

# Total Income and Tax Liability of Individuals & HUF

3

**This Module includes**

- 3.1 Income of Other Person included in Assesses Total Income (Clubbing of Income)**
- 3.2 Set off and Carry Forward of Losses**
- 3.3 Deductions, Rebate and Relief**
- 3.4 Taxation of Individual (including AMT but excluding Non-resident) & HUF**
- 3.5 Advance Tax**
- 3.6 Tax Deducted at Source & Tax Collected at Source (excluding Non-resident)**
- 3.7 Filing of Return of Income**
- 3.8 PAN**
- 3.9 Self-Assessment & Intimation**

# Total Income and Tax Liability of Individuals & HUF

## **SLOB Mapped against the Module:**

1. To acquire application-oriented knowledge and skill for appreciating various provisions of the Income Tax Act, 1961 and attain abilities to solve problems while computing tax liabilities.
2. To attain abilities to apply various provisions of direct taxation laws, including assessment to identify the impacts thereof on business decisions.
3. To gather knowledge of various compliance related provisions of direct taxation laws and attain abilities to ensure due compliance to avoid any eventual risks.

## **Module Learning Objectives:**

After studying this module, the students will be able to –

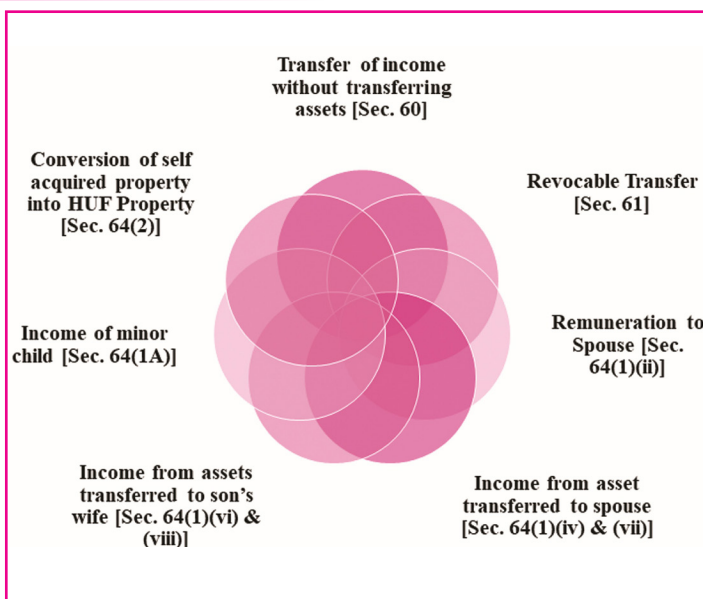
- Identify the applicability of the provisions relating to clubbing of income
- Understanding the relationship between various sources of income and heads of income
- Appreciate the provision relating to carry forward of losses
- Appreciate the provisions relating to various compliances.

# Income of Other Person included in Assessee's Total Income (Clubbing of Income)

## 3.1

### 3.1.1 Introduction

Generally, an assessee is taxed on income accruing to him only and he is not liable to tax for income of another person. However, there are certain exceptions to the above rule (mentioned u/s 60 to 64). Sec. 60 to 64 deals with the provisions of clubbing of income, under which an assessee may be taxed in respect of income accrued to other person, e.g. certain income of minor child shall be clubbed in the hands of his parents, income from asset transferred to spouse for inadequate consideration shall be clubbed in the hands of the transferor, etc. These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose off their income or income-generating assets to escape tax liability.



### 3.1.2 General rules

#### • Computation of income to be clubbed

The income, which is to be clubbed, shall be first computed in the hands of recipient and all expenditure related to such income shall be allowed as per the respective provisions of the Act and thereafter the net income shall be clubbed.

**E.g.:** Standard deduction u/s 24(a) from Income from house property shall be allowed in the hands of the recipient and thereafter the net income shall be clubbed.

#### • Clubbing Head

Income shall be, first, computed in the hands of recipient and then clubbing shall be made head wise.

**E.g.:** Bank interest of minor child shall be clubbed under the head “Income from other sources” of parent.

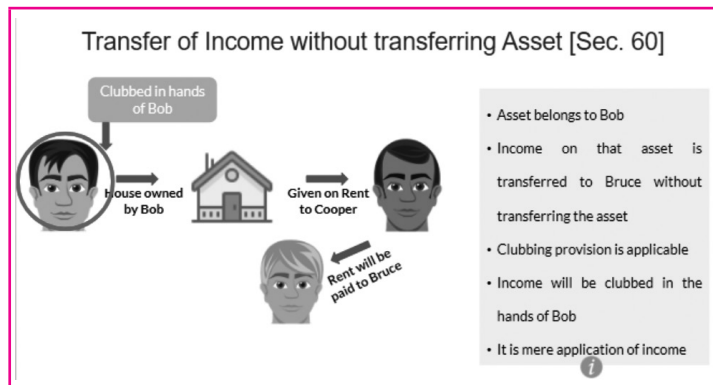
#### • Deduction under chapter VIA

If the clubbed income is eligible for deduction u/s 80C to 80U, then such deduction shall be allowed to the assessee in whose hands such income is clubbed. E.g. If interest on saving bank account of the minor is clubbed in the hands of parent u/s 64(1A) then parent can claim deduction u/s 80TTA.

### • Clubbing of negative income

As per explanation 2 to sec. 64, clubbing of income includes clubbing of negative income i.e. where an income is liable to be clubbed, loss from the same source shall also be clubbed. Clubbing provisions is mandatory and shall be applied even in those cases where the application of such provision causes loss of revenue to the Income tax department.

### 3.1.3 Transfer of income without transferring assets [Sec. 60]



Where an income is transferred without transferring the asset yielding such income, then income so transferred shall be clubbed in the hands of the transferor.

The above provision holds good -

- whether the transfer is revocable or not; or
- whether the transaction is effected before or after the commencement of this Act.

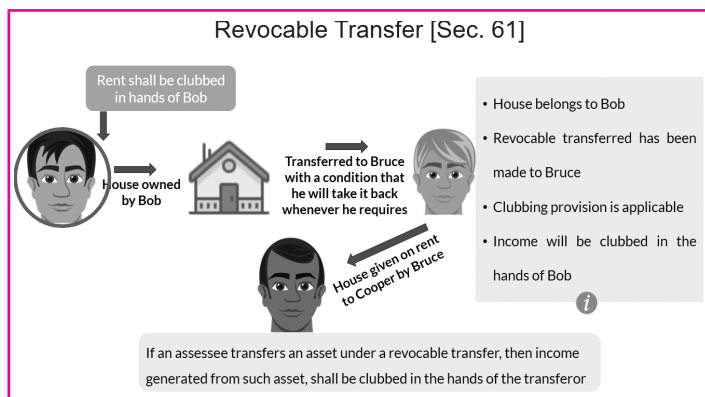
### 3.1.4 Revocable Transfer [Sec. 61]

If an assessee transfers an asset under a revocable transfer, then income generated from such asset, shall be clubbed in the hands of the transferor.

#### Revocable transfer

As per sec. 63(a), a transfer shall be deemed to be revocable if -

- It contains any provision for the retransfer (directly or indirectly) of any part or whole of the income/assets to the transferor; or
- It, in any way, gives the transferor a right to re-assume power (directly or indirectly) over any part or whole of the income/assets.



#### Exceptions [Sec. 62]

As per sec. 62(1), the provision of sec. 61 shall not apply to an income arising to a person by virtue of -

- A transfer by way of creation of a trust which is irrevocable during the lifetime of the beneficiary;
- Any transfer which is irrevocable during the lifetime of the transferee;

In any case, the transferor must not derive any benefit (directly or indirectly) from such income.

**Note:** As per sec. 62(2), income, in any of the above exceptional case, shall be taxable as under -

| Situation                                                                             | Taxable in hands of |
|---------------------------------------------------------------------------------------|---------------------|
| When the power to revoke the transfer arises (whether such power is exercised or not) | Transferor          |
| When the power to revoke the transfer does not arise                                  | Transferee          |

**Illustration 1**

Discuss the tax treatment in the following cases:

| Case                                                                                                                                                                                                                                                                                                                                                                 | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| a) Harish has transferred certain securities owned by him to a trust for his married sister, Harsha, as on 1/7/2025. He has the power to revoke the trust at his desire. On 31/3/2027, he revoked such trust. Income accrued for the previous year 2025-26 and 2026-27 are ₹ 1,20,000 and ₹ 1,50,000 respectively and such income is received and enjoyed by Harsha. | Since the asset has been transferred under a revocable clause, hence, by virtue of sec. 61, income accrued on securities during the previous year 2025-26 ₹ 1,20,000 and 2026-27 ₹ 1,50,000, though received by Harsha, shall be taxable in the hands of Harish.                                                                                                                                                                                                                                                                                                                        |
| b) Raja transferred his property on 1/4/2025 to Rani with a clause that, he will take property back from Rani whenever he requires. Raja was in need of money on 1/4/2026 and he took back property from Rani. The property yields annual income of ₹ 2,00,000.                                                                                                      | Since asset has been transferred under a revocable clause, hence, by virtue of sec. 61, income accrued on such property shall be chargeable in hands of Raja for previous year 2025-26 as well as for 2026-27. This is because all income arising to the transferor by virtue of any revocable transfer shall be chargeable in hands of the transferor as and when the power to revoke the transfer arises whether or not such power has been exercised. Since Raja had the power of revocation from beginning therefore income shall be clubbed in his hand from the date of transfer. |
| c) Seema transferred on 1/4/2025 her property to Neema for the life time of Neema with a clause that after death of Neema, property shall be back to Seema. Neema died on 1/4/2026. Seema has not taken back the property till 31/3/2027. Property yields annual income of ₹ 1,00,000.                                                                               | Since asset has been transferred which is irrevocable during the lifetime of the transferee hence, by virtue of sec. 62, income accrued on such property shall be chargeable in hands of Neema for the P.Y. 2025-26. However, income for the P.Y. 2026-27 shall be chargeable in hands of the Seema as because after death of Neema, Seema got the power to revoke the transfer and when the power to revoke the transfer arises, income is clubbed in hands of transferor even the power has not been exercised.                                                                       |

**3.1.5 Remuneration to Spouse [Sec. 64(1)(ii)]**

The total income of an individual shall include income arising (directly or indirectly) to the spouse by way of salary, commission, fees or any other remuneration (whether in cash or in kind) from a concern in which such individual has **substantial interest**<sup>1</sup>.

**Taxpoint:** Any other income, which is not specified above, even if it accrues to spouse from the concern in which the assessee has substantial interest, shall not be clubbed.

<sup>1</sup> **Substantial interest:** An individual shall be deemed to have substantial interest in a concern if —

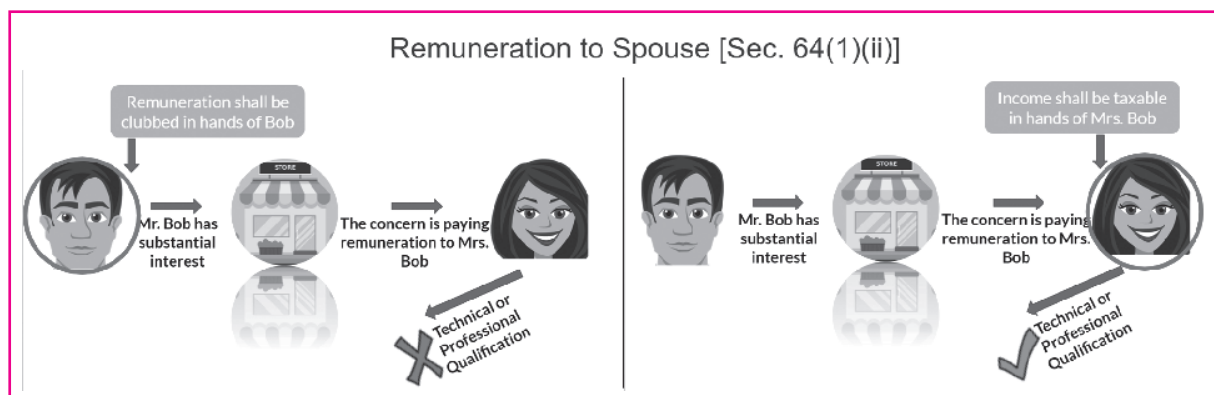
|                    |                                                                                                                                                                                                                    |
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| In case of company | He beneficially holds not less than 20% of its equity shares at any time during the previous year. Such share may be held by the assessee <u>or</u> partly by assessee and partly by one or more of his relatives. |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                                                                                                         |                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Other concern                                                                                                           | He is entitled to not less than 20% of the profits of such concern at any time during the previous year. Such share of profit may be held by the assessee himself or together with his relatives. |
| Relative here includes spouse, brother or sister or any lineal ascendant or descendant of that individual [Sec. 2(41)]. |                                                                                                                                                                                                   |

### Exception

**Income generated through technical or professional qualification<sup>#</sup> of the spouse** is not to be clubbed in the total income of the individual.

- # **Technical or professional qualification:** The term technical or professional qualification must be construed in a liberal manner as the term has not been defined in the Act. It does not necessarily relate to technical or professional qualification acquired by obtaining a certificate, diploma or degree or in any other form, from a recognised body like University or Institute. It can be treated as fitness to do a job or to undertake an occupation requiring intellectual skill and also includes technicality generated through experience, skill etc. Technical qualification includes specialization in a particular subject (e.g. accountancy, management, commerce, science, technology etc.).



### Notes

|                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Where both, husband and wife, have substantial interest in a concern                                                                                                   | Remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is higher.                                                                                                                                                                                                                              |
| When both, husband and wife, have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification. | Where such income is once included in the total income of either of the spouse, then such income arising in any subsequent years cannot be included in the total income of the other spouse unless the Assessing Officer is satisfied that it is necessary to do so. However, Assessing Officer will do so only after giving to the other spouse an opportunity of being heard. |

|                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| When both, husband and wife, are not having any other income                                                                                                                                                                                     | Remuneration from such concern will not be clubbed.                                                                                                                                                                                                                                                                                                                                                                                  |
| When both, husband and wife, have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification and both are not having any other income apart from the said remuneration. |                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Computation of salary, fee, commission, remuneration etc                                                                                                                                                                                         | Income prescribed in sec. 64(1)(ii) shall be first computed (allowing all deductions from the respective income) in the hands of recipient and thereafter net income shall be clubbed in the hands of the other spouse. E.g. salary, remuneration, etc shall be first calculated as per provisions of sec. 15 to 17, in the hands of recipient and thereafter, net taxable salary shall be clubbed in the hands of the other spouse. |

### Illustration 2:

Ram and Mrs. Ram hold 20% and 30% equity shares in Anand Ltd. respectively. They are employed in Anand Ltd. (taxable salary being ₹ 12,40,000 p.a. and ₹ 13,60,000 p.a. respectively) without any technical or professional qualification. Other incomes of Ram and Mrs. Ram are ₹ 70,000 and ₹ 1,00,000 respectively. Find out the net income of Ram and Mrs. Ram for the assessment year 2026-27.

### Solution :

When both husband and wife have substantial interest in a concern & both are drawing remuneration from that concern without possessing any specific qualification, then remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is higher. In the given case, Since Mrs. Ram has higher income therefore salary of Mr. Ram will be clubbed in hands of Mrs. Ram.

Computation of gross total income of Ram and Mrs. Ram for the A.Y. 2026-27

| Particulars                              | Mr. Ram       | Mrs. Ram         |
|------------------------------------------|---------------|------------------|
| Salaries                                 | 12,40,000     | 13,60,000        |
| Clubbing of income as per sec. 64(1)(ii) | (12,40,000)   | 12,40,000        |
| Income from other sources                | 70,000        | 1,00,000         |
| <b>Gross Total Income</b>                | <b>70,000</b> | <b>27,00,000</b> |

### Illustration 3:

Mr. & Mrs. Om both are working in A Ltd. without possessing any technical or professional qualification. From the following details compute their income for the A.Y. 2026-27:

| Particulars                | Mr. Om      | Mrs. Om     |
|----------------------------|-------------|-------------|
| Taxable Salary from A Ltd. | ₹ 12,20,000 | ₹ 17,00,000 |
| Other income               | ₹ 50,000    | ₹ 80,000    |
| Share of holdings: Case 1  | 15%         | 6%          |
| Case 2                     | 3%          | 17%         |
| Case 3                     | 18%         | 1%          |

**Solution :**

Computation of gross total income of Mr. Om and Mrs. Om for the A.Y. 2026-27

| Particulars               | Case 1        |                  | Case 2        |                  | Case 3           |                 |
|---------------------------|---------------|------------------|---------------|------------------|------------------|-----------------|
|                           | Mr. Om        | Mrs. Om          | Mr. Om        | Mrs. Om          | Mr. Om           | Mrs. Om         |
| Taxable Salary of Mr. Om  |               | 12,20,000        |               | 12,20,000        | 12,20,000        |                 |
| Taxable Salary of Mrs. Om |               | 1,70,000         |               | 1,70,000         |                  | 1,70,000        |
| Other Income              | 50,000        | 80,000           | 50,000        | 80,000           | 50,000           | 80,000          |
| <b>Gross Total income</b> | <b>50,000</b> | <b>14,70,000</b> | <b>50,000</b> | <b>14,70,000</b> | <b>12,70,000</b> | <b>2,50,000</b> |

**Notes**

1. Substantial interest means assessee beneficially holds (whether individually or partly by assessee and partly by one or more of his relatives) not less than 20% of equity shares of company.
2. When both, husband and wife, have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification, remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is higher.
3. In case 3, since none of the spouse has substantial interest in the concern hence provision of sec. 64(1)(ii) shall not be attracted.

**Illustration 4:**

Mr. & Mrs. X working in A Ltd. without possessing any qualification. From the following details compute their income for the A.Y. 2026-27:

| Particulars                | Mr. X       | Mrs. X     |
|----------------------------|-------------|------------|
| Share of holdings          | 15%         | 6%         |
| Taxable salary from A Ltd. | ₹ 11,20,000 | ₹ 1,60,000 |
| Case 1) Other income       | ₹ 50,000    | ₹ 80,000   |
| Case 2) Other income       | ₹ 90,000    | ₹ 65,000   |
| Case 3) Other income       | Nil         | Nil        |

**Solution :**

Computation of gross total income of Mr. X and Mrs. X for the A.Y. 2026-27

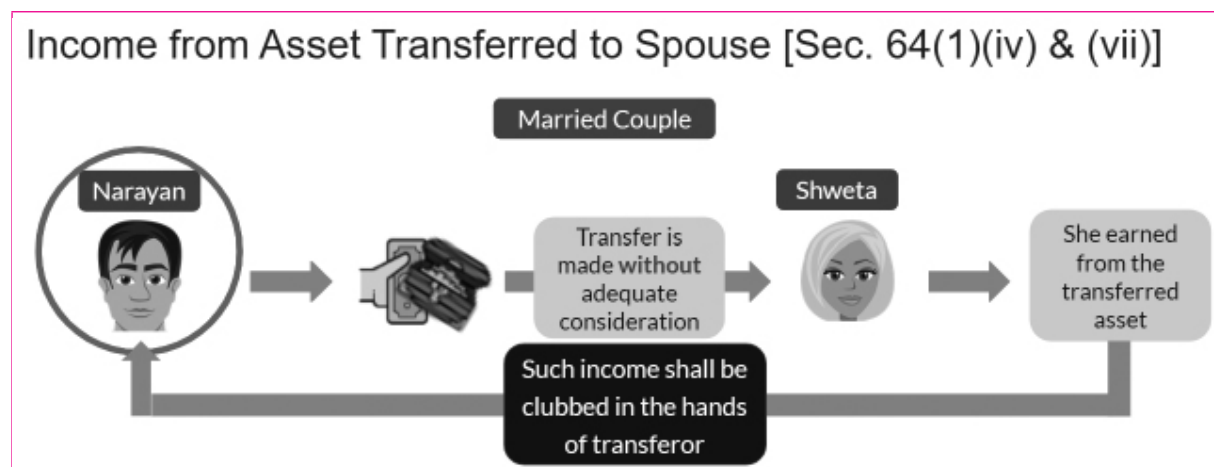
| Particulars               | Case 1        |                  | Case 2           |               | Case 3           |                 |
|---------------------------|---------------|------------------|------------------|---------------|------------------|-----------------|
|                           | Mr. X         | Mrs. X           | Mr. X            | Mrs. X        | Mr. X            | Mrs. X          |
| Salary of Mr. X           | -             | 11,20,000        | 11,20,000        | -             | 11,20,000        | -               |
| Salary of Mrs. X          | -             | 1,60,000         | 1,60,000         | -             | -                | 1,60,000        |
| Other Income              | 50,000        | 80,000           | 90,000           | 65,000        | Nil              | Nil             |
| <b>Gross Total income</b> | <b>50,000</b> | <b>13,60,000</b> | <b>13,70,000</b> | <b>65,000</b> | <b>11,20,000</b> | <b>1,60,000</b> |

**Notes**

1. When both, husband and wife, have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification, remuneration from such concern will be included in the total income of husband or wife, whose total income excluding such remuneration, is higher.
2. In case 3, when both husband and wife have substantial interest in a concern and both are drawing remuneration from that concern without possessing any specific qualification and both are not having any other income apart from said remuneration, then clubbing shall not be made.

**3.1.6 Income from asset transferred to spouse [Sec. 64(1)(iv) & (vii)]****Asset transferred to Spouse [Sec. 64(1)(iv)]**

In computing the total income of an individual [subject to the provisions of sec. 27(i)], income arising from assets transferred to spouse without adequate consideration, shall be included in the income of that individual.



**Taxpoint:** In the following cases clubbing provision shall not be attracted on transfer of property to spouse -

- ◉ When such transfer is for adequate consideration; or
- ◉ The transfer is under an agreement to live apart; or
- ◉ Where the asset transferred is house property (as such transfer will be governed by Sec. 27)

**Notes****Marital relationship**

The relationship of husband and wife must subsist on the date of transfer of assets as well as on the date of accrual of income i.e. no clubbing provision shall be attracted if -

- transfer is made before marriage; or
- on the date of accrual of income, transferee is not the spouse of transferor.

|                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pin money</b>                                                             | Income from assets acquired by spouse out of pin money or household savings is not subject to clubbing                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Sec. 27(i) -vs.- Sec. 64(1)(iv) in case of transfer of house property</b> | <p>Where such transferred asset is a house property then the same will not be covered by sec. 64(1)(iv) but governed by sec. 27(i) [Deemed owner in case of Income from house property]. In this regard following instances are notable -</p> <ul style="list-style-type: none"> <li>➤ Mr. X transferred his house property (worth ₹ 15,00,000) in favour of Mrs. X out of love and affection without any consideration. Income generated from such property is ₹ 1,00,000 shall be taxable in the hands of Mr. X by virtue of sec. 27(i) without attracting provision of sec. 64(1)(iv).</li> <li>➤ Capital gain generated on transfer of such property shall be first computed in the hands of Mrs. X and then shall be clubbed in hands of Mr. X by virtue of sec. 64(1)(iv).</li> <li>➤ Mr. X gifted Mrs. X ₹ 15,00,000 out of love and affection. Mrs. X purchased a house property from such gifted money. Income generated from such house property is ₹ 1,00,000. Such income shall be first computed in hands of Mrs. X and then shall be clubbed in the hands of Mr. X by virtue of sec. 64(1)(iv).</li> </ul> |

#### Notes applicable to Sec. 64(1)(iv), (vi), (vii) & (viii)

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Nature of consideration</b>  | Consideration must be measurable in terms of money. Therefore, natural love and affection, spiritual or religious benefit cannot be treated as adequate consideration.                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Inadequate consideration</b> | <p>If property has been transferred to spouse or son's wife directly or indirectly for a consideration which is inadequate, then only the part of income which is referable to transfer for inadequate consideration, shall be clubbed.</p> <p>Mr. X transferred 1000 10% debentures of ₹ 100 each (Market value ₹ 100 each) to Mrs. X for ₹ 25,000. Income earned at the end of the year on such debenture ₹ 10,000.</p> <p>Treatment: ₹ 2,500 (i.e. ₹10,000 * ₹25,000 / ₹ 1,00,000) shall be taxable in hands of Mrs. X and remaining ₹ 7,500 (i.e. ₹ 10,000 – ₹ 2,500) shall be clubbed in the hands of Mr. X.</p> |
| <b>Form of Asset</b>            | <p>The asset so transferred need not remain in its original form.</p> <p>Mr. X transferred to Mrs. X securities worth ₹ 5,00,000. Mrs. X exchanged such securities for a house property. Income from such property shall also be liable to clubbing u/s 64(1)(iv).</p>                                                                                                                                                                                                                                                                                                                                                |
| <b>Accretion of asset</b>       | <p>Income arising to the transferee from the accretion of such property shall not be clubbed in the total income of the transferor.</p> <p>Mr. X transferred to Mrs. X shares of a foreign company worth ₹ 5,00,000. Mrs. X received bonus share on such shares. Dividend on original shares shall be clubbed in the hands of Mr. X but dividend on bonus shares shall not be clubbed and taxable in the hands of Mrs. X.</p>                                                                                                                                                                                         |
| <b>Capital gain</b>             | Profit on the sale of property, which is gifted to the spouse or son's wife, shall be clubbed in hands of the transferor.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

|                                        |                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Income on income</b>                | Income arising to the transferee from the accumulated income of such property is not to be clubbed.                                                                                                                      | Mr. X transferred to Mrs. X shares worth ₹ 5,00,000. Mrs. X sold such shares for ₹ 6,00,000 (i.e. earned a profit of ₹ 1,00,000) and acquired 12% Debentures of another company.<br><br>Capital gain of ₹ 1,00,000 and interest on debenture of ₹ 60,000 (i.e. 12% of ₹ 5,00,000) shall be clubbed in hands of Mr. X u/s 64(1)(iv). However, interest on debenture of ₹ 12000 (i.e. 12% of ₹ 1,00,000) shall not be clubbed and taxable in the hands of Mrs. X. |
| <b>Asset transferred under a trust</b> | Where an asset is transferred under a trust for the benefit of spouse or son's wife the provision of sec. 64(1) shall be applicable. It does not make any difference even if the assessee appoints himself as a trustee. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Treatment after death</b>           | After the death of either husband or wife clubbing provision of Sec. 64(1)(iv) will not be attracted, as a widow or widower is not a spouse.                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Cross Gift</b>                      | If the Assessing Officer is convinced that some gifts are inter-related with each other in a circuitous way, and there is an intention to evade provisions of sec. 64(1), he may apply the provisions of sec. 64(1).     | Mr. A gifted his property to Mrs. X and Mr. X gifted equivalent another property to Mrs. A.<br><br>Treatment In such case it is apparent that such transactions are interrelated and are parts of the same transaction. In such case income from such property of Mrs. A and Mrs. X shall be clubbed in hands of Mr. A and Mr. X respectively.                                                                                                                  |
| <b>Asset invested in the business</b>  | If assets so transferred, is invested in business then tax treatment shall be as under:                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                                        | <b>Type of business</b>                                                                                                                                                                                                  | <b>Income to be clubbed</b>                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|                                        | Proprietary                                                                                                                                                                                                              | Income of such business * Value of such assets as on the 1 <sup>st</sup> day of the P.Y.<br>Total investment in the business by the transferee as on the same day                                                                                                                                                                                                                                                                                               |
|                                        | Partnership                                                                                                                                                                                                              | Interest on capital * Value of such assets as on the 1 <sup>st</sup> day of the P.Y.<br>Total investment in the firm by the transferee as on the same day                                                                                                                                                                                                                                                                                                       |
|                                        | Taxpoint: Profit from the firm shall not be clubbed as it is exempted u/s 10(2A).                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

#### Illustration 5:

Mr. X gifted 1,000 shares of a non-domestic company worth ₹ 6,00,000 (acquired on 15/3/2025) to Mrs. X out of natural love and affection as on 15/4/2025.

