(a), the excess of tax will be determined after adjusting the unexhausted basic exemption limit while computing tax @12.5% on LTCG computed without indexation and tax @20% on LTCG computed with indexation. Accordingly, the main solution is given.

However, alternative solution is possible considering the manner followed in ITR utility for computation of tax on long-term capital gains in case of transfer of land acquired on or before 23.7.2024 but transferred thereafter.

**Computation of tax liability of Mr. Mani for the A.Y. 2026-27
as per the default tax regime**

Particulars	₹	₹
Capital Gain		
Actual sale consideration	80,00,000	
Valuation as per Stamp duty Authority on the date of agreement (Since the stamp duty value does not exceed 110% of the actual sale consideration, the actual sales consideration shall be taken to be the full value of consideration as per section 50C)	<u>83,50,000</u>	80,00,000
Less: Cost of acquisition of Plot (₹ 12,25,000 + ₹ 1,00,000)		<u>(13,25,000)</u>
Long Term Capital Gain/ Total Income		66,75,000
Tax on LTCG u/s 112		
Since land is acquired before 23.7.2024 and transferred on or after 23.7.2024, Mr. Mani has an option to pay tax @12.5% on LTCG computed without indexation benefit or @20% on LTCG computed with indexation benefit.		
Capital Gain without Indexation (Tax @12.5%)		
[₹ 80,00,000 - ₹ 13,25,000] = ₹ 66,75,000		
Tax = ₹ 66,75,000 × 12.5% = ₹ 8,34,375 (A)		
Capital Gain with Indexation (Tax @20%)		
[₹ 80,00,000 - (₹ 13,25,000 × 376/100)] = ₹ 30,18,000		
Tax = ₹ 30,18,000 × 20% = ₹ 6,03,600 (B)		
Excess of (A) over (B) to be ignored	2,30,775	
Tax @ 12.5% on ₹ 62,75,000 [₹ 66,75,000 – ₹ 4,00,000, being unexhausted basic exemption limit]		7,84,375
Less: Amount to be ignored		<u>2,30,775</u>
		5,53,600
Add: Surcharge @10% [Since the total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore]		<u>55,360</u>
		6,08,960
Add: HEC @4%		24,358
Tax liability		6,33,318
Tax liability (Rounded off)		6,33,320

Note: Indexation option is more beneficial to the assessee.

CHAPTER 6

INCOME FROM OTHER SOURCES

PART A: STUDY MATERIAL QUESTIONS

Question 1

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

Solution:

Any payment by a company, **other than** a company in which the **public are substantially interested**, of any sum by way of **advance or loan** to an **equity shareholder**, being a person who is the **beneficial owner** of shares holding **not less than 10%** of the **voting power**, is **deemed as dividend** under **section 2(22)(e)**, to the extent the company **possesses accumulated profits**.

- (i) The provisions of **section 2(22)(e)**, however, will **not apply** where the loan is given by a company in which **public are substantially interested**. In such a case, the loan would **not** be taxable as **deemed dividend**.
- (ii) However, if the loan is taken from a **private company** (i.e., a company in which the public are not substantially interested), which is a **not a company** where **lending** of money is a **substantial part** of the **business** of the company, the provisions of **section 2(22)(e)** would be attracted. In this case, since the company is a **manufacturing company** and **not a lending company** and Rahul **holds more than 10%** of the **equity shares** in the company, the provisions of **section 2(22)(e)** would be attracted.

The amount chargeable as **deemed dividend** cannot, however, **exceed the accumulated profits** held by the company on the **date of giving the loan**. Therefore, the **amount taxable** as deemed dividend would be **limited to the accumulated profit** i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Question 2

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2025-26 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2025.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2025.
- (3) A plot of land at Faridabad on 1st July, 2025, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2025, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2025.

Further, on 1st November, 2025, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2025 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2026, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head “Income from other sources” and “Capital Gains” for A.Y. 2026-27.

Solution:

Computation of “Income from other sources” of Mr. A for the A.Y. 2026-27

Particulars		₹
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2)	Since bullion is included in the definition of property , therefore, when bullion is received without consideration , the same is taxable , since the aggregate fair market value exceeds ₹ 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration , is taxable under section 56(2)(x)	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business , such shares represent the stock-in-trade of Mr. A.	-
(5)	Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000 , being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources		9,35,000

Computation of “Capital Gains” of Mr. A for the A.Y.2026-27

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be **short-term capital gains** since for calculating the period of holding, the period of **holding of previous owner is not to be considered**.