On 31/1/2026, Mrs. X received dividend ₹ 60,000 on such shares in India.

On 1/2/2026, Mrs. X sold such shares for ₹ 10,00,000 and received consideration in India.

Show tax treatment, if on 1/2/2026, Mrs. X invested ₹ 10,60,000 in -

**Case A** A house property from which rent accrued in the previous year 2025-26 is ₹ 53,000.

**Case B** A newly formed partnership firm and contributed initial capital. Interest received (taxable portion) on such contribution ₹ 13,250 and share of profit ₹ 20,000.

**Case C** A newly started proprietorship business & contributed capital, profit accrued for the year is ₹ 42,400.

**Solution :**

Statement showing treatment of provision of sec. 64(1)(iv) in hands of Mr. X for the A.Y. 2026-27

| Particulars                                      | Case A          |               | Case B          |              | Case C          |               |
|--------------------------------------------------|-----------------|---------------|-----------------|--------------|-----------------|---------------|
|                                                  | Mr. X           | Mrs. X        | Mr. X           | Mrs. X       | Mr. X           | Mrs. X        |
| Dividend from non-domestic company               | 60,000          | -             | 60,000          | -            | 60,000          | -             |
| Short term Capital gain (Note 1)                 | 4,00,000        | -             | 4,00,000        | -            | 4,00,000        | -             |
| Income from house property (Note 2)              | 21,000          | 16,100        | -               | -            | -               | -             |
| Interest on capital in partnership firm (Note 3) | -               | -             | 7,500           | 5,750        | -               | -             |
| Share of profit in firm [Exempted u/s 10(2A)]    | -               | -             | -               | -            | -               | -             |
| Profit from proprietorship business (Note 3)     | -               | -             | -               | -            | 24,000          | 18,400        |
| <b>Total</b>                                     | <b>4,81,000</b> | <b>16,100</b> | <b>4,67,500</b> | <b>5,750</b> | <b>4,84,000</b> | <b>18,400</b> |

**Note 1:** Computation of capital gain and its treatment

| Particulars                                                                                                                                                           | Amount          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Sale consideration                                                                                                                                                    | 10,00,000       |
| Less: Cost of acquisition                                                                                                                                             | 6,00,000        |
| <b>Short term capital gain</b>                                                                                                                                        | <b>4,00,000</b> |
| Treatment: Since the shares have been gifted by Mr. X to Mrs. X the provision of sec. 64(1)(iv) shall be applicable and such gain shall be taxable in hands of Mr. X. |                 |

**Note 2:** Computation of Income from house property of Mrs. X for the A.Y. 2026-27

| Particulars                                    | Amount        |
|------------------------------------------------|---------------|
| Gross Annual Value                             | 53,000        |
| Less: Municipal tax                            | Nil           |
| Net Annual value                               | 53,000        |
| Less: Deduction u/s 24(a) [being 30% ₹ 53,000] | 15,900        |
| <b>Income from house property</b>              | <b>37,100</b> |

**Note 3:** Statement showing the distribution of income between Mr. X & Mrs. X

|                                                                                                                                                                                               |                                            |                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
| Since the new investment has been acquired out of -                                                                                                                                           |                                            |                                            |
| Gifted money (equivalent)                                                                                                                                                                     | ₹ 6,00,000                                 |                                            |
| Capital gain                                                                                                                                                                                  | ₹ 4,00,000                                 |                                            |
| Dividend income                                                                                                                                                                               | ₹ 60,000                                   |                                            |
| Hence, income shall be clubbed in hands of Mr. X to the extent of 600/1060 and in hands of Mrs. X 460/1060                                                                                    |                                            |                                            |
| <b>Taxpoint:</b> Income arising to the transferee from the accretion of such property or from accumulated income of such property is not to be clubbed in the total income of the transferor. |                                            |                                            |
| Case                                                                                                                                                                                          | In hands of Mr. X                          | In hands of Mrs. X                         |
| A                                                                                                                                                                                             | $(₹ 37,100 \times 600) / 1,060 = ₹ 21,000$ | $(₹ 37,100 \times 460) / 1,060 = ₹ 16,100$ |
| B                                                                                                                                                                                             | $(₹ 13,250 \times 600) / 1,060 = ₹ 7,500$  | $(₹ 13,250 \times 460) / 1,060 = ₹ 5,750$  |
| C                                                                                                                                                                                             | $(₹ 42,400 \times 600) / 1,060 = ₹ 24,000$ | $(₹ 42,400 \times 460) / 1,060 = ₹ 18,400$ |

Note: In case of new source of income, previous year starts from the date when such new source of income comes into existence.

### Assets transferred to AOP or other person for the benefit of spouse [Sec. 64(1)(vii)]

In case an asset is transferred to other person or an association of persons, otherwise than for adequate consideration, for immediate or deferred benefit of spouse, then income on asset so transferred shall be clubbed in the hands of the transferor (to the extent income from such asset is for the immediate or deferred benefit of his or her spouse).

### Income from assets transferred to son's wife [Sec. 64(1)(vi) & (viii)]

The provisions are enumerated here-in-below:

|                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Transfer to son's wife [Sec. 64(1)(vi)]                                          | In computing the total income of an individual, income arising (directly or indirectly) from assets transferred to son's wife (after 31.5.1973), without adequate consideration, shall be included in income of that individual. Aforesaid relationship must subsist on the date of transfer of assets as well as on the date of accrual of income.                                                                 |
| Transfer to AOP or other person for the benefit of son's wife [Sec. 64(1)(viii)] | In case an asset is transferred to other person or an association of persons (after 31.5.1973), otherwise than for adequate consideration, for immediate or deferred benefit of son's wife, then income on asset so transferred shall be clubbed in the hands of the transferor (to the extent income from such asset is for the immediate or deferred benefit of son's wife). See notes given below sec. 64(1)(iv) |

### 3.1.7 Income of minor child [Sec. 64(1A)]

Income of a minor child shall be clubbed with income of the parent whose total income (excluding this income) is **higher**.

#### Exceptions

The above clubbing provision shall not apply in the following cases -

1. The income arises or accrues to the minor child due to any manual work done by him; or
2. The income arises or accrues to the minor child due to his skill, talent, specialised knowledge or experience; or
3. The minor child is suffering from any disability of nature specified u/s 80U.

#### Exceptions

- 1 Income incurred on account of manual work by the minor child
- 2 Income earned by the minor child from his skill
- 3 Income derived by the minor child from his knowledge
- 4 Income generated from minor child's talent
- 5 Income generated by the minor child from his experience
- 6 Income of the minor child suffering from disability specified u/s 80U

No Clubbing

💡 Be careful, there is no exception for minor married daughter like an exception to sec. 27 (Deemed Owner)

### Exemption [Sec. 10(32)] [Available only under old regime]

In case income of a minor child is clubbed in hands of the parent as per provision of sec. 64(1A), the assessee (parent) can claim exemption of an amount being minimum of the following -

- a. ₹ 1,500; or
- b. Income so clubbed

**Taxpoint:** Such exemption shall be available for each child (irrespective of the number of children) whose income is so clubbed.

### When marriage does not subsist between parents

In case marital relationship does not subsist at the time of accrual of income to the minor child, income of minor child shall be clubbed with income of that parent who maintains the minor child during the previous year.

**Taxpoint:** Income of the minor child shall be clubbed in hands of parent in the following manner -

| Relation between parents       | Tax treatment                                                                     |
|--------------------------------|-----------------------------------------------------------------------------------|
| When marriage subsists         | With the income of that parent whose total income excluding this income is higher |
| When marriage does not subsist | With the income of that parent who maintains the minor child in the previous year |

### Notes

|                                                       |                                                                                                                                                                                                                                                                                                                                                              |                                                                                        |
|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| <b>Clubbing in subsequent year(s)</b>                 | Where any such income is once clubbed with the total income of either parent, then any such income arising in any subsequent years shall not be clubbed with the total income of the other parent, unless the Assessing Officer is satisfied. However, the Assessing Officer will do so only after giving an opportunity of being heard to the other spouse. |                                                                                        |
| <b>Child</b>                                          | Child in relation to an individual includes a stepchild & adopted child but does not include a grandchild [Sec. 2(15B)]                                                                                                                                                                                                                                      |                                                                                        |
| <b>Income of married daughter</b>                     | Though sec. 27(i) [Deemed owner of house property] specifically excludes married daughter but sec. 64(1A) does not have this exception, hence income arising to minor married daughter shall be clubbed in the hands of parent.                                                                                                                              |                                                                                        |
| <b>When neither of the parent is alive</b>            | Income of minor child cannot be added with the income of the guardian if the guardian is not the parent of the minor.                                                                                                                                                                                                                                        |                                                                                        |
| <b>Capital gain</b>                                   | Profit on sale of the property, which is gifted to minor child, shall be clubbed in hands of parent as per the provision of sec. 64(1A)                                                                                                                                                                                                                      |                                                                                        |
| <b>Income of the year when minor attains majority</b> | Income of that year shall be treated as under:                                                                                                                                                                                                                                                                                                               |                                                                                        |
|                                                       | <b>Income arose to the period</b>                                                                                                                                                                                                                                                                                                                            | <b>Clubbing provision</b>                                                              |
|                                                       | When child does not attain age of majority                                                                                                                                                                                                                                                                                                                   | Such income shall be clubbed in hands of parent                                        |
|                                                       | When child attains the age of majority and afterwards                                                                                                                                                                                                                                                                                                        | Such income shall not be clubbed and taxable in hands of assessee himself (i.e. child) |

### Illustration 6:

Mr. & Mrs. Mantri have income under the head “Profits & gains of business or profession” of ₹ 13,00,000 and ₹ 14,00,000 respectively. They have 7 children. From the following details compute taxable income of Mr. and Mrs. Mantri for the A.Y. 2026-27 (old regime):

- 1<sup>st</sup> child (aged 26 years) is a cost accountant. His annual income from profession is ₹ 24,00,000. His income from house property for the P.Y. 2025-26 is ₹ 1,30,000. He has a son (4 years old) who has earned interest on fixed deposit of ₹ 5,000.

- 2<sup>nd</sup> child (aged 17 years being a married daughter) who is a stage singer, earned income of ₹ 1,00,000 during the P.Y. 2025-26. She earned interest on fixed deposit ₹ 8,000. Such fixed deposit has been made out of such singing income.
- 3<sup>rd</sup> child (aged 16 years) is suffering from disability specified u/s 80U (to the extent 55%) blind. He has received interest income of ₹ 40,000 for loan given to a private firm. He is dependent on Mrs. Mantri.
- 4<sup>th</sup> child (aged 14 years) has earned income of ₹ 45,000 during the P.Y. 2025-26 out of his physical and mental effort. Expenditure incurred to earn such income is ₹ 15,000. His loss from house property is ₹ 30,000.
- 5<sup>th</sup> child (aged 12 years) is a partner in a partnership firm from which he earned interest income (taxable) of ₹ 40,000 and share of profit of ₹ 35,000. Other two partner of the firm are Mr. & Mrs. Mantri.
- 6<sup>th</sup> child (aged 9 years) has 1,000 debentures of ₹ 100 each of a public sector company acquired through will of his Grand father. Interest income on such debenture is ₹ 10,000. Expenditure incurred to collect such interest is ₹ 200. Such debenture was sold and capital gain earned ₹ 25,000.
- 7<sup>th</sup> child (aged 7 years) has earned interest on fixed deposit ₹ 500.

**Solution :**

Computation of total income of Mr. and Mrs. Mantri for the A.Y. 2026-27

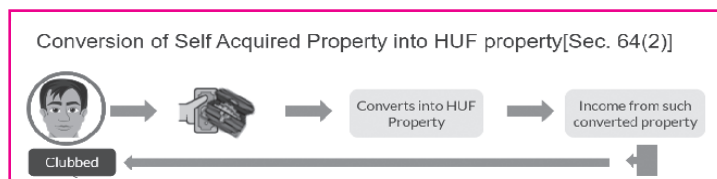
| Particulars                                                             | Mr. Mantri |           | Mrs. Mantri |                     |
|-------------------------------------------------------------------------|------------|-----------|-------------|---------------------|
|                                                                         | Details    | Amount    | Details     | Amount              |
| Income from house property                                              |            |           |             |                     |
| Income of 4 <sup>th</sup> Child: Loss from house property               |            |           |             | (30,000)            |
| Profits & gains of business or profession                               |            |           |             |                     |
| Business income                                                         |            | 13,00,000 | 14,00,000   |                     |
| Add: Income of 5 <sup>th</sup> Child                                    |            |           |             |                     |
| Interest from partnership firm                                          |            |           | 40,000      |                     |
| Share of profit [Exempt u/s 10(2A)]                                     |            |           | Nil         |                     |
| Less: Exemption u/s 10(32)                                              |            |           | (1,500)     | 14,38,500           |
| Capital gains                                                           |            |           |             |                     |
| Income of 6 <sup>th</sup> Child                                         |            |           |             |                     |
| Capital gain on transfer of debentures [#Deduction can be claimed once] |            |           |             | 25,000 <sup>#</sup> |
| Income from other sources                                               |            |           |             |                     |
| Income of 2 <sup>nd</sup> Child                                         |            |           |             |                     |
| Interest income                                                         |            |           | 8,000       |                     |
| Less: Exemption u/s 10(32)                                              |            |           | (1,500)     | 6,500               |
| Income of 6 <sup>th</sup> Child                                         |            |           |             |                     |
| Interest on debenture [₹ 10000 – ₹ 200]                                 |            |           | 9,800       |                     |
| Less: Exemption u/s 10(32)                                              |            |           | (1,500)     | 8,300               |
| Income of 7 <sup>th</sup> Child                                         |            |           |             |                     |
| Interest on Fixed Deposit                                               |            |           | 500         |                     |
| Less: Exemption u/s 10(32)                                              |            |           | (500)       | Nil                 |
| <b>Gross Total Income</b>                                               |            | 13,00,000 |             | 14,48,300           |
| Less: Deduction u/s 80DD                                                |            | Nil       |             | 75,000              |
| <b>Total Income</b>                                                     |            | 13,00,000 |             | 13,73,300           |

**Notes**

- Income of the first child shall not be clubbed with the income of Mrs. Mantri as he is a major. The income of grandchild (son of first child) will be clubbed with the income of his parent.
- The clubbing provision of sec. 64(1A) shall not apply where -
  - the income arises or accrues to the minor child due to any manual work done by him; or
  - the income arises or accrues to the minor child due to his skill, talent, specialised knowledge or experience; or
  - the minor child is suffering from any disability of nature as specified u/s 80U.
- Income shall be first computed head wise in the hands of recipient and then clubbing shall be carried out head wise.

### 3.1.8 Conversion of self acquired property into HUF Property [Sec. 64(2)]

#### Applicability



An individual, being a member of an HUF, has converted<sup>1</sup> a property<sup>2</sup> after 31/12/1969 (being self acquired asset of the individual) into property of HUF of which he is a member, otherwise than for adequate consideration.

#### Tax-Treatment

For the purpose of computation of total income of such individual for any assessment year commencing on or after 1/4/1971, the income derived from such converted property (property so converted or transferred by individual to HUF) or any part thereof shall be deemed to arise to the individual and not to the family.

Where the converted property has been the subject matter of partition (whether partial or total) amongst the members of the family, the income derived from such converted property as is received by the spouse shall be clubbed in the hands of transferor.

#### Taxpoint:

- Asset was originally self acquired property of the individual
- Such asset is transferred directly or indirectly to HUF hotch-pot for inadequate consideration.
- Treatment is as under -

| Case             | Income to be clubbed in hands of transferor                      |
|------------------|------------------------------------------------------------------|
| Before partition | The entire income from such property                             |
| After partition  | Income from the assets attributable to the spouse of transferor. |

<sup>1</sup> Such conversion can be made by: a) the act of impressing such separate property with the character of property belonging to the family; or b) throwing it into the common stock of the family.

<sup>2</sup> Property here includes any interest in property whether movable or immovable; the proceeds of sale thereof and any money or investment for the time being representing the proceeds of sale thereof; and where the property is converted into any other property by any method, such other property.

**Note:** Asset need not be in its original form.

**Illustration 7:**

Mr. Todi is a member of HUF. It consists of Mr. Todi, Mrs. Todi, Mr. Todi's major son (Mr. A) & Mr. Todi's minor son (B)

On 1/4/2024, Mr. Todi transferred his house property acquired through his personal income to the HUF without any consideration.

On 1/7/2025 value of the property for the P.Y. 2024-25 is ₹ 80,000 & that for the P.Y. 2025-26 is ₹ 1,00,000. State tax treatment for both the years.

**Solution :**

Computation of income from house property in the hands of Mr. Todi for the A.Y. 2025-26

| Particulars                                                                                                                                                                                                                                                                                         | Details    | Amount        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------|
| Net Annual Value (NAV)                                                                                                                                                                                                                                                                              |            | 80,000        |
| Less: Standard deduction u/s 24(a)                                                                                                                                                                                                                                                                  | 30% of NAV | 24,000        |
| <b>Income from house property</b>                                                                                                                                                                                                                                                                   |            | <b>56,000</b> |
| Tax treatment for the A.Y.2025-26: Since Mr. Todi transferred his house property acquired out of personal income to his HUF without adequate consideration, therefore income generated from such house property i.e. ₹ 56,000 shall be clubbed in hands of Mr. Todi as per provision of sec. 64(2). |            |               |

**Tax treatment for the A.Y. 2026-27:** In the previous year 2025-26, partition took place on 1/7/2025; hence the treatment shall be as under:

| Particulars                                                                                                                                                                                                                                                                                                                                           | Details    | Amount   |        |          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------|--------|----------|
| Net Annual Value (NAV)                                                                                                                                                                                                                                                                                                                                |            | 1,00,000 |        |          |
| Less: Standard deduction u/s 24(a)                                                                                                                                                                                                                                                                                                                    | 30% of NAV | 30,000   |        |          |
| Income from house property                                                                                                                                                                                                                                                                                                                            |            | 70,000   |        |          |
| Income earned till partition from April' 2025 to June' 2025 i.e. ₹ 17,500 [(₹ 70,000/12) × 3] shall be clubbed in hands of Mr. Todi and income earned after partition i.e. ₹ 52,500 [(₹ 70,000/12) × 9] shall be divided among the family members. However, as per provision of sec. 64(2) income of Mrs. Todi shall be clubbed in hands of Mr. Todi. |            |          |        |          |
| Particulars                                                                                                                                                                                                                                                                                                                                           | Mr.Todi    | Mrs.Todi | Mr. A  | B        |
| Income from house property before partition clubbed in hands of Mr. Todi as per sec. 64(2)                                                                                                                                                                                                                                                            | 17,500     | -        | -      | -        |
| Share of Income from house property ₹ 52,500/4                                                                                                                                                                                                                                                                                                        | 13,125     | 13,125   | 13,125 | 13,125   |
| Income clubbed as per provision of sec. 64(2)                                                                                                                                                                                                                                                                                                         | + 13,125   | (13,125) | -      | -        |
| Income clubbed as per provision of sec. 64(1A) <sup>1</sup>                                                                                                                                                                                                                                                                                           | + 13,125   | -        | -      | (13,125) |
| Less: Exemption u/s 10(32)                                                                                                                                                                                                                                                                                                                            | (1,500)    | -        | -      | -        |
| Total income from house property                                                                                                                                                                                                                                                                                                                      | 55,375     | Nil      | 13,125 | Nil      |

<sup>1</sup> It is assumed that Mrs. Todi has no other income.

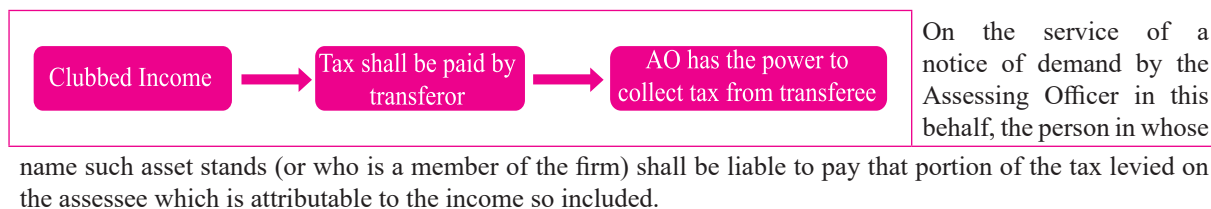
**3.1.9 Liability of the transferee [Sec. 65]****Applicability**

Where, by reason of the -

- ⊙ provisions contained in this Chapter; or
- ⊙ provisions contained in sec. 27(i)

the income from any asset (or from membership in a firm) of a person other than the assessee, is included in the total income of the assessee.

## Impact



## Notes

- (a) Such liability cannot exceed the value of assets so transferred.
- (b) Where any such asset is held jointly by more than one person, they shall be jointly and severally liable to pay the tax which is attributable to the income from the assets so included.

**Taxpoint:** After application of provisions of clubbing (on transfer of property without adequate consideration as discussed above in several sections), income is taxable and tax liability arises in the hands of the transferor. But sec. 65 empowers the income tax authorities to serve demand notice (in respect of tax on clubbed income) upon transferee.

## 3.1.10 Important general notes

|                                                                          |                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>TDS</b>                                                               | Where an income is includible u/s 64 and tax has been deducted at source from such income, the credit of tax deducted at source shall be given to the person in whose hands the income is taxable [Sec. 199].                                                                                                                                                 |
| <b>Advance Tax</b>                                                       | The advance tax paid by the income earner (say spouse or minor child) with reference to such income is not eligible for adjustment towards the tax liability of the individual in whose hands such income has been clubbed. In such case, it is open to the payer of advance tax (i.e. spouse or the minor child) to apply for refund of advance tax so paid. |
| <b>Mode of Clubbing cannot be changed for the benefit of the revenue</b> | Unless there are compelling circumstances the modes of clubbing cannot be changed by the ITO. Merely, for the benefit of the revenue such mode cannot be changed.                                                                                                                                                                                             |

## Illustration 8:

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

Her husband, Shri Vikash Mundhra, gifted ₹ 2,00,000, on 10.04.2024, which amount Smt. Sonam invested in her business on the same date. Smt. Sonam earned profits from her proprietary business for the financial years 2024-25, ₹ 1,50,000 and financial year 2025-26 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Sonam's husband for the A.Y. 2026-27.

## Solution :

Where asset transferred to spouse is invested in the proprietary business then proportionate share being calculated in following manner shall be clubbed in the hands of transferor:

$$\frac{\text{Income of such business} * \text{Value of such assets as on the 1}^{\text{st}} \text{ day of the P.Y.}}{\text{Total investment in the business by the transferee as on the 1}^{\text{st}} \text{ day of the P.Y.}}$$

$$= ₹ 3,90,000 * ₹ 2,00,000 / ₹ 6,50,000^1 = ₹ 1,20,000$$

Hence, ₹ 1,20,000 shall be clubbed in the hands of husband of Smt. Sonam

<sup>1</sup> Computation of total investment in the business on 1-4-2025

| Particulars                                                                         | Amount            |
|-------------------------------------------------------------------------------------|-------------------|
| Investment as on 1-4-2024                                                           | ₹ 3,00,000        |
| Add: Investment of gift from husband on 10-4-2024                                   | ₹ 2,00,000        |
| Add: Net profit earned during the year 2024-25 (assumed reinvested in the business) | ₹ 1,50,000        |
| <b>Total investment in the business as on 1-4-2025</b>                              | <b>₹ 6,50,000</b> |

Income arising from accretion to transferred asset shall not be liable to clubbing.

Assume, Net profit earned during the year 2024-25 is retained in the business.

Alternatively, one can assume that net profit earned during the year 2024-25 is withdrawn. In such case income to be clubbed shall be computed as under:

$$\frac{\text{Income of such business} * \text{Value of such assets as on the 1st day of the P.Y.}}{\text{Total investment in the business by the transferee as on the 1st day of the P.Y.}}$$

$$= ₹ 3,90,000 * ₹ 2,00,000 / ₹ 5,00,000 = ₹ 1,56,000$$

Hence, ₹ 1,56,000 shall be clubbed in the hands of husband of Smt. Sonam

<sup>1</sup> Computation of total investment in the business on 1-4-2025

| Particulars                                            | Amount            |
|--------------------------------------------------------|-------------------|
| Investment as on 1-4-2024                              | ₹ 3,00,000        |
| Add: Investment of gift from husband on 10-4-2024      | ₹ 2,00,000        |
| <b>Total investment in the business as on 1-4-2025</b> | <b>₹ 5,00,000</b> |

### Illustration 9:

Mr. Singh is a trader. Particulars of his income and those of the members of his family are given below. These incomes relate to the previous year ended 31<sup>st</sup> March, 2026:

| Particulars                                                                                                                                                         | Amount   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Income from business (Mr. Singh's)                                                                                                                                  | 8,90,000 |
| Salary (computed) derived from an educational institution by Mrs. Singh. She is the principal of the institution                                                    | 8,50,000 |
| Interest on company deposits derived by Master Deep Singh (minor son). These deposits were made in the name of Deep Singh by his father's father about 6 years ago. | 12,000   |
| Receipts from sale of paintings and drawings made by minor Dipali Singh (minor daughter of Mr. & Mrs. Singh and noted child artist)                                 | 60,000   |
| Income by way of lottery earnings by Master Dipindar Singh (minor son of Mr. Singh)                                                                                 | 6,000    |

Discuss whether the above will form part of the assessable income of any individual and also compute the assessable income of Mr. Singh (old regime).

**Solution :**

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

| Particulars                                     | Details | Amount    |            |                |
|-------------------------------------------------|---------|-----------|------------|----------------|
|                                                 |         | Mr. Singh | Mrs. Singh | Minor Daughter |
| Salaries                                        |         |           |            |                |
| Salary of Mrs. Singh                            |         |           | 8,50,000   |                |
| Profits and gains of business or profession     |         |           |            |                |
| Business income                                 |         | 8,90,000  |            |                |
| Sale of paintings & drawings (made by daughter) |         |           |            | 60,000         |
| Income from other sources                       |         |           |            |                |
| Interest income of 1 <sup>st</sup> minor son    | 12,000  |           |            |                |
| Less: Exemption u/s 10(32)                      | 1,500   | 10,500    |            |                |
| Lottery Income of 2 <sup>nd</sup> minor son     | 6,000   |           |            |                |
| Less: Exemption u/s 10(32)                      | 1,500   | 4,500     |            |                |
| <b>Gross Total Income</b>                       |         | 9,05,000  | 8,50,000   | 60,000         |
| Less: Deduction under Chapter VI A              |         | Nil       | Nil        | Nil            |
| <b>Total Income</b>                             |         | 9,05,000  | 8,50,000   | 60,000         |

**Illustration 10:**

Balu is the Karta of a HUF, whose members derive income as given below:

| Particulars                                                                                                      | Amount   |
|------------------------------------------------------------------------------------------------------------------|----------|
| Income from Balu's own business                                                                                  | 5,50,000 |
| Mrs. Balu a dermatologist (taxable salary)                                                                       | 5,80,000 |
| Minor son Deepak (earning interest on fixed deposits with ABC Ltd., which were gifted to him by his grandfather) | 15,000   |
| Minor daughter Priya gave a dance performance and received remuneration                                          | 1,00,000 |
| Deepak got winnings from lottery (gross)                                                                         | 2,00,000 |

Explain how the above will be taxed (old regime).

**Solution :**

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

| Particulars                              | Details | Balu     | Mrs. Balu | Priya    |
|------------------------------------------|---------|----------|-----------|----------|
| Salaries                                 |         |          |           |          |
| Salary of Mrs. Balu                      |         | -        | 5,80,000  | -        |
| Profits & gains of business & profession |         | 5,50,000 | -         | -        |
| Income from other sources                |         |          |           |          |
| Interest on fixed deposit                | 15,000  | -        | -         | -        |
| Less: Exemption u/s 10(32)               | 1,500   | -        | 13,500    | -        |
| Winning from lotteries                   |         | -        | 2,00,000  | -        |
| Remuneration from dance performance      |         | -        | -         | 1,00,000 |
| <b>Gross Total Income</b>                |         | 5,50,000 | 7,93,500  | 1,00,000 |
| Less: Deduction under Chapter VI A       |         | Nil      | Nil       | Nil      |
| <b>Total Income</b>                      |         | 5,50,000 | 7,93,500  | 1,00,000 |

Note: Interest income of minor son Deepak will be taxable in the hands of his parent and not in the hands of his grand father.

### Illustration 11:

Ram & Mrs. Ram submit the following particulars of their income relevant for the assessment year 2026-27:

1. Mrs. Ram receives a salary of ₹ 8,30,000 (computed) and taxable allowance of ₹ 22,500 from G Ltd. in which her father-in-law holds 25% of equity share capital and she herself holds 10% of equity capital.
2. Ram receives a salary of ₹ 8,11,340 (computed) from S Ltd., in which Mrs. Ram, her sisters and brother hold 21% of equity share capital.
3. Ram is a (10% share) partner in EFG, a partnership firm, which is engaged in the business identical to G Ltd. and receives ₹ 75,000 as salary and interest from the firm during the relevant previous year. None of the relatives of Ram has any interest in the firm.
4. Mrs. Ram is employed by the firm EFG on a salary of ₹ 9,000 p.a. (computed)
5. Interest of minor daughter of Ram from a partnership firm is ₹ 43,500
6. Mrs. Ram transferred ₹ 1,00,000 on 20-5-1973 and ₹ 70,000 on 15-6-1973 to her daughter-in-law, who invested the aforesaid fund in a partnership firm at 12% p.a. Out of interest income, her daughter-in-law has purchased debentures in an Indian companies and during the previous year she receives ₹ 2,000 as interest.

Find out taxable income (under old tax regime) of Mr. and Mrs. Ram on the following assumptions:

- a. That Ram is not a beneficial shareholder in G Ltd. throughout the previous year.
- b. That Ram holds 10 shares in G Ltd. only during 15 days of the previous year.
- c. Both has opted for old tax regime

### Solution :

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

| Particulars                                                    | Case a        |                  | Case b          |                 |
|----------------------------------------------------------------|---------------|------------------|-----------------|-----------------|
|                                                                | Mr. Ram       | Mrs. Ram         | Mr. Ram         | Mrs. Ram        |
| Salary from G Ltd. (computed)                                  |               | 8,52,500         | 8,52,500        |                 |
| Salary from S Ltd. (computed)                                  |               | 8,11,340         |                 | 8,11,340        |
| Business income (salary and interest from EFG)                 | 75,000        |                  | 75,000          |                 |
| Salary from EFG (computed)                                     |               | 9,000            |                 | 9,000           |
| Interest income of son's wife (int. on deb.) <sup>#</sup>      |               | 8,400            |                 | 8,400           |
| Income of minor daughter<br>(₹ 43,500 – ₹ 1,500) [sec. 10(32)] |               | 42,000           | 42,000          |                 |
| <b>Total Income</b>                                            | <b>75,000</b> | <b>17,23,240</b> | <b>9,69,500</b> | <b>8,28,740</b> |

<sup>#</sup>for transfer before 31-5-1973 clubbing is not applicable

# Set off and Carry Forward of Losses

## 3.2

### 3.2.1 Introduction

For computation of Gross Total Income (GTI), income from various sources is computed under the five heads of income.

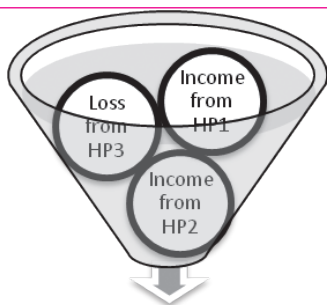
Intra Head Adjustment  
(Inter Source  
Adjustment)[Sec. 70]

Intra Head  
Adjustment  
[Sec, 71]

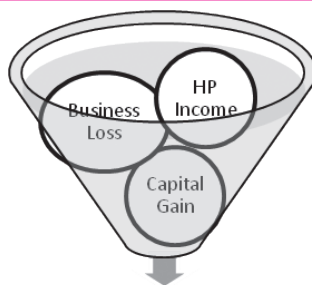
Carry  
Forward  
of Loss

If all the sources and heads are having positive income (i.e. profit) then the same can simply be added to compute GTI. However, if certain source(s) or certain head(s) have negative income (i.e. loss) then such loss needs to be adjusted with income of another source(s) or head(s). Set off means adjustment of loss from one source or one head against income from another source or another head.

If a negative income is not fully set off in the current year, then the unabsorbed loss shall be carried forward to subsequent years subject to certain restrictions and conditions [e.g. Income from other sources (other than losses from activity of owning and maintaining horse races) cannot be carried forward.]



Adjustment of Income and loss from all sources covered under one head of Income is called Intra-head Adjustment [Rules are prescribed in Sec. 70]



Adjustment of Income under one head and loss from another head of Income is called Inter-head Adjustment [Rules are prescribed in Sec. 71]

Loss which could not be adjusted shall be carried forward to next year subject to certain conditions and exceptions

### 3.2.2 Inter Source adjustment (Intra-Head adjustment) [Sec. 70]

#### Intra Head Adjustment Restriction [Sec. 70]

- Long Term Capital Loss
- Loss of a speculation business
- Loss from a business specified u/s 35AD
- Loss incurred in activity of owning and maintaining race horses

When the net result of any source of income is loss, it can be set off against income from any other source under the same head. Sec. 70 deals with the set off of loss from one source against income from another source under the same head of income, subject to the following exceptions –

- a. Long term capital loss can be set off only against long term capital gain [Sec. 70(3)]. However, short-term capital loss can be set off against short term as well as long term capital gains [Sec. 70(2)].

**Example :** Computation of Income under the head “Capital gains” of Mr. X for the A.Y. 2026-27

| Particulars                                  | Case A        | Case B        |
|----------------------------------------------|---------------|---------------|
| Short term capital gain                      | 80,000        | (90,000)      |
| Long term capital gain                       | (40,000)      | 1,20,000      |
| <b>Income under the head “Capital gains”</b> | <b>80,000</b> | <b>30,000</b> |

- b. **Loss of a speculation business** can be set off only against the profits of a speculation business, under the head ‘Profits and gains of business or profession’. However, loss from a non-speculative business can also be set off against income from speculation business [Sec. 73(1)]

**Example :** Computation of “Profits & gains of business or profession” of Mr. X for the A.Y. 2026-27

| Particulars                                          | Case A        | Case B          |
|------------------------------------------------------|---------------|-----------------|
| Speculation business                                 | 80,000        | (90,000)        |
| Non speculation business                             | (40,000)      | 1,00,000        |
| <b>Profits &amp; gains of business or profession</b> | <b>40,000</b> | <b>1,00,000</b> |

- c. **Loss of a specified business covered u/s 35AD** can be set off only against the profits of other specified business. However, loss from a non-specified business can be set off against income from specified business. [Deduction u/s 35AD is available only if assessee has opted out from sec. 115BAC]
- d. **Loss incurred in activity of owning and maintaining race horses** can be set off against income from such activity only [Sec. 74A]

**Example :** Computation of “Income from other sources” of Mr. X for the A.Y. 2026-27

| Particulars                                    | Case A        | Case B          |
|------------------------------------------------|---------------|-----------------|
| Activity of owning and maintaining race-horses | 80,000        | (90,000)        |
| Rent from land                                 | (20,000)      | 1,30,000        |
| <b>Income from other sources</b>               | <b>60,000</b> | <b>1,30,000</b> |

**Taxpoint:** Above provisions provides restriction on losses, however income from aforesaid source (i.e. a to d) is available for setting off any loss from any other source under the same head.

- e. **Loss from a source, income of which is exempt u/s 10**, cannot be set off against any income.
- f. **No loss can be set off against winning from lotteries**, crossword puzzles, races, card games, gambling or betting, etc. [Sec. 58(4) & 115BB]. Similarly, set off of losses is not permissible against unexplained income, investment, money, etc. chargeable u/s 68 / 69A / 69B / 69C / 69D [Sec. 115BBE]

**Example :** Computation of “Income from other sources” of Mr. X for the A.Y. 2026-27

| Particulars                                             | Case A        | Case B          |
|---------------------------------------------------------|---------------|-----------------|
| Activity of owning and maintaining race-horses          | 10,000        | (90,000)        |
| Lottery income                                          | 20,000        | 1,30,000        |
| Losses on letting out furniture not related to business | (40,000)      | (50,000)        |
| <b>Income from other sources</b>                        | <b>20,000</b> | <b>1,30,000</b> |

**Illustration 12:**

Compute gross total income of Mr. X in following cases -

| Source of income                                                        | Case I   | Case II  |
|-------------------------------------------------------------------------|----------|----------|
| Income from house property (A)                                          | 30,000   | 40,000   |
| Income from house property (B)                                          | (10,000) | (25,000) |
| Speculation income                                                      | 80,000   | (70,000) |
| Business income                                                         | (30,000) | 50,000   |
| Income from activity of owning and maintaining race-horses business (A) | (50,000) | 10,000   |
| Income from activity of owning and maintaining race-horses business (B) | 20,000   | (6,000)  |
| Income from agricultural business                                       | (25,000) | 10,000   |
| Short term capital gain (transaction A)                                 | 30,000   | (20,000) |
| Short term capital gain (transaction B)                                 | (10,000) | 5,000    |
| Long term capital gain (transaction A)                                  | (30,000) | 45,000   |
| Long term capital gain (transaction B)                                  | 10,000   | (2,000)  |
| Income from lottery                                                     | 3,40,000 | -        |
| Income from horse races                                                 | 10,000   | 25,000   |
| Income on card games                                                    | (5,000)  | (3,000)  |
| Interest on securities                                                  | 20,000   | 10,000   |

**Solution :**

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

| Particulars                                        | Case I   |                  | Case II |                  |
|----------------------------------------------------|----------|------------------|---------|------------------|
|                                                    | Details  | Amount           | Details | Amount           |
| Income from House Property                         |          |                  |         |                  |
| House Property A                                   | 30,000   |                  | 40000   |                  |
| House Property B                                   | (10,000) | 20,000           | (25000) | 15,000           |
| Profits & Gains of Business or Profession          |          |                  |         |                  |
| Speculation income                                 | 80,000   |                  | (70000) | Nil <sup>3</sup> |
| Other business                                     | (30,000) | 50,000           |         | 50,000           |
| Income from agricultural business (Exempted)       | Nil      |                  |         | Nil              |
| Capital Gains                                      |          |                  |         |                  |
| Short term capital gain                            |          |                  |         |                  |
| Transaction A                                      | 30,000   |                  | (20000) |                  |
| Transaction B                                      | (10,000) | 20,000           | 5000    |                  |
| Long term capital gain                             |          |                  |         |                  |
| Transaction A                                      | (30,000) |                  | 45000   |                  |
| Transaction B                                      | 10,000   | Nil <sup>2</sup> | (2000)  | 28,000           |
| Income from other sources                          |          |                  |         |                  |
| Casual income                                      |          |                  |         |                  |
| Income from lottery                                | 3,40,000 |                  | -       |                  |
| Income from horse races                            | 10,000   |                  | 25000   |                  |
| Income on card games (losses not to be considered) | Nil      | 3,50,000         | Nil     | 25,000           |

| Particulars                                                          | Case I   |                  | Case II |                 |
|----------------------------------------------------------------------|----------|------------------|---------|-----------------|
|                                                                      | Details  | Amount           | Details | Amount          |
| Income from activity of owning & maintaining race-horses             |          |                  |         |                 |
| Business (A)                                                         | (50,000) |                  | 10000   |                 |
| Business (B)                                                         | 20,000   | Nil <sup>1</sup> | (6000)  | 4,000           |
| Other income                                                         |          |                  |         |                 |
| Interest on securities                                               |          | 20,000           |         | 10,000          |
| <b>Gross Total Income</b>                                            |          | <b>4,60,000</b>  |         | <b>1,32,000</b> |
| <b>Losses to be carried forward</b>                                  |          |                  |         |                 |
| <sup>1</sup> . Loss from activity of owning & maintaining race horse |          | (30,000)         |         | -               |
| <sup>2</sup> . Long term capital loss                                |          | (20,000)         |         | -               |
| <sup>3</sup> . Speculation loss                                      |          | -                |         | (70,000)        |

### 3.2.3 Inter head adjustment [Sec. 71]

#### Inter Head Adjustment Restriction [Sec. 71]

- Loss under the head Capital Gains
- Loss of a speculation business
- Loss from a business specified u/s 35AD
- Loss incurred in activity of owning and maintaining race horses
- No adjustment of business or professional loss with salary
- Max. loss of ₹ 2,00,000 u/h IFHP can be adjusted with other heads of income

Where in respect of any assessment year, the net result of any head of income is a loss, the same can be set off against the income under any other heads for the same assessment year, subject to the following exceptions:

- Capital gains:** Loss under the head 'Capital gains' cannot be set off against income under any other head. However, loss under any other head, e.g. business loss, shall be allowed to be set off against income under the head 'Capital gains'

**Example :** Computation of "Gross total income" of Mr. X for the A.Y. 2026-27

| Particulars                | Case A     | Case B          |
|----------------------------|------------|-----------------|
| Long term capital gain     | 80,000     | (90,000)        |
| Short term capital gain    | (60,000)   | (30,000)        |
| Income from house property | (20,000)   | 1,30,000        |
| <b>Gross total income</b>  | <b>Nil</b> | <b>1,30,000</b> |

- Loss of a speculation business:** Loss under the head 'Profits and gains of business or profession' due to speculation business cannot be set off against any other income except profits of speculation business. However, loss under any other head, e.g. loss from house property, shall be allowed to be set off against income of a speculation business.
- Loss of a specified business covered u/s 35AD\*** cannot be set off against income taxable under other head. However, loss from other head can be set off against income from specified business.
- Loss from activity of owning and maintaining race-horses:** Loss under the head 'Income from other sources' due to activity of owning and maintaining race-horses cannot be set off against any other income except profit from activity of owning and maintaining race-horses [Sec. 74A]. However, loss under any other head, e.g. business loss, shall be allowed to be set off against income from activity of owning and maintaining race-horses.

**Taxpoint:** Above provisions provides restriction on losses, however income from aforesaid source (i.e. a to d) is available for setting off any loss from any other head of income.

- e. **Loss under the head ‘Income from house property’:** Loss in excess of ₹ 2,00,000 under the head ‘Income from house property’ cannot be set off with income under other heads of income.

However, if assessee is under default tax regime, loss under the head ‘Income from House Property’ cannot be adjusted with any income under other heads.

**Example :** Computation of “Gross total income” of Ms. M for the A.Y. 2026-27, if she has opted for the old tax regime

| Particulars                                | Case A          | Case B        |
|--------------------------------------------|-----------------|---------------|
| Profit and gains of business or profession | 2,80,000        | 2,80,000      |
| Income from house property                 | (20,000)        | (2,30,000)    |
| <b>Gross total income</b>                  | <b>2,60,000</b> | <b>80,000</b> |

**Example:** Computation of “Gross total income” of Ms. L for the A.Y. 2026-27, if she is paying tax under default tax regime

| Particulars                                | Case A          | Case B          |
|--------------------------------------------|-----------------|-----------------|
| Profit and gains of business or profession | 2,80,000        | 2,80,000        |
| Income from house property                 | (20,000)        | (2,30,000)      |
| <b>Gross total income</b>                  | <b>2,80,000</b> | <b>2,80,000</b> |

- f. **Loss under the head Profits and Gains of Business or Profession:** Loss under the head “Profits and gains of business or profession” cannot be set off from income under the head “Salaries”.
- g. **Loss from a source, income of which is exempt u/s 10:** Such loss cannot be set off against any taxable income.
- h. **Income from winning from lotteries, etc.:** Any loss cannot be set off against winning from lotteries, crossword puzzles, races, card games, gambling, betting, etc. [Sec. 58(4) & 115BB]. Similarly, set off of losses is not permissible against unexplained income, investment, money, etc. chargeable u/s 68 / 69A / 69B / 69C / 69D [Sec. 115BBE]

**Example :** Computation of “Gross total income” of Mr. X for the A.Y. 2026-27

| Particulars                                 | Case A          | Case B          |
|---------------------------------------------|-----------------|-----------------|
| Salaries                                    | 1,20,000        | 1,20,000        |
| Profits and gains of business or profession | (50,000)        | (30,000)        |
| Income from house property                  | 20,000          | (20,000)        |
| <b>Gross total income</b>                   | <b>1,20,000</b> | <b>1,00,000</b> |

### Illustration 13 :

Compute the gross total income (old regime) of Mr. Jacky from following data -

| Source of income                                           | Amount     |
|------------------------------------------------------------|------------|
| Income under the head ‘Salaries’                           | 2,60,000   |
| Income from house property (A)                             | 60,000     |
| Income from house property (B)                             | (2,80,000) |
| Speculation income                                         | 20,000     |
| Business income                                            | (1,30,000) |
| Income from activity of owning and maintaining race-horses | (1,50,000) |
| Income from agricultural business                          | (1,25,000) |
| Short term capital gain                                    | 30,000     |
| Long term capital gain                                     | (1,00,000) |
| Income from lottery                                        | 10,000     |

|                                                                             |          |
|-----------------------------------------------------------------------------|----------|
| Income from horse races                                                     | 1,70,000 |
| Interest on securities after adjusting interest expenses and other expenses | (70,000) |

**Solution :**

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

| Particulars                                                                                                                                                                                   | Details    | Amount                | Amount   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|-----------------------|----------|
| Salaries                                                                                                                                                                                      |            | 2,60,000              |          |
| Income from house property                                                                                                                                                                    |            |                       |          |
| House property A                                                                                                                                                                              | 60,000     |                       |          |
| House Property B [#Max. limit, balance shall be carried forward]<br>[Further, loss from house property cannot be adjusted with income under other heads, if assessee is under default regime] | (2,80,000) | (2,00,000)#           |          |
| Profits & gains of Business or Profession                                                                                                                                                     |            |                       |          |
| Speculation income                                                                                                                                                                            | 20,000     |                       |          |
| Other business income                                                                                                                                                                         | (1,30,000) |                       |          |
| Income from agricultural business [exempted u/s 10(1)]                                                                                                                                        | Nil        | (1,10,000)            |          |
| Capital Gains                                                                                                                                                                                 |            |                       |          |
| Short term capital gain                                                                                                                                                                       |            | 30,000                |          |
| Long term capital gain                                                                                                                                                                        | (1,00,000) | Nil                   |          |
| Long term capital loss cannot be set off against any income & shall be carried forward                                                                                                        |            |                       |          |
| Income from Other Sources                                                                                                                                                                     |            |                       |          |
| Casual income                                                                                                                                                                                 |            |                       |          |
| Income from lottery                                                                                                                                                                           | 10,000     |                       |          |
| Income from horse races                                                                                                                                                                       | 1,70,000   |                       | 1,80,000 |
| As no loss can be set off against such income.                                                                                                                                                |            |                       |          |
| Income from activity of owning and maintaining race-horses                                                                                                                                    | (1,50,000) | Nil                   |          |
| Loss from activity of owning and maintaining race-horses cannot be set off against any income & shall be carried forward                                                                      |            |                       |          |
| Other income                                                                                                                                                                                  |            |                       |          |
| Interest on securities                                                                                                                                                                        |            | (70,000)              |          |
| <b>Gross Total Income</b>                                                                                                                                                                     |            | (90,000) <sup>1</sup> | 1,80,000 |

**Conclusion**

From salary income, losses under the head income from other sources ₹ 70,000 is adjusted first and then loss under the head 'Income from house property' considering following:

- Loss under the head 'Profits and gains of business or profession' cannot be set-off against salary income; and
- Loss under the head income from other sources, if any, cannot be carried forward.

Thereafter, loss under the head 'Income from house property' of ₹ 10,000 and losses under the head 'Profits & gains of business or profession' up to ₹ 20,000 is adjusted against Short term capital gain of ₹ 30,000 and remaining losses under the head Profits and gains of business or profession ₹ 90,000 and loss under the head 'Income from house property' ₹ 20,000 (including loss over and above ₹ 2,00,000) shall be carried forward.

Alternatively, loss under the head Income from house property of ₹ 30,000 and loss under the head Profits & gains of business or profession of ₹ 80,000 can be carried forward

**Test Yourself**

1. Compute Gross Total Income for the assessment year 2026-27 and losses to be carried forward.

| Particulars                          | Amount     |
|--------------------------------------|------------|
| Net Profit from cotton business      | 1,60,000   |
| Net loss from automobile business    | (90,000)   |
| Loss from house property in Kolkata  | (75,000)   |
| Income from house property in Mumbai | 80,000     |
| Loss from Speculative business       | (1,20,000) |
| Income from Salary                   | 72,000     |
| Short term capital loss on jewellery | (1,20,000) |
| Long term capital gain on Shares     | 90,000     |

2. From the following information, compute income of Ms. Tewari for the P.Y. 2025-26:

| Particulars                        | Amount (₹) |
|------------------------------------|------------|
| Income from house 1 (let out)      | 2,00,000   |
| Loss from house 2 (self-occupied)  | 50,000     |
| Salary Income                      | 5,00,000   |
| Loss from non-speculative Business | 3,00,000   |
| Income from speculative Business   | 1,00,000   |
| Short Term Capital Loss            | 60,000     |
| Long term Capital gain             | 50,000     |

**Hints**

1. Gross Total Income: ₹ 1,47,000; 2. ₹ 5,00,000

**3.2.4 General notes**

1. **Sec. 70 vs Sec. 71:** First, intra head set-off shall be made, thereafter inter head set-off shall be made. In other words, sec. 71 will be applicable after application of sec. 70.

**Illustration 14:**

Smart has computed his tax liability under the old regime as under –

| Particulars                         | Details  | Amount          |
|-------------------------------------|----------|-----------------|
| Income from business A              |          | 4,50,000        |
| Long term capital gain              | 20,000   |                 |
| Less: Income from business B u/s 71 | (10,000) | 10,000          |
| Income from other sources           |          | 50,000          |
| <b>Gross Total Income</b>           |          | <b>5,10,000</b> |
| Less: Deduction u/s 80C to 80U      |          | -               |
| <b>Total Income</b>                 |          | <b>5,10,000</b> |
| <b>Tax liability</b>                |          | <b>14,300</b>   |

Comment on the above computation.