Question 3

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil’s sister). Akhil is the Karta of the HUF.
- Nitisha, a member of her father’s HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

Solution:

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x) . Daughter of Mr. Akhil’s sister is

			not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x) . Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x) , in case the aggregate fair market value of property, other than immovable property , received without consideration exceeds ₹ 50,000 , the whole of the aggregate value shall be taxable . In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x) , therefore, the same shall not be taxable .

Question 4

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2026 when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2025 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2024.

Would your answer be different if Hari was a share broker instead of a property dealer?

Solution:

Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh)

date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.
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Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains. It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Question 5

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

Solution:

The statement is **not correct**. As per **section 10(10BC)**, any **amount received** or receivable as **compensation** by an individual or his/her legal heir **on account of any disaster** from the **Central Government, State Government** or a **local authority** is **exempt from tax**. However, the **exemption is not available** to the **extent** such individual or legal heir has **already been allowed a deduction** under this Act on account of such loss or damage caused by such disaster.

Question 6

Interest on enhanced compensation received by Mr. G during the previous year 2025-26 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2020-21, ₹ 1,65,000 relates to previous year 2021-22 and ₹ 1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2026-27.

Solution:

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y. 2025-26.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head “Income from other sources”	2,50,000

Question 7

Examine under which heads the following incomes are taxable:

- Rental income in case property held as stock-in-trade for 3 years
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries received by a Member of Parliament
- Receipts without consideration
- In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- Rental income in case of a person engaged in the business of letting out of commercial properties.

Solution:**Head under which following incomes are taxable:**

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources

(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial properties	Profits and gains from business or profession

Note - As per **section 56(2)(ii)**, rental income of machinery would be **chargeable to tax** under the head **"Income from Other Sources"**, if the same is **not chargeable** to income-tax under the head **"Profits and gains of business or profession"**.

Question 8

Examine whether the following are chargeable to tax and the amount liable to tax:

- A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- Interest on enhanced compensation of ₹ 96,000 received on 12.3.2026 for acquisition of urban land, of which 40% relates to P.Y.2024-25.

Solution:

Taxability of Receipts

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son , it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1) , interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received , irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2025-26 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

Question 9

On 10.10.2025, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2017-18.

Out of this interest, ₹ 1,50,000 relates to the financial year 2018-19; ₹ 1,65,000 to the financial year 2019-20; and ₹ 1,85,000 to the financial year 2020-21. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2026-27?

Solution:

Section 145B provides that interest received by the assessee on **enhanced compensation** shall be **deemed** to be the **income** of the assessee of **the year in which it is received**, **irrespective** of the **method of accounting** followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as ‘Income from other sources’.

50% of such income shall be **allowed as deduction** by virtue of **section 57(iv)** and no other deduction shall be permissible from such Income.

Therefore, **legal expenses** incurred to receive the interest on enhanced compensation would **not** be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as “Income from other sources” for the A.Y 2026-27

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% × ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question 10

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2026:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her “Shastiapha Poorthi”, a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth ₹ 2 lakhs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2026, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as “Income from other sources” for A.Y.2026-27.

Solution:

- (i) Any sum of **money received** by an individual on the **occasion of the marriage** of the individual is **exempt**. This provision is, however, **not applicable** to a **cash gift** received during a **wedding function** celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- (ii) The provisions of **section 56(2)(x)** are **not attracted** in respect of **any sum of money** or property received from a **relative**. Thus, the gift of diamond necklace received **from her sister, being a relative, is not taxable** under section 56(2)(x), **even though** jewellery falls within the definition of “**property**”.

- (iii) To be exempt from applicability of section 56(2)(x), the **property should be received** on the occasion of the **marriage** of the individual, **not that of the individual's son or daughter**. Therefore, this exemption provision is **not attracted** in this case.

Any sum of **money received without consideration** by an individual is **chargeable to**

tax under section 56(2)(x), if the aggregate value **exceeds ₹ 50,000 in a year**. “Sum of money” has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is **that fixed deposit does not fall within the meaning of “sum of money”** and therefore, the provisions of section 56(2)(x) are **not attracted**. It may be noted that **fixed deposit** is also **not included** in the definition of “**property**”.
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as “Income from other sources”

If the **first view** is taken, the total amount chargeable to **tax as “Income from other sources”** would be ₹ 51,000, being **cash gift received from a friend** on her Shastipatha Poorthi.