**Solution :**

Computation made by Smart is incorrect, as because first intra head set-off shall be made, thereafter inter head set-off can be made. The correct computation is shown below -

Computation of total income and tax liability of Smart under old regime for the A.Y. 2026-27

| Particulars                               | Details  | Amount          |
|-------------------------------------------|----------|-----------------|
| Profits & Gains of Business or Profession |          |                 |
| Income from business A                    | 4,50,000 |                 |
| Income from business B u/s 70             | (10,000) | 4,40,000        |
| Capital Gains                             |          |                 |
| Long term capital gain                    |          | 20,000          |
| Income from other sources                 |          | 50,000          |
| <b>Gross Total Income</b>                 |          | <b>5,10,000</b> |
| Less: Deduction u/s 80C to 80U            |          | -               |
| <b>Taxable Income</b>                     |          | <b>5,10,000</b> |
| <b>Tax liability</b>                      |          | <b>15,080</b>   |

2. **Priority of set off u/s 71:** The Act does not lay any priority relating to set off of losses, hence, losses which cannot be carried forward should be adjusted first.

**Illustration 15 :**

Mr. Bhola has furnished you the following data –

|                            |               |
|----------------------------|---------------|
| Income from house property | (₹ 1,30,000)  |
| Salaries (Net)             | ₹ 12,80,000   |
| Income from other sources  | (₹ 12,90,000) |
| Income from lotteries      | ₹ 3,50,000    |

Mr. Bhola is seeking your advice relating to set off and carry-forward, if he has opted for old regime.

**Solution :**

Statement showing application of sec. 71

| Particulars                                                                                                                                                                                                                                                                                                                                                                                      | Amount          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Salaries                                                                                                                                                                                                                                                                                                                                                                                         | 12,80,000       |
| Income from house property                                                                                                                                                                                                                                                                                                                                                                       | (1,30,000)      |
| Income from other sources                                                                                                                                                                                                                                                                                                                                                                        |                 |
| Winning from lotteries                                                                                                                                                                                                                                                                                                                                                                           | 3,50,000        |
| Other income                                                                                                                                                                                                                                                                                                                                                                                     | (12,90,000)     |
| <b>Gross total income</b>                                                                                                                                                                                                                                                                                                                                                                        | <b>3,50,000</b> |
| Conclusion                                                                                                                                                                                                                                                                                                                                                                                       |                 |
| Casual income shall be fully taxable as no loss can be set off against such income.                                                                                                                                                                                                                                                                                                              | 3,50,000        |
| Losses to be carried forward                                                                                                                                                                                                                                                                                                                                                                     |                 |
| a) Loss under the head “Income from house property”                                                                                                                                                                                                                                                                                                                                              | (1,30,000)      |
| b) Loss under the head “Income from other sources”, as such loss cannot be carried forward.                                                                                                                                                                                                                                                                                                      | Nil             |
| Income under the head ‘Salaries’ is first adjusted with the loss under the head ‘Income from other sources’ as the same cannot be carried forward. Though loss under the head ‘Income from other sources’ is ₹ 12,90,000 and such loss could be adjusted with income under the head ‘Salaries’ only to the extent of ₹ 12,80,000 still the remaining loss of ₹ 10,000 cannot be carried forward. |                 |

3. **Mandatory feature of sec. 70 and 71:** Assessee is bound to follow sec. 70 and 71, there is no choice or option whether to set off the loss or not. Even partial set off is not permissible when entire loss can otherwise be set off.

#### Illustration 16:

Mr. Tej Singh has the following income details –

₹

|                            |          |
|----------------------------|----------|
| Income from house property | (30,000) |
| Salaries                   | 6,80,000 |
| Income from other sources  | 30,000   |

He has computed his Gross total income for the A.Y. 2026-27 as under

| Particulars                                                     | Amount   |
|-----------------------------------------------------------------|----------|
| Income from house property                                      | (10,000) |
| Salaries                                                        | 6,80,000 |
| Income from other sources                                       | 30,000   |
| Gross total income                                              | 7,00,000 |
| Carry forward of loss under the head income from house property | 20,000   |

– Comment

#### Solution :

Assessee is bound to follow sec.70 and 71 and there is no choice or option whether to set off the loss or not. Even partial set off is not permissible when full loss can otherwise be set off. Hence in the given case income of Mr. Tej Singh shall be ₹ 6,80,000 (carry forward of loss shall not be permissible) as computed under:

| Particulars                | Amount   |
|----------------------------|----------|
| Income from house property | (30,000) |
| Salaries                   | 6,80,000 |
| Income from other sources  | 30,000   |
| Gross total income         | 6,80,000 |

4. **Set-off of clubbed income:** From the clubbed income, one can set off the losses.

### 3.2.5 Carry Forward of Loss

In case where the income of an assessment year is insufficient to set off the losses of the year then such losses (which could not be set off) can be carried forward to subsequent assessment year(s) for set off against income of such subsequent year(s). However, all losses cannot be carried forward, e.g. losses under the head 'Income from other sources' (other than loss from 'Activity of owning and maintaining race-horses') cannot be carried forward. Following losses can be carried forward:

1. Loss under the head 'Income from house property' [Sec. 71B]
2. Loss under head "Profits and gains of business or profession" other than speculation loss [Sec. 72]
3. Loss from speculation business [Sec. 73]
4. Loss from specified business covered u/s 35AD [Sec. 73A]
5. Loss under the head 'Capital gains'. [Sec. 74]
6. Loss from 'Activity of owning and maintaining race horses'. [Sec. 74A]

### 3.2.6 Loss under the head 'Income from House Property' [Sec. 71B]

Loss under the head 'Income from house property' can be carried forward and can be set off against income under the same head only. However, under default tax regime, loss from house property cannot be carried forward.

**Taxpoint:** Under Default tax regime, loss under the head income from house property cannot be set off under any other head. Carry forward of losses is also not allowed.

**Period for which carry-forward shall be allowed:** 8 assessment years immediately succeeding the assessment year in which such loss is first computed.

**Filing of return:** Loss under the head 'Income from house property' can be carried forward even when a belated return is filed [as sec. 80 and 139(3) are not applicable to sec. 71B].

#### Illustration 17:

|                                                                                       |            |
|---------------------------------------------------------------------------------------|------------|
| Compute Gross total income of Mrs. Shikha from following details for the A.Y. 2026-27 | ₹          |
| Income from house property A                                                          | 60,000     |
| Income from house property B                                                          | (1,50,000) |
| Income from house property C                                                          | 1,00,000   |
| Income from other sources                                                             | 1,00,000   |
| Losses u/s 22 for the A.Y. 2025-26                                                    | (30,000)   |
| Losses u/s 56 for the A.Y. 2025-26                                                    | (45,000)   |

#### Solution :

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

| Particulars                                                                                                                                                                         | Details    | Details  | Amount          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------|-----------------|
| Income from house property                                                                                                                                                          |            |          |                 |
| House property A                                                                                                                                                                    | 60,000     |          |                 |
| House property B                                                                                                                                                                    | (1,50,000) |          |                 |
| House property C                                                                                                                                                                    | 1,00,000   | 10,000   |                 |
| Loss u/s 22 for the A.Y. 2025-26                                                                                                                                                    |            | (10,000) | Nil             |
| Income from other sources                                                                                                                                                           |            |          | 1,00,000        |
| <b>Gross Total Income</b>                                                                                                                                                           |            |          | <b>1,00,000</b> |
| Notes                                                                                                                                                                               |            |          |                 |
| 1. Remaining unabsorbed loss relevant to the A.Y. 2025-26 ₹ 20,000 (i.e. ₹ 30,000 – ₹ 10,000) shall be carried forward to subsequent assessment years (maximum up to A.Y. 2033-34). |            |          |                 |
| 2. Loss under the head 'Income from other sources' cannot be carried forward.                                                                                                       |            |          |                 |
| 3. Sec. 71 shall apply only after application of sec. 70. Hence, current year loss of house property B cannot be set off against income from other sources.                         |            |          |                 |

### 3.2.7 Carry forward & set off of business loss other than speculation loss [Sec. 72]

Loss under the head "Profits and gains of business or profession" (other than speculation loss) can be carried forward and set off against income under the same head.

**Note:** For this purpose business profit includes profits derived from a business activity but assessable under the heads other than 'Profit and gains of business or profession', e.g. Dividend income when shares are held as stock, though taxable under the head 'Income from other sources' but business loss can be set off against such income.

**Period for which carry-forward shall be allowed:** 8 assessment years immediately succeeding the assessment year in which such loss is first computed.

Academic note: In the assessment year 2026-27, losses prior to the assessment year 2018-19 cannot be set off.

**Exceptions to the above period**

**1. Closure of business due to specified reasons [Sec. 33B]**

**Situation:** Where any loss remains unabsorbed of a business undertaking, which is discontinued due to damages caused by -

- i. flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; or
- ii. riot or civil disturbance; or
- iii. accidental fire or explosion; or
- iv. action by an enemy or action taken in combating an enemy (whether with / without a declaration of war)

**Condition:** Such business is re-established, reconstructed or revived by the assessee, within a period of 3 years from the end of the previous year in which such mishap took place.

**Treatment:** Losses of such business [including the past eligible losses (to be carried forward)] shall be adjusted with profit of the year in which business is so revived and if the loss cannot be wholly setoff, then it shall further be allowed to be carried forward for 7 years.

**2. Set off of losses relating to the year of closure of business against deemed profit [Sec. 41(5)]**

**Situation:** Where any part of loss (not being a speculation loss), which arose during the previous year remains unabsorbed in the previous year in which business ceased to exist.

**Treatment:** Such loss shall be allowed to be carried forward for any number of years (without restriction of 8 years) against income chargeable to tax u/s 41(1); (3); (4); (4A).

**Taxpoint:** Such loss can be set off even if the return of loss is not submitted in time.

**Notes**

1. **Business need not be continued:** The business losses can be carried forward, even the business in respect of which the loss was originally computed, is not carried on during the previous year.
2. **Filing of return in time:** As per sec. 80, the business loss cannot be carried forward unless it is determined in pursuance of a return filed by the assessee u/s 139(3), *within time* as prescribed u/s 139(1).
3. **Treatment of unabsorbed depreciation, etc.:** Unabsorbed depreciation, unabsorbed scientific research expenditure and unabsorbed family planning expenditure are not covered by sec. 72. Such losses can be carried forward for any number of years.
4. **Order of set off:** In case of insufficient profit, losses shall be set off in the following order:
  - a. Current year's depreciation [Sec. 32(1)], capital expenditure on scientific research [Sec. 35(1)] and capital expenditure on family planning [Sec. 36(1)(ix)];
  - b. Brought forward business or profession losses [Sec. 72(1)],
  - c. Unabsorbed depreciation [Sec. 32(2)], unabsorbed expenditure on family planning [Sec. 36(1)(ix)], unabsorbed capital expenditure on scientific research [Sec. 35(4)]
5. **Loss from specified business covered u/s 35AD** (i.e, cold chain facility, cross-country natural gas pipeline, etc.) shall be adjusted only from profit from specified business [Further refer sec.73A].

6. **Assessee must be same who incurred the loss:** Business losses can be carried forward and set off against the profits of the assessee who incurred the loss i.e. assessee must be same to carry forward the loss. However, this rule has the following exceptions –
- Amalgamation:** Business losses and unabsorbed depreciation of an amalgamating company can be set-off against the income of the amalgamated company if the amalgamation is within the meaning of sec. 72A of the Income tax Act.
  - Succession:** Business losses and unabsorbed depreciation of a proprietary concern or a partnership firm or a specified company succeeded by a company or limited liability partnership as per sec. 47(xiii), (xiiib) and (xiv), can be carried forward by succeeded company or limited liability partnership.
  - Inheritance:** As per sec. 78(2), where the assessee acquires the business through inheritance, losses of such business may be carried forward for balance number of years.
  - Demerger:** In case of demerger, loss of demerged company shall be carried forward and set-off by resulting company.

**Note:** In following case losses cannot be carried forward

- Business, of an HUF where the business of the HUF is taken over by the Karta of HUF;
- Proprietorship business taken over by a firm in which proprietor is one of the partner;
- A firm being succeeded by another firm;
- A firm where the business of the firm is taken over by one of the partner of the firm,

### 3.2.8 Set off and Carry forward of unabsorbed depreciation

Set off and carry forward of unabsorbed depreciation shall be governed by sec. 32(2) and not by sec. 72. Depreciation, which could not be fully absorbed in any previous year, owing to -

- ⦿ there being no profits or gains chargeable for that previous year; or
- ⦿ the profits or gains chargeable being less than the amount of depreciation.

**Tax treatment:** Allowance or the part of the allowance of depreciation which remains unabsorbed shall be (subject to sec. 72 and sec. 73) added to the amount of the depreciation for the following previous year and deemed to be the depreciation-allowance for that previous year, and so on for the succeeding previous years.

**Taxpoint:** Unabsorbed depreciation shall be allowed to be carried forward for any number of years and such carried forward unabsorbed depreciation may be set off against any income, other than -

- ⦿ Income under the head “Salaries”
- ⦿ Winning from lotteries, cross word puzzles, etc.

#### Notes

- Continuation of business:** Unabsorbed depreciation can be carried forward even if the business in respect of which the loss was originally computed, is not carried on during the previous year.
- Filing of return:** Unabsorbed depreciation can be carried forward even if the return of income has not been filed within time.

#### Illustration 18:

Mr. Arun has been running several businesses since last so many years. From the following details, compute his taxable business income:

| Nature of business              | Current year income                     | Brought forward (b/f) loss     | Year to which b/f loss relates | Whether business continued | Year of discontinuation of business |
|---------------------------------|-----------------------------------------|--------------------------------|--------------------------------|----------------------------|-------------------------------------|
| Readymade garments              | 1,00,000                                | 2,30,000                       | 2019-20                        | Yes                        | NA                                  |
| Retail of cosmetics             | 80,000                                  | 1,70,000                       | 2005-06                        | Yes                        | NA                                  |
|                                 |                                         | 50,000 Unabsorbed depreciation | 2020-21                        |                            |                                     |
| Whole sale of soft-toys         | Nil                                     | 80,000                         | 2022-23                        | No                         | 2023-24                             |
| Wholesale of fruits             | 30,000 being bad debt recovery          | 70,000                         | 2008-09                        | No                         | 2008-09                             |
| Optical                         | 30,000<br>Bad debt recovery             | 70,000                         | 2007-08                        | No                         | 2008-09                             |
| Investment business             | 90,000                                  | -                              | -                              | Yes                        | NA                                  |
|                                 | 15,000<br>Dividend from foreign company | -                              | -                              | Yes                        | NA                                  |
| Medicines                       | 40,000<br>Bad debt recovery             | -                              | -                              | No                         | 2000-01                             |
| Manufacturing of school uniform | -                                       | 40,000                         | 2021-22 no return filed        | No                         | 2023-24                             |

**Solution :**

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

| Particulars                                                     | Details               | Amount                |
|-----------------------------------------------------------------|-----------------------|-----------------------|
| Profits & gains of business or profession                       |                       |                       |
| Readymade garments Current year income                          | 1,00,000              |                       |
| Less: Brought forward loss                                      | (2,30,000)            | (1,30,000)            |
| Retail of cosmetics Current year income                         |                       | 80,000                |
| Whole sale of soft-toys Current year income                     | Nil                   |                       |
| Less: Brought forward loss                                      | (80,000)              | (80,000)              |
| Wholesale of fruits Current year income being bad debt recovery | 30,000                |                       |
| Less: Brought forward loss                                      | (30,000) <sup>1</sup> | Nil                   |
| Optical-business Current year income being bad debt recovery    |                       | 30,000 <sup>1</sup>   |
| Investment-business                                             |                       | 90,000                |
| Medicine-business Current year income (being bad debt recovery) |                       | 40,000                |
| Manufacturing of school uniform Current year income             |                       | Nil <sup>2</sup>      |
|                                                                 |                       | 30,000                |
| Income from other sources: Dividend income                      |                       | 15,000                |
|                                                                 |                       | 45,000                |
| Less: Unabsorbed depreciation of retail of cosmetics business   |                       | (45,000) <sup>#</sup> |
| <b>Gross total income</b>                                       |                       | <b>Nil</b>            |

<sup>#</sup> Though unabsorbed depreciation is ₹ 50,000 still only ₹ 45,000 is claimed to be set off and remaining to be carried forward for unlimited years, as there is insufficient profit.

**Notes:**

1. Losses from wholesale of fruits business which arose during the P.Y. 2008-09, being the year in which business ceased to exist and which could not be set off against any other income of that previous year or any subsequent years can be set off against income chargeable to tax u/s 41(4) i.e. bad debt recovery. Such loss is allowed to be carried forward for any number of years (without restriction of 8 years). However, in case of Optical business, brought forward loss relates to P.Y. 2007-08 whereas business ceases to exist in P.Y. 2008-09, therefore such loss cannot be set off against income chargeable u/s 41(4).
2. As per sec. 80, business loss cannot be carried forward unless it is determined in pursuance of a return filed by the assessee u/s 139(3), within time as prescribed u/s 139(1).

**3.2.9 Carry forward and Set off of Speculation loss [Sec. 73]**

1. Speculative transaction means a transaction in which contract for the purchase and sale of any commodity including stock and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scripts. [Sec. 43(5)]
2. As per explanation to sec. 73, where any part of the business of a *company* consists of purchase and sale of shares of other companies, such company shall be deemed to be carrying on speculation business to the extent of purchase and sale of shares. However, this rule is not applicable in case of companies -
  - a. of which gross total income mainly consists of income which is chargeable under the head “Income from house property”, “Capital gains”, and “Income from other sources”; or
  - b. of which principal business is the business of trading in shares or banking or granting of loans and advances.

**Notes:** Above explanation covers only transactions of purchase and sale of shares. Debentures, units of UTI or of Mutual Funds are not covered by this explanation.

**Treatment**

Losses from speculative transactions or business can be carried forward and set off against income from speculative business only.

**Period for which carry forward shall be allowed:** 4 assessment years immediately succeeding the assessment year in which such loss is first computed.

Academic note: In the assessment year 2026-27, losses prior to the assessment year 2022-23 cannot be set off.

As per sec. 73(3) in respect of allowance on account of depreciation or capital expenditure on scientific research, the provisions of sec. 73 shall not apply if it can be carried forward to any number of years.

**Notes**

1. **Continuity of business:** It is not necessary that the same speculation business must be continued in the year of carry forward and set off of the losses.
2. **Filing of return:** As per sec. 80, the loss cannot be carried forward unless it is determined in pursuance of a return filed by the assessee u/s 139(3), within time as prescribed u/s 139(1)
3. **Derivative Trading:** An eligible transaction in respect of trading in derivative referred to in sec.2(ac) of the Securities Contracts (Regulation) Act, 1956 carried out in a recognised stock exchange shall not be treated as speculative transaction. Similarly, an eligible transaction in respect of trading in commodity derivatives carried out in a recognised stock exchange (and liable for Commodities Transaction Tax in case of trading in commodity derivatives other than agricultural commodity derivatives) shall not be treated as speculative transaction.

**Taxpoint:** In respect of trading in agricultural commodity derivatives, the requirement of chargeability of commodity transaction tax is not applicable.

4. **Losses of illegal speculative business:** Loss arising from illegal speculative business cannot be carried forward to the subsequent years for set off against the profits of another speculative business.

#### Illustration 19:

Compute total income of X Ltd. under following cases –

Business A: Business of Ice cream

Business B: Business consists of purchase and sale of shares of other companies (being treated as speculative business as per explanation of sec. 73)

| Particulars              | Case 1 |        | Case 2 |        | Case 3   |          | Case 4   |          |
|--------------------------|--------|--------|--------|--------|----------|----------|----------|----------|
|                          | A      | B      | A      | B      | A        | B        | A        | B        |
| Income of P.Y. 2025-26   | 80,000 | 20,000 | 75,000 | 85,000 | (56,000) | 1,50,000 | 3,00,000 | (50,000) |
| B/f loss of P.Y. 2024-25 | 70,000 | 65,000 | 85,000 | 50,000 | 90,000   | 65,000   | 30,000   | 90,000   |
| Unabsorbed depreciation  | -      | -      | -      | -      | -        | -        | -        | 20,000   |

#### Solution :

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

| Particulars                                                           | Case 1 |                             | Case 2   |        | Case 3                      |          | Case 4                |                                                |
|-----------------------------------------------------------------------|--------|-----------------------------|----------|--------|-----------------------------|----------|-----------------------|------------------------------------------------|
|                                                                       | A      | B                           | A        | B      | A                           | B        | A                     | B                                              |
| Income of P.Y. 2025-26                                                | 80,000 | 20,000                      | 75,000   | 85,000 | (56,000)                    | 1,50,000 | 3,00,000              | (50,000)                                       |
| Income after sec. 70                                                  | 80,000 | 20,000                      | 75,000   | 85,000 | -                           | 94,000   | 3,00,000              | (50,000)                                       |
| B/f loss of P.Y. 2024-25                                              | 70,000 | 65,000                      | 85,000   | 50,000 | 90,000                      | 65,000   | 30,000                | 90,000                                         |
| Unabsorbed depreciation                                               | -      | -                           | -        | -      | -                           | -        | -                     | 20,000                                         |
|                                                                       | 10,000 | (45,000)                    | (10,000) | 35,000 | (90,000)                    | 29,000   | 2,50,000 <sup>1</sup> | (50,000)                                       |
| Taxable income after application of sec. 72 & 73 for the A.Y. 2026-27 | 10,000 |                             | 25,000   |        | Nil                         |          | 2,50,000              |                                                |
| Loss to be carried forward to next assessment year                    | -      | P.Y.<br>2024-25<br>(45,000) |          |        | P.Y.<br>2024-25<br>(61,000) | -        | -                     | P.Y.25-26<br>(50,000)<br>P.Y.24-25<br>(90,000) |
| Unabsorbed depreciation to be carried forward                         | -      | -                           | -        | -      | -                           | -        | -                     | -                                              |

<sup>1</sup> After adjusting unabsorbed depreciation of business B.

### 3.2.10 Carry forward & set off of loss from specified business covered u/s 35AD [Sec.73A]

Losses from specified business covered u/s 35AD can be carried forward and set off against income from other specified business (whether eligible for deduction u/s 35AD or not).

**Period for which carry-forward shall be allowed:** No time limit is prescribed.

**Filing of return:** As per sec. 80, the loss cannot be carried forward unless it is determined in pursuance of a return filed by the assessee u/s 139(3), within time as prescribed u/s 139(1).

**Illustration 20:**

MNP Ltd. commenced operations of the business of a new four-star hotel in Chennai on 1-4-2025. The company incurred capital expenditure of ₹ 40 lakh during the period January, 2025 to March, 2025 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2025. Further, during the Previous Year 2025-26, it incurred capital expenditure of ₹ 2.5 crore (out of which ₹ 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading “profits and gains of business or profession” for the assessment year 2026-27, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction u/s 35AD and has not claimed any deduction under Chapter VI-A under the heading “C.-Deductions in respect of certain incomes”. The profits from the business of running this hotel (before claiming deduction u/s 35AD) for the A.Y. 2026-27 is ₹ 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was ₹ 130 lakhs for assessment year 2026-27.

**Solution :**

Computation of business income of MNP Ltd. for A.Y. 2026-27

| Particulars                                                 | ₹ in lakhs |
|-------------------------------------------------------------|------------|
| Income from specified business covered u/s 35AD [Working 1] | (110)      |
| Income from another hotel business                          | 130        |
| <b>Profit and gains of business or profession</b>           | <b>20</b>  |

**Working 1:** Computation of income from specified business u/s 35AD

| Particulars                                                                          | ₹ in lakhs | ₹ in lakhs |
|--------------------------------------------------------------------------------------|------------|------------|
| Net profit from specified business before deduction u/s 35AD                         |            | 80         |
| Less: Deduction u/s 35AD being capital expenses incurred                             |            |            |
| - Capital expenditure incurred in earlier year                                       | 40         |            |
| - Capital expenditure incurred in the previous year less cost of acquisition of land | 150        | 190        |
| <b>Income from specified business covered u/s 35AD</b>                               |            | <b>110</b> |

**3.2.11 Carry forward and set off of capital loss [Sec. 74]**

Losses under the head ‘Capital gains’ can be carried forward and set off against income under the same head, subject to the restriction that the loss on transfer of long-term capital assets can be set off only against long term capital gain.

**Taxpoint:** Loss on transfer of short-term capital assets can be set off against any income under the head capital gain (whether short-term or long-term). Further long term capital loss covered u/s 112A can also be carried forward.

**Period for which carry-forward shall be allowed:** 8 assessment years immediately succeeding the assessment year in which such loss is first computed.

**Academic note:** In the assessment year 2026-27, losses prior to the assessment year 2018-19 cannot be set off.

**Filing of return:** As per sec. 80, the loss cannot be carried forward unless it is determined in pursuance of a return filed by the assessee u/s 139(3), *within time* as prescribed u/s 139(1).

**Illustration 21:**

Compute taxable income under following cases for the A.Y. 2026-27:

| Particulars                | Case 1   |          | Case 2   |          | Case 3   |          | Case 4   |          |
|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
|                            | STCG     | LTCG     | STCG     | LTCG     | STCG     | LTCG     | STCG     | LTCG     |
| Income of the P.Y. 2025-26 | 1,00,000 | (30,000) | (30,000) | 1,00,000 | 1,00,000 | (20,000) | (30,000) | 1,00,000 |
| B/f loss of P.Y. 2024-25   | 50,000   | -        | -        | 50,000   | 60,000   | 50,000   | 10,000   | 20,000   |

**Solution :**

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

| Particulars                                                      | Case 1   |                     | Case 2   |          | Case 3   |                                        | Case 4   |          |
|------------------------------------------------------------------|----------|---------------------|----------|----------|----------|----------------------------------------|----------|----------|
|                                                                  | STCG     | LTCG                | STCG     | LTCG     | STCG     | LTCG                                   | STCG     | LTCG     |
| Income of the P.Y.2025-26                                        | 1,00,000 | (30,000)            | (30,000) | 1,00,000 | 1,00,000 | (20,000)                               | (30,000) | 1,00,000 |
| Taxable income after application of sec. 70                      | 1,00,000 | (30,000)            | -        | 70,000   | 1,00,000 | (20,000)                               | -        | 70,000   |
| Brought forward loss of P.Y.2024-25                              | 50,000   | -                   | -        | 50,000   | 60,000   | 50,000                                 | 10,000   | 20,000   |
|                                                                  | 50,000   | (30,000)            | -        | 20,000   | 40,000   | (70,000)                               | -        | 40,000   |
| Taxable income after application of sec. 74 for the A.Y. 2026-27 | 50,000   |                     | 20,000   |          | 40,000   |                                        | 40,000   |          |
| Loss to be carried forward to next assessment year               | -        | P.Y. 25-26 (30,000) | -        | -        | -        | PY 25-26 (20,000)<br>PY 24-25 (50,000) | -        | -        |

### 3.2.12 Carry forward and set off of losses from activity of owning and maintaining race horses [Sec. 74A]

In case of an assessee, being the owner of horses maintained by him for running in horse races (race horses), the amount of loss incurred by the assessee in the activity of owning and maintaining race horses in any assessment year shall be set off only against income from the activity of owning and maintaining race horses.

**Period for which carry forward shall be allowed:** 4 assessment years immediately succeeding the assessment year in which such loss is first computed.

**Notes:**

1. **Continuity of activity:** Activity of owning and maintaining race horses must be carried on by the assessee in the previous year in which set off is claimed.
2. **Treatment of other race animals:** Sec. 74A states only about losses from activity of owning and maintaining race horses, other race animals are governed by sec. 72.
3. **Filing of return:** To claim benefit of carry forward, return of loss u/s 139(3) must be filed *within time* as per sec. 139(1).
4. **Horse Race:** Horse race means a race upon which wagering or betting on horses may be lawfully made.
5. **Amount of loss incurred by the assessee in the activity of owning and maintaining race horses** means—

| Particulars                                                                                                                                                           | ₹   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Amount of expenditure (not being in the nature of capital expenditure) laid out or expended by him wholly and exclusively for the purposes of maintaining race horses | *** |
| Less: Income by way of stake money                                                                                                                                    | *** |
| Loss incurred in the activity of owning and maintaining race horses                                                                                                   | *** |
| 'Income by way of stake money' means the gross amount of prize money received on a race horse by the owner thereof.                                                   |     |

### 3.2.12A Carry forward & Set-off of loss of Firm on change in constitution of firm [Sec.78]

Where a change occurs in the constitution of firm, on account of retirement or death of a partner, the proportionate loss of the retired or deceased partner shall not be carried forward.

Note: This section shall not apply in case of change in profit sharing ratio or admission of partner.

#### Illustration 21A

P, Q and R are partners in a firm sharing profits and losses in the ratio of 1:1:2, provide the following information. Find firm's net income assuming that salary and interest are not paid to partners:

- Net income of the firm in assessment year 2025-26 is (-) ₹ 1,20,000, out of which unadjusted depreciation is ₹ 40,000.
- On 31.05.2025, R retires from the firm and the other partners carry on the same business.
- The firm's income for the Assessment Year 2026-27 before adjusting the aforesaid loss and depreciation is ₹ 1,20,000.

#### Solution:

Where a change occurs in the constitution of firm, on account of retirement or death of a partner, the proportionate loss of the retired or deceased partner shall not be carried forward. However, this section shall not apply in case of unabsorbed depreciation. Accordingly,

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

| Particulars                                                    | Details | Amount | Amount   |
|----------------------------------------------------------------|---------|--------|----------|
| Income before adjusting brought forward loss and depreciation  |         |        | 1,20,000 |
| Less: Brought forward loss (excluding unabsorbed depreciation) | 80,000  |        |          |
| Less: Loss which cannot be set off (Working)                   | 30,000  | 50,000 |          |
| Less: Unabsorbed depreciation                                  |         | 40,000 | 90,000   |
| Total Income                                                   |         |        | 30,000   |

Working: Computation of share of R in brought forward loss and loss which cannot be set off

| Particulars                                                                                                               | Amount   |
|---------------------------------------------------------------------------------------------------------------------------|----------|
| Total unabsorbed brought forward loss                                                                                     | 1,20,000 |
| Less: Unabsorbed depreciation                                                                                             | 40,000   |
| Brought forward loss excluding depreciation                                                                               | 80,000   |
| Share of R in aforesaid loss $[(₹ 80,000 / 4) * 2]$                                                                       | 40,000   |
| Less: Share of R in current profit before adjusting brought forward loss & depreciation $[(₹ 1,20,000 / 12 * 2) * 2 / 4]$ | 10,000   |
| Loss which cannot be set-off                                                                                              | 30,000   |

**Test Yourself**

1. From the following information, compute Mr. Rahaman's total income and the amount of loss to be carried forward for the assessment year 2026-27:

|                                   | ₹      |
|-----------------------------------|--------|
| a. Income from house – 1          | 40,000 |
| b. Loss from house – 2            | 30,000 |
| c. Income from garment business   | 50,000 |
| d. Loss from Jute business        | 25,000 |
| e. Loss from speculative business | 15,000 |
| f. Long term capital gain         | 30,000 |

From the assessment year 2025-26, the balance of following losses were brought forward:

|                                   |          |
|-----------------------------------|----------|
| a. Loss from the garment business | ₹ 10,000 |
| b. Long-term capital loss         | ₹ 10,000 |
| c. Loss from house property       | ₹ 10,000 |

**Hints**

1. ₹ 35,000

# Deductions, Rebate and Relief

## 3.3

### DEDUCTIONS

From Gross Total Income (being aggregate of income under five heads), assessee can claim several deductions as specified in chapter VIA on fulfillment of prescribed conditions as laid down in the respective section. After allowing these deductions, total income of the assessee is arrived & tax is charged on it at the prescribed rates.

Taxpoint: Under default regime, deduction under following sections are available:

- 80CCD(2)
- 80CCH(2); and
- 80JJAA,

and deductions under other sections are not available.

#### 3.3.1 Basic Rules

1. Deductions not available from: Deductions under chapter VIA are not available from -
  - › long-term capital gain;
  - › short term capital gain covered u/s 111A (i.e., STCG on which STT is charged); and
  - › casual income like winning from lotteries, races, etc.
2. Limit of deduction: The aggregate amount of deduction under chapter VIA cannot exceed Gross Total Income of the assessee excluding -
  - › long term capital gain;
  - › short term capital gain covered u/s 111A;
  - › casual income like winning from lotteries, card-games, horse races, etc.; and
  - › income referred in Sec.115A, 115AB, 115AC, 115ACA, etc.
3. Deduction must be claimed: Deduction under chapter VIA – Part C (i.e., profit based deduction) and sec. 10AA shall be available only if the assessee claims for it in the return of income.
  - The amount of deduction cannot exceed the profits and gains of the undertaking or unit or enterprise or eligible business.
  - Return of income should be filed within due date of filing return of income.
4. Double deduction not permissible: Where deduction under any section of chapter VIA has been claimed then the same shall not qualify for deduction in any other section.

The following table shows the position of deduction in the computation of total income and gross tax liability

| Particulars                               | Details | Details | Details | Details | Amount |
|-------------------------------------------|---------|---------|---------|---------|--------|
| Salaries                                  |         |         |         |         | ***    |
| Income from house property                |         |         |         |         | ***    |
| Profits & gains of business or profession |         |         |         |         | ***    |

| Particulars                        | Details               | Details          | Details                         | Details                       | Amount      |
|------------------------------------|-----------------------|------------------|---------------------------------|-------------------------------|-------------|
| Capital gains                      |                       |                  |                                 |                               | ***         |
| Income from other sources          |                       |                  |                                 |                               | ***         |
| <b>Gross Total Income (GTI)</b>    |                       |                  |                                 |                               | ***         |
| Sub division of Gross Total Income | STCG covered u/s 111A | LTCG             | Casual income e.g. lottery etc. | Remaining income of GTI (***) | Total (***) |
| Less: Deductions u/s 80C to 80U    | -                     | -                | -                               | (***)                         | (***)       |
| <b>Total Income (TI)</b>           | ***                   | ***              | ***                             | ***                           | ****        |
| Apply tax rate                     | 15%/20%               | 12.5%/20%/10%/0% | 30%                             | slab rate                     |             |
| <b>Gross tax liability</b>         | ****                  | ****             | ****                            | ****                          | ****        |

### 3.3.2 Deduction u/s 80C in respect of LIC premium, contributions to PF, etc.

Not available under the default tax regime

#### Applicable to

An Individual or a Hindu Undivided Family (whether resident or non-resident)

#### Condition to be satisfied

Assessee has made a deposit or an investment in any one or more of the listed items (as given below) during the previous year.

| Particulars                                                                                                                                     | Notes                                                                                                                                                                                                                             |                                                                   |                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------|
| Category A                                                                                                                                      |                                                                                                                                                                                                                                   |                                                                   |                             |
| Applicable to Individual & HUF both                                                                                                             |                                                                                                                                                                                                                                   |                                                                   |                             |
| 1. Life insurance premium paid by a person to effect or to keep in force an insurance policy (life policy or endowment policy) [Sec. 80C(2)(i)] | 1. Insurance policy can be taken on life of the following:                                                                                                                                                                        |                                                                   |                             |
|                                                                                                                                                 | a. In case of an individual: Himself, spouse and child (whether major or minor) of such individual;                                                                                                                               |                                                                   |                             |
|                                                                                                                                                 | b. In case of HUF: Any member of the HUF.                                                                                                                                                                                         |                                                                   |                             |
|                                                                                                                                                 | 2. Maximum limit: Premium on insurance policy in excess of following % of the actual sum assured shall be ignored.                                                                                                                |                                                                   |                             |
|                                                                                                                                                 | Policy issued                                                                                                                                                                                                                     | Insured is disable* or suffering from disease specified u/s 80DDB | Insured is any other person |
|                                                                                                                                                 | Upto 31-03-2012                                                                                                                                                                                                                   | 20%                                                               | 20%                         |
| During P.Y. 2012-13                                                                                                                             | 10%                                                                                                                                                                                                                               | 10%                                                               |                             |
| On or after 01-04-2013                                                                                                                          | 15%                                                                                                                                                                                                                               | 10%                                                               |                             |
|                                                                                                                                                 | 3. Actual capital sum assured in relation to a life insurance policy shall mean the minimum amount assured under the policy on happening of the insured event at any time during the term of the policy, not taking into account: |                                                                   |                             |
|                                                                                                                                                 | i. the value of any premium agreed to be returned; or                                                                                                                                                                             |                                                                   |                             |
|                                                                                                                                                 | ii. any benefit by way of bonus or otherwise over and above the sum actually assured, which is to be or may be received under the policy by any person.                                                                           |                                                                   |                             |

| Particulars                                                                                                                                                        | Notes                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2. Contribution made towards Public provident fund (PPF). [Sec. 80C(2)(v)]                                                                                         | <p>1. Subscription should be in the name of following persons:</p> <p>a. In case of individual: Such individual, his spouse and child (whether major or minor);</p> <p>b. In case of HUF: Any member of HUF.</p> <p>2. Contribution must not be in form of repayment of loan</p>                                                                                                                                                                          |
| 3. Any subscription to National Savings Certificates, VIII Issue [Sec. 80C(2)(ix)]                                                                                 | <p>1. If contribution is made in joint names, the person who has contributed the money is eligible to claim deduction.</p> <p>2. An individual can claim deduction in respect of certificates purchased in the name of his spouse or minor child.</p> <p>3. Treatment of accrued interest: Deduction is also available on accrued interest which is reinvested. i.e., interest upto penultimate year of lock-in-period is eligible for deduction.</p>     |
| 4. Contribution for participating in the Unit-linked Insurance Plan (ULIP) of Unit Trust of India (UTI) or ULIP of LIC Mutual fund u/s 10(23D). [Sec.80C(2)(x)]    | <p>Contribution can be made in the names of following persons:</p> <p>In case of individual: Such individual, spouse and child (major or minor) of such individual;</p> <p>In the case of HUF: Any member of HUF.</p>                                                                                                                                                                                                                                     |
| 5. Sum paid to effect or keep in force a contract for notified annuity plan of the LIC or any other insurer. [Sec. 80C(2)(xii)]                                    | E.g., New Jeevan Dhara and New Jeevan Akshay, New Jeevan Dhara I and New Jeevan Akshay I, II and III                                                                                                                                                                                                                                                                                                                                                      |
| 6. Subscription to notified units of a specified Mutual fund u/s 10(23D)/ administrator or the specified company as referred in sec. 2 of UTI. [Sec. 80C(2)(xiii)] | Eligible scheme: Equity Linked Saving Scheme, 2005.                                                                                                                                                                                                                                                                                                                                                                                                       |
| 7. Any sum paid as subscription to Home Loan Account Scheme or notified pension fund of the National Housing Bank. [Sec 80C(2)(xv)]                                | National Housing Bank (Tax Saving) Term Deposit Scheme, 2008                                                                                                                                                                                                                                                                                                                                                                                              |
| 8. Any sum paid as subscription to a notified deposit scheme. [Sec. 80C(2)(xvi)]                                                                                   | <p>Such deposit scheme shall be of -</p> <ul style="list-style-type: none"> <li>• Public sector companies engaged in providing long-term finance for construction or purchase of houses in India for residential purpose; or</li> <li>• Any authority constituted in India for the purpose of satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns, villages or for both.</li> </ul> |

| Particulars                                                                                                                                                                                                 | Notes                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 9. Any payment for purchase or construction of a residential house property (the income from which is chargeable to tax under the head "Income from house property), by way of -                            | # Specified person includes -<br>i. the Central or State Government; or<br>ii. any bank, including a co-operative bank; or<br>iii. the National Housing Bank; or<br>iv. Life Insurance Corporation; or<br>v. any public company formed and registered in India with the main object of carrying on the business of providing long-term finance for construction or purchase of houses in India for residential purposes; or |
| a. any instalment due under any self-financing or other scheme of any development authority, housing board or other authority engaged in the construction and sale of house property on ownership basis; or | vi. any company in which the public are substantially interested or any co-operative society, where such company or co-operative society is engaged in the business of financing the construction of house; or                                                                                                                                                                                                              |
| b. any instalment due to any company or co-operative society of which the assessee is a shareholder or member towards the cost of the house property allotted to him; or                                    | vii. the assessee's employer where such employer is an authority or a board or a corporation or any other body established or constituted under a Central or State Act;                                                                                                                                                                                                                                                     |
| c. repayment of the amount borrowed by the assessee from specified person <sup>#</sup>                                                                                                                      | viii. the assessee's employer where such employer is a public company or public sector company, or a university established by law or a college affiliated to such university or local authority or co-operative society.                                                                                                                                                                                                   |
| d. stamp duty, registration fee and other expenses for the purpose of transfer of such house property to the assessee [Sec. 80C(2)(xviii)]                                                                  | Notes:<br><ul style="list-style-type: none"> <li>Any expenditure in respect of which deduction is allowable u/s 24 is not eligible for deduction.</li> <li>Repayment of loan borrowed for acquiring commercial property are not entitled for deduction.</li> <li>Repayment of loan taken for repair, alteration, renovation, addition are not eligible for deduction</li> </ul>                                             |
| 10. Any amount invested in -                                                                                                                                                                                | Eligible issue of capital means an issue made by a public company formed and registered in India or a public financial institution and the entire proceeds of the issue are utilized wholly and exclusively for the purpose of any business referred to in sec. 80IA(4).                                                                                                                                                    |
| a. Debentures of or equity shares in an eligible issue of capital; or                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                             |
| b. Eligible issue of capital of any public financial institution. [Sec. 80C(2)(xix)]                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 11. Subscription to units of any mutual fund u/s 10(23D) provided amount of subscription to such units is subscribed only in the eligible issue of capital [Sec. 80C(2)(xx)]                                |                                                                                                                                                                                                                                                                                                                                                                                                                             |

| Particulars                                                                                                                                                                     | Notes                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12. Investment as term deposit for a period of 5 years or more with a scheduled bank. [Sec. 80C(2)(xxi)]                                                                        | Such term deposit scheme shall be framed and notified by the Central Government.                                                                                                                                                                                                                                                                                                                                       |
| 13. Notified Bonds issued by the National Bank for Agriculture and Rural Development (NABARD) [Sec. 80C(2)(xxii)]                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 14. Senior Citizens Savings Scheme Rules, 2004 [Sec. 80C(2)(xxiii)]                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 15. 5 year time deposit in an account under the Post Office Time Deposit Rules, 1981 [Sec. 80C(2)(xxiv)]                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Applicable to Individual only</b>                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 1. Payment by an individual in respect of non-commutable deferred annuity. [Sec. 80C(2)(ii)]                                                                                    | <ol style="list-style-type: none"> <li>1. Annuity may be taken in the name of the individual, spouse and any child of such individual.</li> <li>2. Such contract does not contain a provision for the exercise by the insured of an option to receive a cash payment in lieu of the payment of the annuity</li> </ol>                                                                                                  |
| 2. Any sum deducted from salary of a Government employee for the purpose of securing to him a deferred annuity or making provision for his wife or children. [Sec. 80C(2)(iii)] | Maximum limit: 20% of salary of the employee                                                                                                                                                                                                                                                                                                                                                                           |
| 3. Contribution made towards statutory provident fund and recognised provident fund. [Sec. 80C(2)(iv)& (vi)]                                                                    | Contribution must not be in form of repayment of loan                                                                                                                                                                                                                                                                                                                                                                  |
| 4. Contribution made towards an approved superannuation fund. [Sec. 80C(2)(vii)]                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 5. Subscription to any notified Government security or any notified deposit scheme (i.e., Sukanya Samriddhi Account Scheme) [Sec. 80C(2)(viii)]                                 | <p>Subscription should be in the name of following persons:</p> <ul style="list-style-type: none"> <li>- Such Individual or any girl child of that individual, or</li> <li>- any girl child for whom such person is the legal guardian, if the scheme so specifies</li> </ul> <p>Further, the interest accruing on deposits in, and withdrawals from any account under the said scheme would be exempt u/s 10(11A)</p> |
| 6. Contribution to any notified pension fund set up by a Mutual Fund u/s 10(23D) or by the administrator or the specified company referred u/s 2 of the UTI [Sec. 80C(2)(xiv)]  |                                                                                                                                                                                                                                                                                                                                                                                                                        |

| Particulars                                                                                                                                                                                                                                                                                                                                                          | Notes                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7. Any payment by way of tuition fees to any university, college, school or other educational institution situated within India for the purpose of full-time education. [Sec. 80C(2)(xvii)]<br><br>Restriction on number of child: Deduction shall be allowed in respect of maximum 2 children.                                                                      | Admission fee: Tuition fees may be at the time of admission or thereafter<br><br>Donation to school, etc: Such payment does not include any payment towards any development fees or donation or payment of similar nature.<br><br>Private tuition fee is not covered. |
| 8. Contribution to a specified account (i.e., NPS Tier-II account) of the notified pension scheme referred to in sec. 80CCD for a fixed period of not less than 3 years by an employee of the Central Government                                                                                                                                                     |                                                                                                                                                                                                                                                                       |
| Notes                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                       |
| 1. Deduction not available in certain cases: Deduction is not available from short-term capital gain covered u/s 111A and long-term capital gain.                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                       |
| 2. Cash basis: For the purpose of Deduction u/s 80C, amount paid, invested or deposited shall be considered on payment basis. Payments, which have become due during the previous year but not paid till the end of the previous year, shall not be eligible for deduction. Above rule holds good, even though the assessee follows mercantile system of accounting. |                                                                                                                                                                                                                                                                       |

**Quantum of deduction**

Deduction under this section shall be minimum of the following:

- ⊙ Aggregate of the eligible contributions, expenditure or investments (discussed above)
- ⊙ ₹ 1,50,000

**Illustration 22:**

Calculate the amount of deduction u/s 80C:

₹ in '000

| Particulars                                              | A   | B   | C   | D    |
|----------------------------------------------------------|-----|-----|-----|------|
| Gross total income                                       | 520 | 150 | 90  | - 30 |
| Amount invested/contributed /expended in specified items | 175 | 70  | 100 | 50   |
| <b>Deduction u/s 80C</b>                                 | 150 | 70  | 90  | Nil  |

**Illustration 23:**

Calculate the amount of deduction u/s 80C from following data

₹ in '000

| Particulars               | A  | B  | C  | D  | E  | F  | G  |
|---------------------------|----|----|----|----|----|----|----|
| Payment of LIC premium    | 5  | 8  | 6  | 8  | 4  | -  | 10 |
| LIC policy amount         | 80 | 70 | 50 | 40 | 50 | -  | 40 |
| NSC purchased             | 20 | 15 | 18 | 17 | 35 | 85 | 20 |
| Repayment of housing loan | 20 | 25 | 10 | -  | 12 | -  | 80 |

| Particulars                                                                                       | A   | B   | C   | D   | E   | F   | G   |
|---------------------------------------------------------------------------------------------------|-----|-----|-----|-----|-----|-----|-----|
| Contribution to Unit linked insurance plan                                                        | 10  | 5   | -   | -   | 3   | 2   | 3   |
| School fee paid for one child                                                                     | 10  | 15  | 6   | 18  | 3   | 5   | -   |
| Amount deposited in PPF                                                                           | 5   | 40  | 10  | 6   | 7   | 9   | -   |
| Notified units of Mutual fund                                                                     | 50  | 80  | 60  | 10  | 40  | 100 | Nil |
| Gross Total Income                                                                                | 370 | 180 | 320 | 190 | 160 | 540 | 75  |
| Total income consists of income under the head "Profit and gains of business or profession" only. |     |     |     |     |     |     |     |

**Solution :**

Calculation of deduction u/s 80C

(₹ in '000)

| Particulars                                                         | A   | B   | C   | D   | E   | F   | G   |
|---------------------------------------------------------------------|-----|-----|-----|-----|-----|-----|-----|
| Aggregate of investment u/s 80C(2)                                  |     |     |     |     |     |     |     |
| Payment of LIC premium<br>*(to the maximum of 10% of policy amount) | 5   | 7*  | 5*  | 4*  | 4   | -   | 4*  |
| NSC purchased                                                       | 20  | 15  | 18  | 17  | 35  | 85  | 20  |
| Repayment of housing loan                                           | 20  | 25  | 10  | -   | 12  | -   | 80  |
| Contribution to ULIP                                                | 10  | 5   | -   | -   | 3   | 2   | 3   |
| School fee paid for one child                                       | 10  | 15  | 6   | 18  | 3   | 5   | -   |
| Notified units of Mutual fund                                       | 50  | 80  | 60  | 10  | 40  | 100 | Nil |
| Deposit in PPF                                                      | 5   | 40  | 10  | 6   | 7   | 9   | -   |
| <b>Total</b>                                                        | 120 | 187 | 109 | 55  | 104 | 201 | 107 |
| Gross Total Income                                                  | 370 | 180 | 320 | 190 | 160 | 540 | 75  |
| <b>Deduction u/s 80C</b>                                            | 120 | 150 | 109 | 55  | 104 | 150 | 75  |

**Lock in period**

Lock in period in following cases -

**Life Insurance Policy:** The Life insurance policy (point 1) cannot be surrendered unless premium for 2 years on such policy has been paid.

**Housing Loan:** The house acquired (point 9) cannot be transferred before 5 years from the end of financial year in which the possession of such property is obtained by assessee.

**Unit Linked Insurance Plan:** The participation in plan (point 5) cannot be ceased before contribution in respect of such participation has been paid for 5 years.

**Shares or debentures of infrastructure company or power company or mutual fund:** Equity shares, debentures, etc. (point 10) cannot be sold or otherwise transferred within 3 years from the date when name of the assessee for those shares or debentures has been entered in the register of member or debenture holder by the company or the Mutual fund.

**Investment in Senior Citizen Saving Scheme / Post office Time Deposit:** Such amount, including interest accrued thereon, shall not be withdrawn by the assessee from his account, before the expiry of 5 years from the date of its deposit. However, any amount received by the nominee or legal heir of the assessee, on the death of such assessee, shall not be included.

Consequence in case of violation of lock in period

If the above lock in period is violated, then entire amount of deduction allowed earlier in any previous year, shall be treated as taxable income in the year in which default is made.

### 3.3.3 Deduction u/s 80CCC in respect of contribution to Pension Fund

Not available under the default tax regime

#### Applicable to

An individual (irrespective of residential status or citizenship of the individual)

#### Condition to be satisfied

1. Amount paid under an annuity plan: During the previous year, assessee has paid or deposited a sum under an annuity plan of the Life Insurance Corporation of India (LIC) or any other insurer for receiving pension from the fund referred to in Sec. 10(23AAB).
2. Payment out of taxable income: The amount must be paid out of income which is chargeable to tax. However, it is not necessary that such income relates to the current year.

Quantum of deduction

Minimum of the following -

- a. Amount deposited; or
- b. ₹ 1,50,000

#### Other Points

- a. **Treatment of Interest or Bonus accrued:** Interest or bonus accrued or credited as per the scheme to the assessee's account shall not be eligible for deduction.
- b. **Withdrawal from such fund [Sec. 80CCC(2)]:** Any amount received by the assessee or his nominee as pension; or on surrender of such annuity is taxable in the hands of recipient in the year of receipt.  
Note: Interest or bonus received from such fund shall also be taxable.
- c. **Deduction u/s 80C [Sec. 80CCC(3)]:** Deduction u/s 80C will not be available for the amount paid or deposited and for which deduction has been claimed u/s 80CCC.

### 3.3.4 Deduction u/s 80CCD in respect of contribution to pension scheme

Sec. 80CCD(1) and 80CCD(1B): Not available under default tax regime

Sec. 80CCD(2): Available under both tax regimes

#### Applicable to

An individual

#### Condition to be satisfied

During the previous years, the assessee has paid or deposited any amount in his account under a pension scheme notified by the Central Government (Atal Pension Yojna).