As per the **second view**, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the “**Income from other sources**” of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

Question 11

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2025 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- (ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2024 for meeting his medical expenses.

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

Solution:

- (i) Any **movable property** received for **inadequate consideration** by any person is chargeable to tax under section 56(2)(x), if the **difference** between **aggregate Fair Market Value** of the property and consideration **exceeds ₹ 50,000**.

Thus, share received by M/s B. Co. (P) Ltd. from Mr. B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since the **consideration is less than the fair market value** of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or **any property received from any trust or institution** registered under **section 12AB**. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

PART B – ADDITIONAL QUESTIONS**Question 12 [Nov 23 – 4 Marks]**

From the following calculate the taxable amount under the proper head of income for the FY 2025-26 of Mr L, who is resident and 56 years old. The reasons should form part of your answer:

- (i) Dividend of Rs. 50,000 received in April 2025. The dividend was declared by the company - LMN Limited at its annual general meeting held in October 2024.
- (ii) Advance forfeited amounting to Rs. 1,00,000 on 01.05.2025 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.
- (iii) Cash Gift received from non-relative on the occasion of marriage of son Rs. 51,000.
- (iv) During the Financial Year 2025-26, he received Rs. 99,000 as pension from employer of deceased wife.

Solution:

Computation of taxable amount of Mr. L for the A.Y.2026-27

Particulars	Rs.
Income from other Sources	
(i) Dividend from LMN Ltd. – would be chargeable to tax under the head “Income from Other Sources”. Since dividend was declared by LMN Ltd. at its annual general meeting held in October 2024, the amount of dividend was taxable in the A.Y. 2025-26. Accordingly, the dividend of Rs. 50,000 would not be taxable in the current A.Y. 2026-27. <i>Note - Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis. Consequently, the amount of dividend received in April, 2025, would be chargeable to tax in the current A.Y. 2026-27. Accordingly, the total income of Mr. L for A.Y. 2026-27 would be Rs. 2,85,000</i>	-
(ii) Advance of Rs. 1,00,000 forfeited on 1.5.2025 - The advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix) under the head “ Income from Other Sources ”.	1,00,000
(iii) Cash gifts from non-relative on marriage of son of Rs. 51,000 – Since gift is received by Mr. L from a non-relative on the occasion of marriage of his son , it would be taxable in his hands under section 56(2)(x) under the head “Income from Other Sources”.	51,000
(iv) Pension from employer of deceased wife of Rs. 99,000 - Pension after deducting lower of Rs. 33,000 i.e., 1/3 of such income or Rs. 25,000, is chargeable to tax under the head “Income from Other Sources”, that is Rs. 99,000 – Rs. 25,000] <i>Note: As per default regime u/s 115BAC limit is Rs. 25,000 instead of 15,000. Since, it is not mentioned specifically that the assessee has opted out, it is assumed that Assessee has continued Default Tax Regime, further the Default Tax regime is beneficial for the assessee)</i>	74,000
Taxable amount	2,25,000

Question 13 [MTP 2 Nov 18 – 4 Marks][Repeated from Chap 1]

Rent of Rs. 72,000 received by Mr. X for letting out agricultural land for a movie shooting is an agricultural income and hence exempt under section 10(1).

Solution:

False: Agricultural income means, inter alia, any rent or revenue derived **from land** which is situated **in India and is used for agricultural purposes**. In the present case, rent is being

derived from letting out of agricultural land for a **movie shoot**, which is **not an agricultural purpose**. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs. 72,000, being rent received by Mr. X from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head “Income from other sources.”

Question 14 [RTP Nov 18]

Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is Rs. 30 lakh. Pranav & Sons had taken a loan of Rs. 35 lakh from TRP(P) Ltd. Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.

Solution:

Section 2(22)(e) provides that any **payment by a company**, not being a company in which public are substantially interested, of any sum by way of **advance or loan**

- to a **shareholder**, being a person who is the beneficial owner of shares holding **not less than 10% of voting power**, or
- to any concern in which such **shareholder is a partner** and in which he **has a substantial interest** (i.e., he is beneficially entitled to **not less than 20%** of the income of such concern)

is **deemed as dividend**, to the **extent** the company possesses **accumulated profits**.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm).