#### Quantum of Deduction

| Deduction u/s 80CCD(1) [Not available under default tax regime] |     |
|-----------------------------------------------------------------|-----|
| A. In case of salaried individual                               |     |
| Lower of the following                                          | ₹   |
| • Amount so paid or deposited                                   | *** |
| • 10% of his salary <sup>1</sup> in the previous year           | *** |

|                                                                                                                                                                                                                |                                |                         |     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------------------|-----|
|                                                                                                                                                                                                                |                                |                         | *** |
| <b>Deduction u/s 80CCD(2) [Available under both tax regimes]</b>                                                                                                                                               |                                |                         | *** |
| Add: Whole of the contribution made by the employer to such account to the maximum of 10% (14% where such contribution is made by the Central or State Govt.) of his salary <sup>1</sup> in the previous year. |                                |                         |     |
| However, where assessee is under default tax regime, employer's contribution to the extent of 14% of salary is available as deduction.                                                                         |                                |                         |     |
| Taxpoint: The maximum deduction limit u/s 80CCD(2) are as under:                                                                                                                                               |                                |                         |     |
| Regime                                                                                                                                                                                                         | Maximum Deduction u/s 80CCD(2) |                         |     |
|                                                                                                                                                                                                                | Government Employee            | Non-Government Employee |     |
| Default regime                                                                                                                                                                                                 | 14% of salary                  | 14% of salary           |     |
| Old regime                                                                                                                                                                                                     | 14% of salary                  | 10% of salary           |     |
| Amount of Deduction                                                                                                                                                                                            |                                |                         | *** |
| <b>B. In case of other individual [Not available under default tax regime]</b>                                                                                                                                 |                                |                         |     |
| Lower of the following                                                                                                                                                                                         |                                |                         |     |
| <ul style="list-style-type: none"> <li>• Amount so paid or deposited</li> <li>• 20% of his gross total income in the previous year</li> </ul>                                                                  |                                |                         |     |
| Additional Deduction u/s 80CCD(1B) for contribution to National Pension System and/or NPS Vatsalya [Not available under default tax regime]                                                                    |                                |                         |     |
| Lower of the following shall also be eligible for deduction                                                                                                                                                    |                                |                         | ₹   |
| <ul style="list-style-type: none"> <li>• Contribution to the National Pension System or NPS Vatsalya* by any individual [Other than amount claimed and allowed as deduction u/s 80CCD(1)]</li> </ul>           |                                |                         | *** |
| <ul style="list-style-type: none"> <li>• ₹ 50,000</li> </ul>                                                                                                                                                   |                                |                         | *** |

## Other Points

- “Salary” here means Basic + Dearness allowance, if the terms of employment so provide.
- Where any amount standing to the credit of the assessee in his account, (in respect of which a deduction has been allowed), together with the amount accrued thereon is received by the assessee or his nominee, whether –
  - on account of closure or his opting out of the pension scheme; or
  - as pension received from the annuity plan purchased or taken on such closure or opting out,
    - shall be deemed to be the income of the assessee or his nominee, as the case may be, in the previous year in which such amount is received, and shall accordingly be charged to tax.

## Exemption

- As per sec. 10(12A), in case of withdrawal from the NPS by an assessee on closure of account or on his opting out of the pension scheme, 60% of the total amount payable to him at the time of such closure or his opting out of the scheme shall be exempt. i.e., 40% shall be taxable.
- As per sec. 10(12B)/(2BA), partial withdrawal upto 25% of the amount contributed by the assessee under the pension scheme (or NPS Vatsalya), shall be exempted fully. The amount on which deduction has been allowed and is received on closure of the NPS Vatsalya account due to the death of the minor shall not be deemed to be the income of the parent/guardian.
- Where amount withdrawn is used for purchasing an annuity plan in the same previous year (i.e. year of withdrawal), such receipt shall not be taxable.

- iv. Amount received on account of closure or opting out of the pension scheme by the nominee, on the death of the assessee, shall be exempted in hands of the nominee.
3. Where any amount paid or deposited by the assessee has been allowed as a deduction, no deduction with reference to such amount shall be allowed u/s 80C.

### 3.3.5 Deduction u/s 80CCE: Limit on deductions u/s 80C, 80CCC and 80CCD

The aggregate amount of deductions under section 80C, section 80CCC and section 80CCD [other than deduction in respect of employer's contribution and additional deduction u/s 80CCD(1B)] shall not exceed ₹ 1,50,000.

Taxpoint: An assessee can claim deduction u/s 80C, 80CCC & 80CCD:

| Particulars                                                                                                                          | Amount |
|--------------------------------------------------------------------------------------------------------------------------------------|--------|
| Deduction u/s 80C                                                                                                                    | ****   |
| Deduction u/s 80CCC                                                                                                                  | ****   |
| Deduction u/s 80CCD [Other than deduction in respect of Employer's Contribution u/s 80CCD(2) and additional deduction u/s 80CCD(1B)] | ****   |
| <b>Total [Restricted to maximum of ₹ 1,50,000 u/s 80CCE]</b>                                                                         | *****  |
| Add: Contribution to the pension scheme by any individual allowable u/s 80CCD(1B) [Sub. to a maximum of ₹ 50,000/-]                  | ****   |
| Add: Employer's contribution to Pension System referred to in Sec. 80CCD(2) [Subject to max. of 10% or 14% of salary]                | ****   |
| <b>Deduction available u/s 80C, 80CCC &amp; 80CCD</b>                                                                                | *****  |

#### Illustration 24:

X completed his studies on 1-04-2025 and was immediately employed by X Ltd. on the following terms:

|              |                                                     |
|--------------|-----------------------------------------------------|
| Basic Salary | ₹ 20,000 p.m.                                       |
| DA           | ₹ 5,000 p.m. (forming a part of retirement benefit) |
| Bonus        | ₹ 50,000                                            |

During the year, his employer contributed ₹ 45,000 to the pension scheme being notified u/s 80CCD of the Income Tax Act, 1961. X also contributed similar amount. His income from house property is ₹ 50,000. During the year he contributed ₹ 15,000 to pension plan of LIC, to PPF ₹ 1,00,000 and paid LIC premium of ₹ 16,000 (Policy value ₹ 1,20,000). Compute his total income if he opts for Old Regime..

#### Solution :

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

| Particulars                         | Amount | Amount   | Amount   |
|-------------------------------------|--------|----------|----------|
| Salaries                            |        |          |          |
| Basic (₹ 20,000 * 12)               |        | 2,40,000 |          |
| Bonus                               |        | 50,000   |          |
| Dearness allowances (₹ 5,000 * 12)  |        | 60,000   |          |
| Contribution to pension scheme      |        | 45,000   |          |
| Gross Salary                        |        | 3,95,000 |          |
| Less: Standard Deduction u/s 16(ia) |        | 50,000   | 3,45,000 |
| Income from house property          |        |          | 50,000   |
| Gross Total Income                  |        |          | 3,95,000 |
| Less: Deduction u/s                 |        |          |          |

| Particulars                                                                                                             | Amount   | Amount   | Amount          |
|-------------------------------------------------------------------------------------------------------------------------|----------|----------|-----------------|
| 80C - LIC premium to maximum of 10% of Policy value (i.e. 10% of ₹ 1,20,000)                                            | 12,000   |          |                 |
| - Contribution in PPF                                                                                                   | 1,00,000 | 1,12,000 |                 |
| 80CCC (Pension plan of LIC)                                                                                             |          | 15,000   |                 |
| 80CCD (Notified pension scheme)                                                                                         |          |          |                 |
| - Own contribution being lower of:                                                                                      |          |          |                 |
| a) Amount contributed i.e. ₹ 45,000                                                                                     |          |          |                 |
| b) 10% of (Basic and DA forming part of retirement benefit), i.e., 10% of (₹ 2,40,000 + ₹ 60,000)                       |          | 30,000   |                 |
|                                                                                                                         |          | 1,57,000 |                 |
| As per sec.80CCE, total deduction u/s 80C + 80CCC + 80CCD (other than employer's contribution) cannot exceed ₹ 1,50,000 |          | 1,50,000 |                 |
| 80CCD(1B): Contribution to NPS (Amount not claimed above subject to max. of ₹ 50,000/-)                                 |          | 15,000   |                 |
| 80CCD(2): Employer contribution                                                                                         |          |          |                 |
| a) Amount contributed i.e. ₹ 45,000                                                                                     |          |          |                 |
| b) 10% of (Basic and DA forming part of retirement benefit), i.e., 10% of (₹ 2,40,000 + ₹ 60,000)                       |          | 30,000   | 1,95,000        |
| <b>Total Income</b>                                                                                                     |          |          | <b>2,00,000</b> |

However, if assessee is under default tax regime, then the computation would be:

| Particulars                                                                                       | Amount | Amount   | Amount          |
|---------------------------------------------------------------------------------------------------|--------|----------|-----------------|
| Gross Salary                                                                                      |        | 3,95,000 |                 |
| Less: Standard Deduction u/s 16(ia)                                                               |        | 75,000   | 3,20,000        |
| Income from house property                                                                        |        |          | 50,000          |
| <b>Gross Total Income</b>                                                                         |        |          | <b>3,70,000</b> |
| Less: Deduction u/s                                                                               |        |          |                 |
| 80C [Not available]                                                                               |        | NA       |                 |
| 80CCC [Not available]                                                                             |        | NA       |                 |
| 80CCD(1) [Not available]                                                                          |        | NA       |                 |
| 80CCD(1B): Contribution to NPS [Not available]                                                    |        | NA       |                 |
| 80CCD(2): Employer contribution                                                                   |        |          |                 |
| a) Amount contributed i.e. ₹ 45,000                                                               |        |          |                 |
| b) 14% of (Basic and DA forming part of retirement benefit), i.e., 14% of (₹ 2,40,000 + ₹ 60,000) |        | 42,000   | 42,000          |
| <b>Total Income</b>                                                                               |        |          | <b>3,28,000</b> |

### Deduction u/s 80CCH in respect of Contribution to Agnipath Scheme

80CCH(1): Not Available under the default tax regime

80CCH(2): Available under both tax regimes

#### Applicable to

Individual assessee

**Conditions**

- Such individual is enrolled in the Agnipath Scheme<sup>†</sup> and subscribing to the Agniveer Corpus Fund.
- During the previous year, he and / or Central Government has contributed any amount in his account in the said Fund

**Deduction**

| Particulars                        | Old Regime            | Default Regime        |
|------------------------------------|-----------------------|-----------------------|
| Own contribution to the corpus     | Amount so contributed | Not available         |
| Contribution by Central Government | Amount so contributed | Amount so contributed |
| Deduction u/s 80CCH                | ***                   | ***                   |

**Taxpoint**

- The entire Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee. However, deduction u/s 80CCH(2) would be available for the same.
- Any payment from the Agnipath Corpus Fund to a person enrolled under the Agnipath Scheme or to his nominee would be exempt from tax u/s 10(12C)
- Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces.
- Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.

**3.3.6 Deduction u/s 80D in respect of Medical Insurance Premium**

Not Available under the default tax regime

**Applicable to**

An individual or an HUF (irrespective of residential status or citizenship)

**Conditions to be satisfied**

1. Payment for health insurance or medical check-up: The assessee has made payment for health insurance of the following person:

| Category | Assessee   | Nature of Payment                                                                                                                                                                                        | Expenditure on behalf of                      | Quantum of Deduction                                                                                                                                                                                                                                                                                                                                                                                |
|----------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1        | Individual | a. Payment of Mediclaim insurance premium <sup>#</sup> ; or<br>b. Contribution to the Central Government Health Scheme or any other notified Health Scheme*<br>c. Preventive health check up expenditure | Himself/herself, spouse or dependent children | Lower of the following:<br>a. Aggregate of<br>– Premium paid; or<br>– Contribution made; or<br>– Preventive health check up (upto ₹ 5,000)<br>b. ₹ 25,000 p.a.<br>Senior Citizen<br>Where the person, for whom such premium (not for payment made for preventive health check up) is paid, is a senior citizen, then maximum limit of deduction shall be increased to ₹ 50,000 instead of ₹ 25,000. |

| Category                                                                                                                                                                                                                                                      | Assessee         | Nature of Payment                                                                                                   | Expenditure on behalf of                                                                                                                                                                                                                                            | Quantum of Deduction                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2                                                                                                                                                                                                                                                             | Individual       | a. Payment of Mediclaim insurance premium <sup>#</sup><br><br>b. Preventive health check up expenditure             | Parents (whether dependent or not)                                                                                                                                                                                                                                  | Lower of the following:<br>a. Aggregate of<br>– Premium paid; or<br>– Preventive health check up (upto ₹ 5,000)<br>– ₹ 25,000 p.a.<br>b. Senior Citizen<br>Where the person, for whom such premium (not for payment made for preventive health check up) is paid, is a senior citizen, then maximum limit of deduction shall be increased to ₹ 50,000 instead of ₹ 25,000. |
| <p><b>Note:</b><br/>The deduction for payment made for preventive health check up (for self, spouse, dependent children and parents) for category 1 &amp; 2 does not exceed in the aggregate ₹ 5,000 subject to overall limit of ₹ 25,000/- or ₹ 50,000/-</p> |                  |                                                                                                                     |                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                            |
| 3                                                                                                                                                                                                                                                             | HUF              | Payment of Mediclaim insurance premium <sup>#</sup>                                                                 | Any member of the family.                                                                                                                                                                                                                                           | Lower of the following:<br>a. Premium Paid; or<br>b. ₹ 25,000<br>Senior Citizen<br>Where the person, for whom such premium is paid, is a senior citizen, then maximum limit of deduction shall be increased to ₹ 50,000 instead of ₹ 25,000.                                                                                                                               |
| 4                                                                                                                                                                                                                                                             | Individual / HUF | Amount paid on account of medical expenditure provided mediclaim insurance is not paid on the health of such person | Expenditure incurred for any of the following person who is a senior citizen:<br><br>In case of Individual<br>a. Himself/herself, spouse; or<br>b. dependent children; or<br>c. Either or both of the parents<br><br>In case of HUF:<br>a. Any member of the family | Lower of the following:<br>⊙ Medical Expenditure incurred; or<br>⊙ ₹ 50,000                                                                                                                                                                                                                                                                                                |

| Category | Assessee                                                                                                                                                                                                            | Nature of Payment | Expenditure on behalf of | Quantum of Deduction     |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|--------------------------|--------------------------|
|          | Note:<br>The deduction for category 4 is available only from the overall limit of category 1 or category 2 or category 3 respectively. In other words, maximum deduction under category 1, 2, 3 and 4 are as under: |                   |                          |                          |
|          |                                                                                                                                                                                                                     | <b>Category</b>   |                          | <b>Maximum Deduction</b> |
|          |                                                                                                                                                                                                                     | Category 1 & 4    |                          | ₹ 50,000/-               |
|          |                                                                                                                                                                                                                     | Category 2 & 4    |                          | ₹ 50,000/-               |
|          |                                                                                                                                                                                                                     | Category 3 & 4    |                          | ₹ 50,000/-               |

**Dependent children:** Children are said to be dependant if their own resources are not sufficient enough to support them.

# Such mediclaim insurance policy should be in accordance with the scheme framed in this behalf by -

- General Insurance Corporation of India (GIC) & approved by the Central Government (i.e. Mediclaim insurance policy); or
- Any other insurer who is approved by the Insurance Regulatory and Development Authority.

2. **Mode of payment:** The premium or medical expenditure must be paid by any mode other than cash. However, payment shall be made by any mode, including cash, in respect of any sum paid on account of preventive health check-up.
3. **Payment out of taxable income:** The amount must be paid out of income, which is chargeable to tax. However, it is not necessary that such income relates to current year.

#### Taxpoint:

- Where lumpsum health insurance premium is paid (single premium) covering insurance for more than a year, then, deduction is available on proportionate basis (Total premium paid / Number of years).
- For claiming higher deduction of ₹ 50,000, payer need not be a senior citizen but person insured must be a senior citizen.
- Senior citizen means an individual resident in India who is of the age of 60 years or more at any time during the relevant previous year

#### Illustration 25:

X, 40 years old, paid following sums by cheque -

| Person Insured                                                                    | Amount        |
|-----------------------------------------------------------------------------------|---------------|
| Mediclaim Insurance premium for X                                                 | 18,000        |
| Mediclaim Insurance premium for Mrs. X (not dependant on X)                       | 5,000         |
| Contribution to the Central Government Health Scheme for Dependant Daughter       | 3,000         |
| Mediclaim Insurance premium for Son (not dependant on X)                          | 3,000         |
| Contribution to the Central Government Health Scheme for Brother (dependant on X) | 1,000         |
| Mediclaim Insurance premium for Mother-in law (dependant on X age 70 years)       | 900           |
| Mediclaim Insurance premium for Mother (dependant on X age 59 years)              | 26,500        |
| Mediclaim Insurance premium for Grand parents (dependant on X)                    | 1,600         |
| Mediclaim Insurance premium for Father (not dependant on X age 61 years)          | 32,000        |
| Contribution to the Central Government Health Scheme for Father                   | 2,000         |
| <b>Total</b>                                                                      | <b>68,000</b> |

Compute deduction available to Mr. X u/s 80D.

**Solution :**

Computation of deduction u/s 80D available to Mr. X

| Person Insured                                                                      | Notes         | Amount | Amount |
|-------------------------------------------------------------------------------------|---------------|--------|--------|
| X                                                                                   | Himself       |        | 18,000 |
| Mrs. X                                                                              | Spouse        |        | 5,000  |
| Daughter                                                                            | Dependent     |        | 3,000  |
| Son                                                                                 | Not dependent |        | Nil    |
| Brother                                                                             | Not eligible  |        | Nil    |
| Mother in law                                                                       | Not eligible  |        | Nil    |
| Grand parents                                                                       | Not eligible  |        | Nil    |
| <b>Qualifying amount</b>                                                            |               |        | 26,000 |
| <b>Restricted to the maximum limit</b>                                              |               |        | 25,000 |
| Add: Additional deduction for parents                                               |               |        |        |
| Mother                                                                              |               | 26,500 |        |
| <b>Restricted to the maximum limit</b>                                              |               | 25,000 |        |
| Add: Additional deduction for insurance of Father (a Senior Citizen)                |               | 32,000 |        |
| Add: Contribution to the Central Government Health Scheme for Father (Not eligible) |               | Nil    |        |
| <b>Qualifying amount</b>                                                            |               | 57,000 |        |
| <b>Restricted to the maximum limit</b>                                              |               | 50,000 | 50,000 |
| <b>Deduction u/s 80D</b>                                                            |               |        | 75,000 |

Taxpoint: However, if the assessee is under the default tax regime, the deduction u/s 80D is not available to him.

**Illustration 26:**

Mr. Ram (38 years) has incurred following expenses:

| Particulars                                                       | ₹      |
|-------------------------------------------------------------------|--------|
| Mediclaime Insurance premium paid for himself                     | 9,000  |
| Mediclaime Insurance premium paid for spouse                      | 8,000  |
| Mediclaime Insurance premium paid for dependent children          | 6,000  |
| Mediclaime Insurance premium paid for father (62 years)           | 18,000 |
| Preventive health-check up expenditure for father                 | 6,000  |
| Preventive health-check up expenditure for himself (paid in cash) | 4,000  |

Compute deduction available to Mr. Ram u/s 80D.

**Solution :**

Computation of deduction u/s 80D available to Mr. Ram

| Particulars                                              | Amount | Amount |
|----------------------------------------------------------|--------|--------|
| Mediclaime Insurance premium paid for himself            |        | 9,000  |
| Mediclaime Insurance premium paid for spouse             |        | 8,000  |
| Mediclaime Insurance premium paid for dependent children |        | 6,000  |
| <b>Qualifying amount (A)</b>                             |        | 23,000 |

| Particulars                                                                     |          | Amount             | Amount        |
|---------------------------------------------------------------------------------|----------|--------------------|---------------|
| Add: Additional deduction for parents                                           |          |                    |               |
| Mediclaime Insurance premium paid for father (B)                                |          |                    | 18,000        |
| Add: Expenditure incurred for preventive health check up                        | Incurred | Max. Limit         |               |
| Preventive health-check up expenditure for father <sup>! Max. limit</sup>       | 6,000    | 5,000 <sup>!</sup> |               |
| Preventive health-check up expenditure for himself <sup># [₹25,000 – (A)]</sup> | 4,000    | 2,000 <sup>#</sup> |               |
|                                                                                 |          | 7,000              |               |
| Restricted to overall maximum limit for preventive health check ups (C)         |          |                    | 5,000         |
| <b>Deduction u/s 80D (A + B + C)</b>                                            |          |                    | <b>46,000</b> |

Taxpoint: However, if the assessee is under the default tax regime, the deduction u/s 80D is not available to him.

### Illustration 27:

Mr. Shyam (40 years) has incurred following expenses:

| Particulars                                              | ₹      |
|----------------------------------------------------------|--------|
| Mediclaime Insurance premium paid for himself            | 12,000 |
| Mediclaime Insurance premium paid for spouse             | 11,000 |
| Mediclaime Insurance premium paid for dependent children | 6,000  |
| Mediclaime Insurance premium paid for mother (76 years)  | 18,000 |
| Preventive health-check up expenditure for mother        | 8,000  |
| Medical expenditure incurred for father (78 years)       | 39,000 |

Compute deduction available to Mr. Shyam u/s 80D.

### Solution :

Computation of deduction u/s 80D available to Mr. Shyam

| Particulars                                                                                              |          | Amount              | Amount        |
|----------------------------------------------------------------------------------------------------------|----------|---------------------|---------------|
| Mediclaime Insurance premium paid for himself                                                            |          |                     | 12,000        |
| Mediclaime Insurance premium paid for spouse                                                             |          |                     | 11,000        |
| Mediclaime Insurance premium paid for dependent children                                                 |          |                     | 6,000         |
| <b>Deductible amount (A) [Maximum]</b>                                                                   |          |                     | <b>25,000</b> |
| Add: Additional deduction for parents                                                                    |          |                     |               |
| Mediclaime Insurance premium paid for mother (B)                                                         |          |                     | 18,000        |
| Add: Expenditure incurred for preventive health check up                                                 | Incurred | Max.                |               |
| Preventive health-check up expenditure for mother <sup>! Max. limit</sup>                                | 8,000    | 5,000 <sup>!</sup>  |               |
| Restricted to overall maximum limit for preventive health check ups (C)                                  |          |                     | 5,000         |
| Add: Medical expenditure incurred for father being senior citizen (D) <sup>@ [₹50,000 – (B) – (C)]</sup> | 39,000   | 27,000 <sup>@</sup> | 27,000        |
| <b>Deduction u/s 80D (A + B + C + D)</b>                                                                 |          |                     | <b>75,000</b> |

Taxpoint: However, if the assessee is under the default tax regime, the deduction u/s 80D is not available to him.

**Illustration 28:**

Mr. Rahim (55 years) has incurred following expenses:

| Particulars                                              | ₹      |
|----------------------------------------------------------|--------|
| Mediclaime Insurance premium paid for himself            | 10,000 |
| Mediclaime Insurance premium paid for spouse             | 10,000 |
| Mediclaime Insurance premium paid for dependent children | 5,000  |
| Mediclaime Insurance premium paid for mother (76 years)  | 9,000  |
| Mediclaime Insurance premium paid for father (82 years)  | 39,000 |
| Preventive health-check up expenditure for father        | 6,000  |
| Medical expenditure incurred for father                  | 14,000 |

Compute deduction u/s 80D.

**Solution :**

Computation of deduction u/s 80D available to Mr. Rahim

| Particulars                                                                        | Amount   | Amount             |
|------------------------------------------------------------------------------------|----------|--------------------|
| Mediclaime Insurance premium paid for himself                                      |          | 10,000             |
| Mediclaime Insurance premium paid for spouse                                       |          | 10,000             |
| Mediclaime Insurance premium paid for dependent children                           |          | 5,000              |
| <b>Deductible amount (A)</b>                                                       |          | 25,000             |
| Add: Additional deduction for parents                                              |          |                    |
| Mediclaime Insurance premium paid for mother                                       |          | 9,000              |
| Mediclaime Insurance premium paid for father                                       |          | 39,000             |
| <b>Deductible amount (B)</b>                                                       |          | 48,000             |
| Add: Expenditure incurred for preventive health check up                           | Incurred | Max. Limit         |
| Preventive health-check up expenditure for father <sup>1</sup> [₹50,000 – (B)] (C) | 6,000    | 2,000 <sup>2</sup> |
| Add: Medical expenditure incurred for father being super-senior citizen (D)        |          | Nil                |
| (As mediclaime insurance premium is paid on the health of father)                  |          |                    |
| <b>Deduction u/s 80D (A + B + C + D)</b>                                           |          | 75,000             |

Taxpoint: However, if the assessee is under the default tax regime, the deduction u/s 80D is not available to him.

**3.3.7 Deduction u/s 80DD in respect of dependant disable relative**

Not Available under the default tax regime

**Applicable to**

A resident individual (irrespective of citizenship) or a resident HUF

**Conditions to be satisfied**

1. Assessee has a dependant disable relative:
  - a. Dependant Relative

| In the case of | Relative includes                                                 |
|----------------|-------------------------------------------------------------------|
| Individual     | Spouse, children, parents, brothers and sisters of the individual |
| HUF            | Any member of the Hindu Undivided Family                          |

**Dependant Relative:** A relative is said to be dependant if he wholly or mainly depends on such individual or HUF for his support and maintenance.

- b. Disability shall have the meaning assigned to it in Sec. 2(i) of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 and includes “autism”, “cerebral palsy” and “multiple disability” referred to in sec. 2(a), 2(c) and 2(h) of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

Person with disability means a person as referred to in Sec. 2(f) of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 or sec. 2(j) of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (i.e., a person suffering with 40% or more of one or more ‘disabilities’ as certified by a medical authority).

Disability includes blindness, low vision, leprosy-cured, hearing impairment, locomotor disability, mental retardation, mental illness.

3. No benefit u/s 80U to disable relative: The disable individual has not claimed benefit u/s 80U.

4. Expenditure on disable relative: Assessee has -

- incurred any expenditure for the medical treatment (including nursing), training and rehabilitation of a dependant, being a person with disability; or
- paid or deposited any amount in an approved scheme for the maintenance of a disable dependant being framed by the Life Insurance Corporation or any other insurer or the Administrator<sup>#</sup> or Unit Trust of India.

Taxpoint

The scheme shall provide for payment of annuity or lump sum amount for the benefit of a dependant, being a person with disability,—

- i. in the event of the death of the individual or the member of the HUF in whose name subscription to the scheme has been made; or
- ii. on attaining the age of 60 years or more by such individual or the member of the HUF, and the payment or deposit to such scheme has been discontinued.

Note: Though assessee needs to fulfill the above condition, the amount of deduction shall not be affected by the actual expenditure incurred on the above two purposes.

4. Medical certificate: Assessee shall furnish a copy of the certificate issued by the medical authority<sup>s</sup> along with the return of income in respect of the assessment year for which the deduction is claimed.

<sup>s</sup> Medical authority means medical authority as per Sec. 2(p) of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995 or such other medical authority as may, by notification, be specified by the Central Government for certifying “autism”, “cerebral palsy”, “multiple disabilities”, “person with disability” and “severe disability” referred to in sec. 2(a), 2(c), 2(h), 2(j) and 2(o) of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999 (i.e., specified hospital or institution.)

### Quantum of deduction

|                                                                                                                 |            |
|-----------------------------------------------------------------------------------------------------------------|------------|
| Relative is suffering from severe disability                                                                    | ₹ 1,25,000 |
| Relative is suffering from disability but not severe disability                                                 | ₹ 75,000   |
| Taxpoint: Deduction shall be irrespective of actual expenditure incurred i.e. deduction is statutory in nature. |            |

Person with severe disability means

- a person with 80% or more of one or more disabilities, as referred to in sec. 56(4) of the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995; or
- a person with severe disability referred to in sec. 2(o) of the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

### Other points

#### a. Revision of medical certificate

**Condition:** Where the extent of disability requires reassessment after a period stipulated in the medical certificate.

**Treatment:** After the expiry of previous certificate, deduction under this section shall be allowed only if a new certificate is obtained from the medical authority and a copy thereof is furnished along with the return of income.

#### b. Treatment when handicapped person predeceases [Sec. 80DD(3)]

**Condition:** Where the assessee has deposited any amount in annuity plan of LIC or UTI, etc. for the benefit of disabled person and such person predeceases.

**Treatment:** Any amount received from such annuity plan shall be deemed to be the income of the assessee of the previous year in which such amount is received by the assessee.

However, nothing shall be taxable where amount is received by the dependant, being a person with disability, before his death, by way of annuity or lump sum on attaining the age of 60 years or more by such individual or the member of the HUF, and the payment or deposit to such scheme has been discontinued.

### Illustration 29:

Compute total income as per old regime of Sri Bhandari from following information:

|                           |          |
|---------------------------|----------|
| Taxable salary (Net)      | ₹ 75,000 |
| Income from other sources | ₹ 20,000 |
| Agricultural income       | ₹ 4,000  |

He deposited in LIC annuity plan ₹ 18,000

He paid medical insurance premium by cheque for his dependant blind mother (certified as severe disable person), aged 68 years, ₹ 20,000.

### Solution:

Computation of Total income of Sri Bhandari for the A.Y. 2026-27

| Particulars                                                     | Details  | Amount |
|-----------------------------------------------------------------|----------|--------|
| Salaries                                                        |          | 75,000 |
| Income from Other Sources                                       |          | 20,000 |
| <b>Gross Total Income</b>                                       |          | 95,000 |
| Less: Deduction u/s                                             |          |        |
| 80CCC (Paid in LIC annuity plan)                                | 18,000   |        |
| 80D (Medical insurance premium for mother being senior citizen) | 20,000   |        |
| 80DD (Dependant severely disabled relative)                     | 1,25,000 |        |
| (Subject to maximum of gross total income)                      |          | 95,000 |
| <b>Total Income</b>                                             |          | Nil    |

### 3.3.8 Deduction u/s 80DDB in respect of medical treatment

Not Available under default tax regime

#### Applicable to

A resident individual (irrespective of citizenship) or a resident HUF

#### Conditions to be satisfied

1. Expenditure incurred on the medical treatment of relative: The assessee has, during the previous year, actually paid any amount for the medical treatment of a specified disease or ailment as prescribed in rule 11DD. Expenditure is incurred for treatment of the assessee himself or for a dependant relative<sup>#</sup>.

<sup>#</sup> Dependant Relative

| In the case of                                                                                                                                          | Relative                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Individual                                                                                                                                              | Spouse, children, parents, brothers and sisters of the individual. |
| HUF                                                                                                                                                     | Any member of the HUF                                              |
| <b>Dependant Relative:</b> A relative is said to be dependant if he wholly or mainly depends on such individual or HUF for his support and maintenance. |                                                                    |

2. **Medical Prescription:** Assessee should obtained the prescription for such medical treatment from a neurologist, an oncologist, a urologist, a haematologist, an immunologist or such other specialist, as may be prescribed.

#### Quantum of deduction

Minimum of the following -

- a. Actual expenditure incurred by the assessee; or
- b. ₹ 40,000

**Deduction for senior citizen:** If such expenditure is incurred for a senior citizen<sup>#</sup>, then the maximum amount of deduction shall be enhanced to ₹ 1,00,000.

**Taxpoint:** For claiming higher deduction of ₹ 1,00,000/-, payer need not be a senior citizen but person for whom such expenditure has been incurred must be a senior citizen.

**Treatment of Mediclaim or amount reimbursed by the employer:** Deduction under this section shall be reduced by the amount received, if any -

- ⊙ under an insurance from an insurer; or
  - ⊙ reimbursed by an employer,
- for the medical treatment of the person.

#### Taxpoint:

| Quantum of Deduction |                                                                                                                                                                                                                                              |
|----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Patient              | Deduction shall be minimum of the following                                                                                                                                                                                                  |
| Senior citizen       | <ul style="list-style-type: none"> <li>➤ [(Actual expenditure incurred by assessee) – (Amount reimbursed by employer or medi-claim received)]</li> <li>➤ [₹ 1,00,000 – (Amount reimbursed by the employer or mediclaim received)]</li> </ul> |
| Other                | <ul style="list-style-type: none"> <li>➤ [₹ 40,000 – (Amount reimbursed by the employer or mediclaim received)]</li> <li>➤ [(Actual expenditure incurred by assessee) – (Amount reimbursed by employer or mediclaim received)]</li> </ul>    |

Note: In any case, the total deduction cannot exceed ₹ 1,00,000

Specified diseases as per rule 11DD are -

**1) Neurological disease:** (a) Dementia (b) Dystonia Musculorum Deformans (c) Motor Neuron Disease (d) Ataxia (e) Chorea (f) Hemiballismus (g) Aphasia (h) Parkinson's Disease (all neurological disease must have disability of 40% and above);

2) Cancer; 3) Full Blown Acquired Immuno Deficiency Syndrome (AIDS); 4) Chronic Renal Failure; 5) Hemophilia; and 6) Thalassaemia.

### Illustration 30:

Find the amount of deduction u/s 80DDB for the following cases:

| Name of the Assessee                                                                | P                   | Q                       | R            | S                                  | T        |
|-------------------------------------------------------------------------------------|---------------------|-------------------------|--------------|------------------------------------|----------|
| Residential status of the assessee                                                  | Ordinarily resident | Not ordinarily resident | Non Resident | Resident but not an Indian Citizen | Resident |
| Expenditure incurred for medical treatment (specified disease) of dependant brother | ₹ 6,000             | ₹ 80,000                | ₹ 1,00,000   | ₹ 72,000                           | ₹ 80,000 |
| Age of Brother                                                                      | 28                  | 63                      | 68           | 88                                 | 52       |
| Residential status of dependant                                                     | Resident            | Non resident            | Resident     | Resident                           | Resident |
| Medical Insurance claim received.                                                   | -                   | -                       | -            | -                                  | ₹ 8,000  |

### Solution :

Amount of deduction available u/s 80DDB shall be as under:

| Particulars         | P     | Q                   | R              | S                   | T                   |
|---------------------|-------|---------------------|----------------|---------------------|---------------------|
| Deduction u/s 80DDB | 6,000 | 40,000 <sup>1</sup> | - <sup>2</sup> | 72,000 <sup>3</sup> | 32,000 <sup>4</sup> |

### Notes

- As the brother is non-resident, therefore, senior citizen benefit is not available.
- As the assessee himself is a non-resident, hence no deduction u/s 80DDB is available.
- As the brother is resident having age of 88 years, hence he is a senior citizen. However, actual expenditure incurred by the assessee is less than ₹ 1,00,000, therefore deduction shall be restricted to actual expenditure incurred.
- As the medical insurance claim is received, hence the amount of deduction (i.e. ₹ 40,000) shall be reduced by the amount of claim received.

**Taxpoint:** However, if the assessee is under the default tax regime, the deduction u/s 80DDB is not available to him.

### 3.3.9 Deduction u/s 80E in respect of repayment of loan for higher education

Not Available under default tax regime

#### Applicable to

An Individual (irrespective of residential status and citizenship of the individual).

#### Conditions to be satisfied

- Loan from specified institution: The assessee had taken a loan from -

➤ a financial institution; or

Financial Institution means a banking company to which the Banking Regulation Act, 1949 applies

(including any banking institution referred to in sec. 51 of that Act) or any other specified financial institution.

- an approved charitable institution

Approved Charitable Institution means an institution established for charitable purposes and approved by the prescribed authority u/s 10(23C) or an institution referred to in Sec. 80G(2)(a)

2. **Purpose of loan:** The loan must have been taken for the purpose of pursuing higher education of himself/herself or for any other following persons:
  - a. Spouse   b. Children (dependent or not); or   c. the student for whom the individual is the legal guardian“Higher education” means any course of study pursued after passing the Senior Secondary Examination or its equivalent from any school, board or university recognised by the Central Government or State Government or local authority or by any other authority authorised by the Central Government or State Government or local authority to do so
3. **Payment of interest:** The assessee pays interest on such loan.
4. **Payment out of taxable income:** The amount must be paid out of income chargeable to tax. However, it is not necessary that such income relates to the current year.

#### Quantum of deduction

Amount paid during the year by way of payment of interest.

#### Maximum permissible period for which deduction is available [Sec.80E(2)]

Deduction under this section shall be allowed for the initial assessment year and 7 assessment years immediately succeeding the initial assessment year<sup>5</sup> or until interest is paid by the assessee in full, whichever is earlier.

<sup>5</sup> Initial Assessment Year means the assessment year relevant to the previous year, in which the assessee starts repaying the loan or interest thereon.

#### Taxpoint

- The deduction is available for a maximum period of 8 consecutive years.
- The period starts from the year in which the assessee starts paying the interest on such loan.

### 3.3.10 Deduction u/s 80EE in respect of interest on loan taken for residential house property

Not Available under the default tax regime

#### Applicable to

Individual (resident or non-resident)

#### Conditions to be satisfied

1. **Loan:** The assessee has taken loan for acquisition of the residential house property
2. **Sanction of Loan:** The loan has been sanctioned by the financial institution\* during the Previous Year 2016-17.
3. **Amount of Loan:** The amount of loan sanctioned for acquisition of the residential house property does not exceed ₹ 35 lakhs.
4. **Value of Residential Property:** The value of the residential house property does not exceed ₹ 50 lakhs.
5. **No other residential property:** The assessee does not own any residential house property on the date of sanction of the loan.

**Quantum of Deduction**

Minimum of the following:

- Interest on loan payable for the previous year
- ₹ 50,000

**Other Points**

Double deduction is not available: Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.

**Taxpoint:** It is irrelevant whether such interest pertains to pre-construction period or post construction period.

**Provision Illustrated**

Compute deduction u/s 80EE in the following cases:

(₹ in lakh)

|                                                                          | Case 1   | Case 2   | Case 3   | Case 4   | Case 5   | Case 6   | Case 7   |
|--------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Assessee                                                                 | P        | Q        | R        | S        | T        | U        | X (HUF)  |
| Date of Sanction of Loan                                                 | 01-10-16 | 01-10-16 | 01-10-16 | 01-10-16 | 01-10-16 | 01-10-15 | 01-10-16 |
| Amount of loan                                                           | ₹ 30     | ₹ 20     | ₹ 40     | ₹ 20     | ₹ 10     | ₹ 20     | ₹ 20     |
| Value of the property                                                    | ₹ 40     | ₹ 55     | ₹ 50     | ₹ 35     | ₹ 35     | ₹ 35     | ₹ 35     |
| Other residential property owned by the Assessee on the date of sanction | No       | No       | No       | Yes      | No       | No       | No       |
| Interest for the P.Y.                                                    | ₹ 1.20   | ₹ 1.20   | ₹ 1.80   | ₹ 1.20   | ₹ 0.40   | ₹ 1.00   | ₹ 1.20   |
| <b>Deduction u/s 80EE</b>                                                | ₹ 0.50   | Nil      | Nil      | Nil      | ₹ 0.40   | Nil      | Nil      |
| Notes                                                                    | 1        | 2        | 3        | 4        | 5        | 6        | 7        |

- Assessee can claim ₹ 70,000 being excess interest, as deduction u/s 24(b)
- As value of the property exceeds ₹ 50 lac hence, deduction u/s 80EE is not available. However, assessee can claim deduction u/s 24(b)
- As amount of loan exceeds ₹ 35 lac hence, deduction u/s 80EE is not available. However, assessee can claim deduction u/s 24(b).
- As assessee owns other residential house property on the date of sanction of loan, hence, deduction u/s 80EE is not available. However, assessee can claim deduction u/s 24(b)
- Assessee can claim ₹ 40,000 as deduction u/s 80EE
- Loan was not sanctioned during the previous year 2016-17
- The deduction u/s 80EE is not available to HUF, however, assessee can claim deduction u/s 24(b).

**Taxpoint:** However, if the assessee is under the default tax regime, the deduction u/s 80EE is not available to him.

**3.3.11 Deduction u/s 80EEA in respect of interest on loan taken for certain house property**

Not Available under the default tax regime

**Applicable to**

Individual (resident or non-resident) not eligible for deduction u/s 80EE

**Conditions to be satisfied**

- 1. Loan:** The assessee has taken loan for acquisition of the residential house property from any financial institution.
- 2. Sanction of Loan:** The loan has been sanctioned by the financial institution (as defined u/s 80EE) during 01-04-2019 to 31-03-2022.
- 3. Value of Residential Property:** The stamp duty value of the residential house property does not exceed ₹ 45 lakhs.
- 4. No other residential property:** The assessee does not own any residential house property on the date of sanction of the loan.
- 5. No deduction u/s 80EE:** The assessee is not eligible for deduction u/s 80EE.

**Quantum of Deduction**

Minimum of the following:

- Interest on loan payable for the previous year
- ₹ 1,50,000

**Other Points**

Double deduction is not available: Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.

**Provision Illustrated**

Compute deduction u/s 80EEA in the following cases:

(₹ in lakh)

|                                                                          | Case 1   | Case 2   | Case 3   | Case 4   | Case 5   | Case 6   |
|--------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|
| Assessee                                                                 | A        | B        | C        | D        | E        | F (HUF)  |
| Date of Sanction of Loan                                                 | 01-10-21 | 01-10-21 | 01-10-21 | 01-10-21 | 01-10-18 | 01-10-20 |
| Amount of loan                                                           | ₹ 30     | ₹ 30     | ₹ 40     | ₹ 30     | ₹ 20     | ₹ 20     |
| Stamp Duty Value of the property                                         | ₹ 40     | ₹ 55     | ₹ 45     | ₹ 35     | ₹ 35     | ₹ 35     |
| Other residential property owned by the Assessee on the date of sanction | No       | No       | No       | Yes      | No       | No       |
| Interest for the P.Y. 2024-25                                            | ₹ 2.20   | ₹ 1.20   | ₹ 1.20   | ₹ 1.20   | ₹ 1.00   | ₹ 1.20   |
| Deduction u/s 80EEA                                                      | ₹ 1.50   | Nil      | ₹ 1.20   | Nil      | Nil      | Nil      |
| Notes                                                                    | 1        | 2        | 3        | 4        | 5        | 6        |

- Assessee can claim ₹ 70,000 being excess interest, as deduction u/s 24(b)
- As value of the property exceeds ₹ 45 lac hence, deduction u/s 80EEA is not available. However, assessee can claim deduction u/s 24(b)
- Deduction cannot exceed interest on loan.
- As assessee owns other residential house property on the date of sanction of loan, hence, deduction u/s 80EEA is not available. However, assessee can claim deduction u/s 24(b)
- Loan was not sanctioned during the specified time
- The deduction u/s 80EEA is not available to HUF, however, assessee can claim deduction u/s 24(b).

**Taxpoint:** However, if the assessee is under the default tax regime, the deduction u/s 80EEA is not available to him.

### 3.3.12 Deduction u/s 80EEB in respect of purchase of electric vehicle

Not Available under the default tax regime

#### Applicable to

Individual (resident or non-resident)

#### Conditions to be satisfied

- Loan:** The assessee has taken loan for purchase of an electric vehicle from any financial institution.
  - Electric vehicle means a vehicle which is powered exclusively by an electric motor whose traction energy is supplied exclusively by traction battery installed in the vehicle and has such electric regenerative braking system, which during braking provides for the conversion of vehicle kinetic energy into electrical energy.
  - Financial institution means a banking company to which the Banking Regulation Act, 1949 applies, or any bank or banking institution referred to in sec. 51 of that Act and includes any deposit taking non-banking financial company or a systemically important non-deposit taking non-banking financial company as defined u/s 43B.
- Sanction of Loan:** The loan has been sanctioned by the financial institution during 01-04-2019 and 31-03-2023.

#### Quantum of Deduction

Minimum of the following:

- Interest on loan payable for the previous year
- ₹ 1,50,000

#### Other Points

**Double deduction is not available:** Where a deduction under this section is allowed for any interest, deduction shall not be allowed in respect of such interest under any other provisions of the Act for the same or any other assessment year.

### 3.3.13 Deduction u/s 80G in respect of donations to certain funds, etc.

Not Available under the default tax regime<sup>++</sup>

#### Applicable to

All assessee (irrespective of residential status and citizenship of the assessee).

#### Conditions to be satisfied

- Donation:** Assessee must donate (not in kind) to specified Funds or Organisations (as listed below).

**Taxpoint:** Donation in kind shall not qualify for deduction

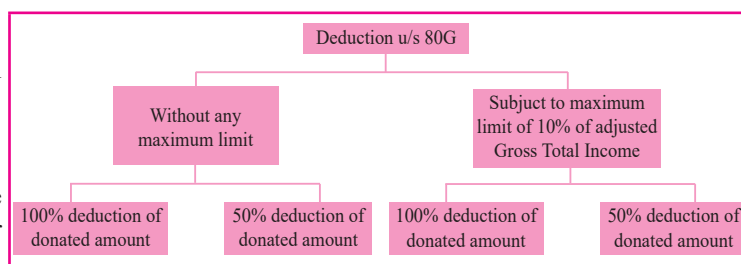
- Mode of donation:** Donation in excess of ₹ 2,000 shall be made by any mode (but not in kind) other than cash.

**Taxpoint:** Cash donation upto ₹ 2,000 shall qualify for deduction.

- Proof of donation:** Proof of donation, in original, should be attached with the return of income.

#### Other Points

- Specified funds or organizations:** Specified Funds or Organisations are divided into two categories:



- ii. On which limit is not applicable (Item No.1 to 23 given in the list) (hereinafter referred as Category A Organisation).
  - iii. On which limit is applicable (Item No.24 to 30 given in the list) (hereinafter referred as Category B Organisation).
- b. **Double deduction is not permissible:** Where deduction under this section has been allowed, the same shall not qualify for deduction under any other section for the same or any other Assessment Year
- c. **Risk Verification:** Claim of the assessee for a deduction in respect of any donation made to an institution or fund to which the provisions of sec. 80G(5) apply [organizations on which limit is applicable with 50% deduction], shall be allowed on the basis of information relating to said donation furnished by the institution or fund to the prescribed income-tax authority or the person authorised by such authority, subject to verification in accordance with the risk management strategy formulated by the Board from time to time.

**Taxpoint:**

- The limit is applicable only on category B organizations or funds.
- The limit is applicable on qualifying amount of donation and not on deduction.
- The limit is not on individual donation but on aggregate donation.

**Computation of quantum of deduction**

| Particulars                                                                                                                                                                                                                                                                                                    | Amount |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 100% or 50% of donation to category A organizations or funds                                                                                                                                                                                                                                                   | ***    |
| Add: 100% or 50% of donation to category B organizations or funds (subject to the Limit <sup>#</sup> )                                                                                                                                                                                                         | ***    |
| <b>Deduction u/s 80G</b>                                                                                                                                                                                                                                                                                       | ***    |
| <sup>#</sup> Limit: 10% of Adjusted Gross total income (hereinafter referred as Adj. GTI)<br>Adjusted GTI = Gross total income – Long term capital gain – Short term capital gain covered u/s 111A - All deductions u/s 80C to 80U other than deduction u/s 80G - Income referred u/s 115A, 115AB, 115AC, etc. |        |
| <b>Taxpoint:</b> While calculating Adjusted GTI, casual income like winning from lotteries, etc. shall be included.                                                                                                                                                                                            |        |

List of specified organizations or funds

| Donee                                                                                        | Maximum limit | Deduction (as a % of net qualifying amount) |
|----------------------------------------------------------------------------------------------|---------------|---------------------------------------------|
| 1. National defence fund set up by the Central Government                                    | NA            | 100%                                        |
| 2. Prime Minister's Drought Relief Fund                                                      | NA            | 50%                                         |
| 3. Prime Minister's National Relief Fund                                                     | NA            | 100%                                        |
| 4. Prime Minister Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND) | NA            | 100%                                        |
| 5. Prime Minister's Armenia Earthquake Relief Fund                                           | NA            | 100%                                        |
| 6. Africa (Public Contributions- India) Fund                                                 | NA            | 100%                                        |
| 7. National Children's Fund                                                                  | NA            | 100%                                        |
| 8. National Foundation for Communal Harmony                                                  | NA            | 100%                                        |
| 9. An approved university or educational institution of national eminence                    | NA            | 100%                                        |
| 10. The Chief Minister's Earthquake Relief Fund, Maharashtra.                                | NA            | 100%                                        |

| Donee                                                                                                                                                                                                                                                         | Maximum limit | Deduction (as a % of net qualifying amount) |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------------------|
| 11. Any fund set up by the Government of Gujarat for providing relief to victims of earthquake in Gujarat                                                                                                                                                     | NA            | 100%                                        |
| 12. Zila Saksharta Samiti                                                                                                                                                                                                                                     | NA            | 100%                                        |
| 13. National or State Blood Transfusion Council                                                                                                                                                                                                               | NA            | 100%                                        |
| 14. Fund set up by a State Government for medical relief to the poor                                                                                                                                                                                          | NA            | 100%                                        |
| 15. Army Central Welfare Fund or Air Force Central Welfare Fund or Indian Naval Benevolent fund                                                                                                                                                               | NA            | 100%                                        |
| 16. Andhra Pradesh Chief Minister's Cyclone Relief Fund                                                                                                                                                                                                       | NA            | 100%                                        |
| 17. National Illness Assistance Fund                                                                                                                                                                                                                          | NA            | 100%                                        |
| 18. Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund                                                                                                                                                                                         | NA            | 100%                                        |
| 19. National Sports Fund or National Cultural Fund or Fund for Technology Development and Application set up by the Central Government                                                                                                                        | NA            | 100%                                        |
| 20. National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities                                                                                                                                           | NA            | 100%                                        |
| 21. Swachh Bharat Kosh*                                                                                                                                                                                                                                       | NA            | 100%                                        |
| 22. Clean Ganga Fund (Only for resident donor)**                                                                                                                                                                                                              | NA            | 100%                                        |
| 23. National Fund for Control of Drug Abuse                                                                                                                                                                                                                   | NA            | 100%                                        |
| 24. Any other fund or any institution which satisfies conditions mentioned in Sec 80G(5)                                                                                                                                                                      | Limit         | 50%                                         |
| 25. Government or any local authority to be utilised for any charitable purpose other than the purpose of promoting family planning                                                                                                                           | Limit         | 50%                                         |
| 26. An authority constituted in India by or under any law enacted either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns & village, or for both | Limit         | 50%                                         |
| 27. Any corporation specified in section 10(26BB) for promoting the interest of minority community                                                                                                                                                            | Limit         | 50%                                         |
| 28. Government or any approved local authority, institution or association to be utilised for the purpose of promoting family planning                                                                                                                        | Limit         | 100%                                        |
| 29. Any temple, mosque, gurdwara, church or other place notified as historic, archaeological or artistic importance or to be a place of worship by the Central Government (for renovation or repair)                                                          | Limit         | 50%                                         |

| Donee                                                                                                                                                                                           | Maximum limit | Deduction (as a % of net qualifying amount) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------------------|
| 30. The Indian Olympic Association or to any notified institute for development of infrastructure for sports and games or sponsorship of sports and games in India (only donation by a company) | Limit         | 100%                                        |

**Illustration 31:**

Compute total income for the A.Y.2026-27 of Miss Dipika, a resident individual, from the following details:

| Particulars                                                                                               | Amount   |
|-----------------------------------------------------------------------------------------------------------|----------|
| Profits and gains of business or profession                                                               | 80,000   |
| Income from Other Sources                                                                                 | 10,000   |
| Long-term Capital Gains                                                                                   | 5,00,000 |
| Payment of medical insurance premium on own life                                                          | 5,000    |
| Donation to National Foundation for communal harmony                                                      | 4,000    |
| Donation to the fund set up by the Gujarat Govt. for providing Relief to victims of earthquake in Gujarat | 5,000    |
| Donation to Prime Minister's Drought Relief Fund                                                          | 5,000    |
| Donation to Approved Charitable Institution                                                               | 12,000   |
| Donation to Central Government for promotion of family planning                                           | 3,000    |
| Donation to a poor boy for higher education                                                               | 10,000   |
| Donation of cloth to an approved institution worth                                                        | 12,000   |
| Donation to charitable institution for construction of home for a particular community                    | 8,000    |

**Solution :**

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

| Particulars                                  | Details             | Amount   |
|----------------------------------------------|---------------------|----------|
| Profits & gains of business or profession    |                     | 80,000   |
| Capital gains: Long term capital gains       |                     | 5,00,000 |
| Income from Other Sources                    |                     | 10,000   |
| Gross Total Income                           |                     | 5,90,000 |
| Less: Deduction under chapter VIA            |                     |          |
| Sec. 80D (Assumed premium is paid by cheque) | 5,000               |          |
| Sec. 80G (Donation)                          | 17,250 <sup>s</sup> | 22,250   |
| Total Income                                 |                     | 5,67,750 |

<sup>s</sup> Statement showing amount of deduction u/s 80G:

| Donation made to                                                                                               | Amount             | Rate | Deduction |
|----------------------------------------------------------------------------------------------------------------|--------------------|------|-----------|
| Donation to National Foundation for Communal Harmony                                                           | 4,000              | 100% | 4,000     |
| Donation to the fund set up by the Gujarat Government for providing relief to victims of earthquake in Gujarat | 5,000              | 100% | 5,000     |
| Donation to Prime Minister's Drought Relief Fund                                                               | 5,000              | 50%  | 2,500     |
| Donation to the Central Government for promotion of family planning                                            | 3,000 <sup>s</sup> | 100% | 3,000     |

| Donation made to                            | Amount | Rate | Deduction     |
|---------------------------------------------|--------|------|---------------|
| Donation to approved charitable institution | 5,500* | 50%  | 2,750         |
| <b>Total amount of donation u/s 80G</b>     |        |      | <b>17,250</b> |

\* Calculation of Deduction for donation on which limit is applicable:

| Computation of limit |                                                      |                                              |
|----------------------|------------------------------------------------------|----------------------------------------------|
| Adjusted GTI         | GTI – LTCG – Deductions other than deduction u/s 80G | ₹ 5,90,000 – ₹ 5,00,000 – ₹ 5,000 = ₹ 85,000 |
| Limit                | 10% of Adj. GTI                                      | 10% of ₹ 85,000 = ₹ 8,500                    |

Application of limit: There is restriction on amount of donation qualifying under this section. If assessee opts to adjust qualifying amount with donation made to approved charitable institution, then he is eligible for deduction to the extent of 50% only. So, it is beneficial for him to adjust qualifying amount, first, with donation made to the 'Central Government for promotion of family planning' as it is eligible for 100% deduction. Hence, donation shall be restricted -

|                                                                 |              |
|-----------------------------------------------------------------|--------------|
| Donation to Central Government for promotion of family planning | 3,000        |
| Donation to approved charitable institution (₹ 8,500 – ₹ 3,000) | 5,500        |
| <b>Total</b>                                                    | <b>8,500</b> |

Donations which are not eligible for deduction u/s 80G are stated below:

| Donation                                                                             | Reason                                                      |
|--------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Donation to a poor boy for higher education                                          | Donation has not been given to a specified organization     |
| Donation of cloth to an approved institution                                         | Donation has been made in kind                              |
| Donation to charitable institution for construction of home for particular community | Amount donated is for the benefit of a particular community |

Taxpoint: However, if the assessee is under the default tax regime, the deduction u/s 80G is not available to him.