However, the amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of Rs. 35 lakhs given to Pranav & Sons, only Rs. 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

Question 15 [RTP Nov 23]

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

- (i) Akash, aged 17 years, received Rs. 3,50,000 as educational scholarship from M/s ABC Ltd. As a part of public welfare program, ABC Ltd. gave the above scholarship for his exceptional performance in Higher Secondary Examinations and to meet the cost of his further studies. The scholarship so received by Akash is taxable in his hands under the head “Income from other sources”.
- (ii) M/s XY & Co., a partnership firm, is engaged in the business of operating goods vehicles and computes its income on presumptive basis under section 44AE. Since the income is computed under section 44AE, no further deduction of any kind is allowable from the income so computed.
- (iii) Cash credit of Rs. 1,50,000 were traced in the books of accounts of Mr. Yogesh for which no explanation about its source was provided. Such income is taxable @30% under section 115BB in the hands of Yogesh.
- (iv) Mr. Shyam is a salaried individual. He purchased a painting and sculpture from his friends Mr. Kamal and Mr. Ashish for Rs. 45,000 and Rs. 35,000, respectively. The fair market value of painting and sculpture on the date of purchase was Rs. 80,000 and Rs. 60,000, respectively. Since the difference between fair market value and consideration of painting and sculpture does not exceed Rs. 50,000 individually, nothing would be taxable in the hands of Mr. Shyam.

Solution:**(i) The statement is incorrect.**

Income of Akash, being a **minor** child, from his **skill or talent** would be **taxable in his hands**. However, as per section 10(16), the **value of scholarship granted to meet the cost** of education would be **exempt** from tax in the hands of the recipient irrespective of the amount or source of scholarship.

(ii) The statement is incorrect.

If the **income is computed** under **presumptive taxation** under **section 44AE**, **deduction allowable** under **section 30 to 38** shall be **deemed to have been given full effect** to and **no further deduction** shall be allowed. However, in case of **firm**, salary and interest paid to partners is **deductible** subject to the conditions and limits prescribed in section 40(b).

(iii) The statement is incorrect.

Unexplained cash credit are taxable **@60%plus surcharge @25% plus cess @4%** under section 115BBE.

(iv) The statement is incorrect.

In case **movable property** is received for **inadequate consideration** and the **difference between aggregate fair market value** of the property and **such consideration exceeds Rs. 50,000**, such difference would be **taxed** as the **income** of the recipient. Since the difference between aggregate fair market value of painting and sculpture (i.e., Rs. 1,40,000) and consideration (i.e., Rs. 80,000) exceeds Rs. 50,000, the difference of Rs. 60,000 would be taxable in the hands of Mr. Shyam under the head "Income from other sources".

Question 16 [Suggested May 25] – 4 Marks

Discuss the taxability with reason in the hands of recipient for the assessment year 2026-27 in respect of following receipts or income:

- (i) Mr. Ram received a sum of ₹ 5,00,000 from his father on Ram's wedding anniversary.
- (ii) Mr. Govind sold his house property to Mrs. Radha for ₹ 1,25,00,000, whereas value determined by stamp valuation authority was ₹ 1,75,00,000.
- (iii) Ms. Agastha got a gift of car worth ₹ 7,00,000 from her friend on her wedding anniversary.

Solution:

	Taxable/ Non-taxable	Reason
(i)	Non-taxable	Sum of money exceeding ₹ 50,000 received without consideration by Mr. Ram from his father is not taxable under section 56(2)(x) since the sum is received from a relative i.e., father of Mr. Ram.
(ii)	Taxable	The difference of ₹ 50 lakhs between stamp duty value of ₹ 1,75,00,000 and actual consideration of ₹ 1,25,00,000 is taxable under section 56(2)(x) in the hands of Mrs. Radha since the difference exceeds ₹ 12,50,000, being the higher of ₹ 50,000 and 10% of consideration. ₹ 50 lakhs is taxable in the hands of Mrs. Radha. ₹ 175 lakhs is to be considered as deemed sale consideration for the purpose of computing capital gain in the hands of Mr. Govind.
(iii)	Non-taxable	Car is not included in the definition of property for the purpose of section 56(2)(x). Therefore, the car received by Ms. Agastha from her friend is not taxable.