### 3.3.14 Deduction u/s 80GG in respect of house rent paid

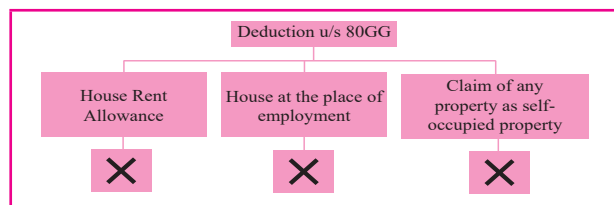
Not Available under the default tax regime

#### Applicable to

An Individual (irrespective of the residential status and citizenship of the individual)

#### Conditions to be satisfied

1. **No House rent allowance:** Assessee is not receiving exempted House Rent Allowance (HRA).



2. **No house at the place of employment:** He or his spouse or minor child or HUF of which he is a member, should not own any residential house at a place where the assessee resides, perform the duties of his office, or employment or carries on his business or profession.

3. **No claim for the benefit of self-occupied house property:** Assessee should not treat any residential house situated at other places as self-occupied property u/s 23(2)(a) or 23(4)(a).
4. **Proof for payment of rent:** A declaration in Form 10BA should be filed for expenditure incurred by him towards payment of rent.

**Taxpoint:** Rent must be paid for a residential house property whether furnished or unfurnished.

**Quantum of deduction**

Minimum of the following:

- ₹ 5,000 per month;
- 25% of Adjusted Gross total income for the year (referred as Adj. GTI); or
- The excess of actual rent paid for accommodation over 10% of Adjusted Gross total income.

Arithmetically, [Rent paid - 10% of Adj. GTI]

Note

Adjusted GTI = Gross total income – Long term capital gain – STCG taxable u/s 111A - All deduction u/s 80's other than sec. 80GG – Income u/s 115A, 115AB, 115AC, etc.

**Taxpoint:** While calculating Adjusted GTI, casual income like winning from lotteries etc. shall be included.

Treatment in case of accommodation at concessional rent provided by employer

Where an assessee has been provided an accommodation by his employer at concessional rent, then rent paid by him shall be:

- ⊙ deducted while valuing such perquisite; and
- ⊙ eligible for deduction u/s 80GG.

**Illustration 32:**

Compute total income of Sri Bajaj of Delhi from the following data:

| Particulars                                                  | Amount   |
|--------------------------------------------------------------|----------|
| Profits & gains of business or profession                    | 8,00,000 |
| Income from house property (let-out and situated at Kolkata) | 40,000   |
| Income from other sources                                    | 10,000   |
| Rent paid for office                                         | 8,000    |
| Rent paid for residential house in Delhi                     | 1,20,000 |

**Solution :**

Calculation of total income of Sri Bajaj for the A.Y. 2026-27

| Particulars                               | Amount          |
|-------------------------------------------|-----------------|
| Profits & gains of business or profession | 8,00,000        |
| Income from house property                | 40,000          |
| Income from other sources                 | 10,000          |
| <b>Gross Total Income</b>                 | <b>8,50,000</b> |
| Less: Deduction u/s 80GG <sup>#</sup>     | 35,000          |
| <b>Total Income</b>                       | <b>8,15,000</b> |

<sup>#</sup> Computation of deduction u/s 80GG

| Particulars                                 | Working                        | Details  | Amount |
|---------------------------------------------|--------------------------------|----------|--------|
| Least of the following shall be deductible: |                                |          |        |
| 1. ₹ 5,000 per month                        | ₹ 5,000 * 12                   | 60,000   |        |
| 2. 25% of Adjusted Gross total income       | 25% of ₹ 8,50,000 <sup>#</sup> | 2,12,500 |        |

| Particulars                                                                                                                                                                                                |                                                |        | Amount |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|--------|--------|
| 3. Excess of rent paid over 10% of Adj. GTI                                                                                                                                                                | ₹ 1,20,000 - (10% of ₹ 8,50,000 <sup>#</sup> ) | 35,000 | 35,000 |
| <sup>#</sup> Adjusted GTI = Gross total income – Long term capital gain – Short term capital gain covered u/s 111A - All deduction under 80's other than section 80GG – Income u/s 115A, etc. = ₹ 8,50,000 |                                                |        |        |
| Note: Rent paid for office is irrelevant for the purpose of Sec. 80GG.                                                                                                                                     |                                                |        |        |

Taxpoint: However, if the assessee is under the default tax regime, the deduction u/s 80GG is not available to him.

### 3.3.15 Deduction u/s 80GGA in respect of donations for scientific research, etc.

Not Available under the default tax regime

#### Applicable to

An assessee, who is not having any income under the head “Profits & gains of business or profession”.

#### Conditions to be satisfied

- During the previous year, assessee paid any sum -

| Purposes                                   | Amount paid to                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| For Rural development                      | <ul style="list-style-type: none"> <li>➤ Approved association or institution, being engaged in any approved programme of rural development, to be used for carrying any rural development programme provided the assessee furnishes a certificate as referred in sec. 35CCA(2);</li> <li>➤ Approved association or institution engaged in training the persons for implementing programme of rural development provided that the assessee furnishes a certificate referred in sec. 35CCA(2A);</li> <li>➤ Notified Rural Development Fund for the purpose of sec. 35CCA(1)(c)</li> </ul> |
| For poverty eradication                    | Notified National Urban Poverty Eradication Fund setup and notified by the Central Government for the purpose of sec. 35CCA(1)(d).                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| For Scientific research                    | Research association, university, college or to other institution as approved u/s 35(1)(ii) to be used for scientific research.                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| For social science or statistical research | Research association which has as its object the undertaking of research in social science or statistical research or to a university, college or other institution approved u/s 35(1)(iii) to be used for research in social science or statistical research.                                                                                                                                                                                                                                                                                                                          |
| For other purpose                          | A public sector company or a local authority or an association or institution approved by the National Committee for carrying out any eligible project or scheme, provided a certificate is obtained from such company etc. as mentioned u/s 35AC(2)(a).                                                                                                                                                                                                                                                                                                                                |

- Mode of Payment: Payment in excess of ₹ 2,000 to aforesaid purpose shall be made by any mode other than cash.

#### Quantum of deduction

Amount actually paid is fully deductible.

#### Other Points

**Withdrawal of approval:** Deduction shall not be denied merely on the ground that subsequent to the contribution made by the assessee, the approval granted (or notification notifying eligible projects) has been withdrawn.

**Risk Verification:** Claim of the assessee for a deduction in respect of any sum referred to in sec. 80GGA(2), shall be allowed on the basis of information relating to said sum furnished by the payee to the prescribed income-tax authority or the person authorised by such authority, subject to verification in accordance with the risk management strategy formulated by the Board from time to time.

### 3.3.16 Deduction in respect of contributions to political parties [Sec. 80GGB]

#### Applicable to

An Indian company (not opting for sec. 115BAA or 115BAB)

#### Condition

Assessee has contributed any sum (by any mode other than cash), in the previous year, to any political party or an electoral trust.

#### Quantum of deduction

100% of such contribution made in the previous year.

#### Taxpoint

##### ➤ Contribute means

- a. a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose;
  - b. the expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.
- It may be noted that there is a specific disallowance u/s 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure on advertisement would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income u/s 80GGB.

### 3.3.17 Deduction in respect of contributions given by any person to political parties [Sec. 80GGC]

For individual/HUF/AOP/BOI: Not Available under the default tax regime

For co-operative societies: Not available if opts for sec. 115BAD or sec. 115BAE

#### Applicable to

All assessee except local authority and every artificial juridical person wholly or partly funded by the Government

#### Condition

Assessee has contributed any sum (by any mode other than cash), in the previous year, to any political party or an electoral trust.

#### Quantum of deduction

100% of such contribution made in the previous year.

### 3.3.18 Deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc. [Sec. 80-IA]

Deduction under this section is available for industrial undertaking engaged in the following business—

- Infrastructure Facility
- Industrial parks or special economic zone;
- Power generation, transmission and distribution

### Infrastructure facility

Applicable to

Indian Company or any consortium (combination) of such company or by an authority or a board or a corporation or any other body established or constituted under any Central or State Act.

Conditions to be satisfied

1. **Nature of business:** The enterprise should carry on the business of -
  - a. Developing; or
  - b. Operating and maintaining; or
  - c. Developing, operating and maintaining,
    - any infrastructure facility.

Infra-structure facility means —

- a. A road including toll road, a bridge or a rail system;
  - b. A highway project including housing or other activities being an integral part of the highway project;
  - c. A water supply project, water treatment system, irrigation project, sanitation and sewerage system or solid waste management system;
  - d. A port, airport, inland waterway or inland port or navigational channel in the sea.
2. **Agreement:** Assessee has entered into an agreement with the Central Government or a State Government or a local authority or any other statutory body for -
    - i. developing; or
    - ii. operating and maintaining; or
    - iii. developing, operating and maintaining
      - a new infrastructure facility.
  3. **Commencement of business:** It has started or starts operating & maintaining the facility on or after the 1-4-1995 but before 01-04-2017.

Quantum of Deduction

| Case                                                                                           | Quantum of Deduction                          | Period of deduction                                                                                                                                               |
|------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| For infrastructure facility being -                                                            |                                               |                                                                                                                                                                   |
| A port, airport, inland waterway or inland port or navigational channel in the sea             | 100% of the profit derived from such business | For any 10 consecutive years out of 15 years commencing from the year in which the undertaking begins to operate.                                                 |
| Any housing and other development activities which are an integral part of the highway project | 100% of the profit derived from such business | For any 10 consecutive years out of 20 years commencing from the year in which the undertaking begins to operate subject to certain other conditions <sup>#</sup> |

|                    |                                               |                                                                                                                   |
|--------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Any other facility | 100% of the profit derived from such business | For any 10 consecutive years out of 20 years commencing from the year in which the undertaking begins to operate. |
|--------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------|

The conditions for claiming deduction in respect of any profit derived from housing and other development activities, which are an integral part of the highway project are as follows -

- i. Profit of such undertaking shall be computed in prescribed manner.
- ii. Such profit has been transferred to special reserve account;
- iii. The reserve shall be utilised for highway project excluding housing and other activities before the expiry of 3 years following the previous year in which such amount was transferred; &
- iv. Every assessee shall maintain separate accounts for such activities & shall submit a certificate in Form 10CCC from an accountant, specifying the amount credited to the reserve account and the amount utilised during the relevant previous year for the highway project.

#### Notes

- a. Method of computation of profit of housing or other activities, which are an integral part of the highway project

|                                                                                                                   |                                                                                                |
|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| In a case where the annual profits can be arrived at in accordance with the regular method of accounting followed | The profits computed as per provisions of the Act                                              |
| In any other case                                                                                                 | The profits based on the percentage of completion of such activities during the previous year. |

- b. Consequence when reserve is not so utilized: Where any reserve is not so utilised or unutilized, then such amount shall be taxable as income of the previous year in which transfer to reserve took place.

### Industrial Park or Special Economic Zone

Applicable to

**All assessee**

Condition to be satisfied

1. **Nature of business:** Such undertaking should be engaged in the business of -
  - ⊙ Developing; or
  - ⊙ Developing and operating or maintaining; or
  - ⊙ Operating,
 - industrial park or special economic zone notified by Central Government.
2. **Commencement of business:** Such undertaking develops, develops and operates or maintains and operates such park or zone for the following period -

| In case of            | Period                |
|-----------------------|-----------------------|
| Industrial park       | 1-4-1997 to 31-3-2011 |
| Special Economic Zone | 1-4-2001 to 31-3-2006 |

### Quantum of Deduction

100% of profit derived from such business for any 10 consecutive years out of 15 years commencing from the year in which the undertaking begins to operate.

From the date of application of sec. 80-IAB, no deduction shall be available u/s 80-IA for SEZ notified on or after 1-4-2005.

**Power generation, transmission and distribution**

Applicable to

All assessee

**Conditions to be satisfied**

1. **Nature of business:** Such undertaking is set up in India for the generation or generation and distribution of power.
2. **Commencement of business:** Such undertaking commences business during the following time schedule:

| In case of                                                                                                                                                                                                                                    | Period                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| Generation of power                                                                                                                                                                                                                           | 1-4-1993 to 31-3-2017 |
| Transmission or distribution by laying a network of new transmission or distribution lines                                                                                                                                                    | 1-4-1999 to 31-3-2017 |
| Substantial renovation and modernization <sup>1</sup> of the existing transmission or distribution lines                                                                                                                                      | 1-4-2004 to 31-3-2017 |
| <sup>1</sup> . “Substantial renovation and modernisation” means an increase in the plant and machinery in the network of transmission or distribution lines by at least 50% of the book value of such plant and machinery as on the 1-4-2004. |                       |

3. **New Business:** Business should not be formed by splitting up or reconstruction of an existing business.

Exception

However, this condition is not applicable in the following cases:

- In case of reconstruction, splitting up or reorganization of State Electricity Board;
- In case when conditions given u/s 33B are satisfied, which are as follows -
  - a. The business of an industrial undertaking carried on in India is discontinued in any previous year by reason of extensive damage to, or destruction of, any building, machinery, plant or furniture owned by the assessee being used for business purpose.
  - b. Such damage was caused due to -
    - i. flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; or
    - ii. riot or civil disturbance; or
    - iii. accidental fire or explosion; or
    - iv. action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),
  - c. Such business is re-established, reconstructed or revived by the assessee at any time before the expiry of 3 years from the end of previous year in which damage was caused.

4. **New Plant & Machinery:** Such undertaking should not be formed by transfer of machinery or plant previously used for any purpose.

Exception

- i. In case of reconstruction, splitting up or reorganization of State Electricity Board;
- ii. A plant or machinery is deemed as new asset if the following conditions are satisfied -
  - a. Such plant or machinery is imported into India;

- b. Depreciation on such asset has not been allowed under this Act to any person; and
  - c. The assessee was the first user of such asset in India.
- iii. Where the total value of old plant and machinery transferred to the new business does not exceed 20% of total value of plant and machinery used in such business, then this condition is deemed to be satisfied.

### Quantum of Deduction

100% of profit derived from such business for any 10 consecutive years out of 15 years commencing from the year in which the undertaking begins to operate.

**Note:** In case of undertaking engaged in transmission or distribution by laying a network of new transmission or distribution lines, deduction shall be limited to the extent of profit derived from laying of such network of new lines.

### Undertaking set-up for re-construction or revival of a power generating unit

#### Applicable to

Indian company

#### Conditions to be satisfied

- a. Such company is formed before 30-11-2005 with majority equity participation by public sector companies for the purpose of enforcing the security interest of the lenders to the company owning the power generating plant.
- b. Such company is notified before 31-12-2005 by the Central government.
- c. An undertaking must be set up for reconstruction or revival of a power generating plant.
- d. Such undertaking begins to generate or transmit or distribute power before 31-3-2011

### Quantum of Deduction

100% of profit derived from such business for any 10 consecutive years out of 15 years commencing from the year in which the undertaking begins to operate.

Other points for all eligible undertaking u/s 80-IA

- 1. Return of income is required to be furnished within due date of filing of return as specified u/s 139(1).
- 2. Certificate in Form 10CCB from a chartered accountant is required to be furnished one month prior to the due date of submission of the return of income.
- 3. In the following cases, Assessing Officer may recompute profit of the undertaking –

| Case 1: Transaction between two undertakings of the same assessee | Case 2: Transaction between two assessee                                 |
|-------------------------------------------------------------------|--------------------------------------------------------------------------|
| Conditions                                                        |                                                                          |
| a. Assessee carries on at least two undertakings                  | a. Assessee has entered into business transactions with any other person |

|                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| b. Out of such undertakings at least one is eligible for exemption and at least one is not eligible for exemption                                                                                                                              | b. Business between the assessee carrying on the eligible business and any other person is so arranged that the business transacted between them produces to the assessee more than the ordinary profits, which might be expected to arise in such eligible business |
| c. Goods are transferred from eligible undertaking to any non eligible undertaking or vice versa                                                                                                                                               |                                                                                                                                                                                                                                                                      |
| d. The consideration for such transfer does not correspond to the market value of such goods as on the date of transfer                                                                                                                        |                                                                                                                                                                                                                                                                      |
| <b>Treatment</b>                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                      |
| Profits and gains of eligible business shall be computed as if the transfer, in either case, had been made at the market value of such goods as on that date.                                                                                  | The Assessing Officer shall, in computing the profits and gains of such eligible business, take the amount of profits as may reasonably be deemed to have been derived there from.                                                                                   |
| However, in case the aforesaid arrangement involves a specified domestic transaction referred to in sec. 92BA, the amount of profits from such transaction shall be determined having regard to arm's length price as defined in sec. 92F(ii). |                                                                                                                                                                                                                                                                      |

4. Inter-unit transfer (Sec.80A): Where -

- a. Assessee carries on at least two units
- b. Out of such units at least one is eligible for deduction and at least one is not eligible for exemption
- c. Goods or services are transferred from eligible unit to any non eligible unit or vice versa
- d. The consideration for such transfer does not correspond to the market value of such goods as on the date of transfer

then, deduction shall be computed as if the transfer, in either case, had been made at the market value\$ of such goods or services as on that date.

\$ Market value in relation to any goods or services means:

- i. Where the transfer of such goods or services is a specified domestic transaction referred to in section 92BA the arm's length price as defined in sec. 92F(ii);
- ii. The price that such goods or services would ordinarily fetch in the open market

5. Double deduction is not allowed

- a) Where any deduction is allowed under this section, then deduction shall not be allowed under other provisions; and
  - b) Deduction, in any case, cannot exceed the profits and gains of eligible business of undertaking.
6. The profits and gains of an eligible business shall for the purpose of determining the quantum of deduction for the assessment year immediately succeeding the initial assessment year or any subsequent assessment year, be computed as if such eligible business was the only source of income of the assessee during the previous year relevant to the initial assessment year and to every subsequent assessment year up to and including the assessment year for which the determination is to be made.
7. No deduction shall be allowed if the deduction has not been claimed in the return of income.
8. No benefit is available in relation to a specified business which is in the nature of a works contract awarded by any person (including the Central or State Government) and executed by the undertaking or enterprise.

### 3.3.19 Deduction in respect of profits and gains by an undertaking or enterprise engaged in development of Special Economic Zone [Sec. 80-IAB]

#### Applicable to

All assessee

#### Conditions to be satisfied

1. It must be engaged in the business of developing a Special Economic Zone (SEZ).
2. Such SEZ shall be notified on or after 1-4-2005 under the Special Economic Zones Act, 2005
3. Such development has begun before 01-04-2017.

#### Quantum of deduction

100% of profit derived from such business for 10 consecutive assessment years out of 15 years commencing from the year in which such SEZ has been notified.

#### Other Points

- a. Where a developer transfers the operation and maintenance of such SEZ to another developer, then such other developer shall claim deduction for remaining period.
- b. From the date of application of this section, no deduction shall be available u/s 80-IA for SEZ notified on or after 1-4-2005.
- c. Where any deduction is allowed under this section, then deduction shall not be allowed under any other provisions.
- d. Return of income in time: Refer sec. 80-IA
- e. Audit report: Refer sec. 80-IA
- f. Power of Assessing Officer to recompute profit: Refer sec. 80-IA
- g. No deduction shall be allowed if the deduction has not been claimed in the return of income.
- h. Profit from such business is only source of income: Refer sec. 80-IA

### 3.3.20 Deduction in respect of eligible start-up [Sec. 80-IAC]

#### Applicable to

An eligible start-up

- ⊙ Eligible start-up means a company or a limited liability partnership engaged in eligible business which fulfils the following conditions:
  - a. it is incorporated on or after 01-04-2016 but before 01-04-2030;
  - b. the total turnover of its business does not exceed ₹ 100 crore in the previous year relevant to the assessment year for which deduction is claimed; and
  - c. it holds a certificate of eligible business from the notified Inter-Ministerial Board of Certification.
- ⊙ Eligible business means a business carried out by an eligible start up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation.

**Conditions to be satisfied**

1. Eligible Business: The assessee should be engaged in the eligible business
2. New Business: Business should not be formed by splitting up or reconstruction of an existing business.

**Exception**

However, this condition is not applicable when conditions given u/s 33B are satisfied, which are as follows -

- The business of an industrial undertaking carried on in India is discontinued in any previous year by reason of extensive damage to, or destruction of, any building, machinery, plant or furniture owned by the assessee being used for business purpose.
- Such damage was caused due to -
  - i. flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; or
  - ii. riot or civil disturbance; or
  - iii. accidental fire or explosion; or
  - iv. action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),
- Such business is re-established, reconstructed or revived by the assessee at any time before the expiry of 3 years from the end of previous year in which damage was caused.

3. New Plant and Machinery: Such undertaking should not be formed by transfer of machinery or plant previously used for any purpose.

**Exception**

- i. A plant or machinery is deemed as new asset if the following conditions are satisfied -
  - a. Such plant or machinery is imported into India;
  - b. Depreciation on such asset has not been allowed under this Act to any person; and
  - c. The assessee was the first user of such asset in India.
- ii. Where the total value of old plant and machinery transferred to the new business does not exceed 20% of total value of plant and machinery used in such business, then this condition is deemed to be satisfied.

**Quantum of deduction**

100% of profit derived from such business for 3 consecutive assessment years out of 10 years commencing from the year in which such eligible start-up is incorporated.

**Other Points**

- a. Where any deduction is allowed under this section, then deduction shall not be allowed under any other provisions.
- b. Audit report: Refer sec. 80-IA
- c. Return of income in time: Refer sec. 80-IA
- d. Power of Assessing Officer to recompute profit: Refer sec. 80-IA
- e. No deduction shall be allowed if the deduction has not been claimed in the return of income.
- f. Profit from such business is only source of income: Refer sec. 80-IA

### 3.3.21 Deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings [Sec. 80-IB]

Processing, preservation and packaging of fruits or vegetables, meat or integrated business of handling, storage & transportation of foodgrains [Sec.80-IB (11A)]

#### Applicable to

All assessee

#### Conditions to be satisfied

1. The undertaking shall be engaged in -
  - the business of processing, preservation and packaging of fruits or vegetables; or
  - the business of processing, preservation and packaging of meat and meat products or poultry or marine or dairy products; or
  - the integrated business of handling, storage and transportation of foodgrains.
2. **Commencement of operations:** The aforesaid business begins to operate on or after following period:

| Nature of business                                                                                      | Business begins to operate |
|---------------------------------------------------------------------------------------------------------|----------------------------|
| Processing, preservation and packaging of meat and meat products or poultry or marine or dairy products | On or after 01-04-2009     |
| Other specified business                                                                                | On or after 01-04-2001     |

#### Quantum of deduction

| Period of deduction | Percentage of deduction                                   |
|---------------------|-----------------------------------------------------------|
| First 5 years       | 100% of profit from such business                         |
| For next 5 years    | 25% (30% in case of company) of profit from such business |

#### Other Points applicable on any undertaking covered by Sec. 80IB

For followings, refer sec. 80-IA

1. Return of income in time
2. Audit Report
3. Power of Assessing Officer to recompute profit
4. Double deduction is not allowed
5. Computation of profit of eligible business
6. Deduction must be claimed in the return of income

### 3.3.22 Deduction in respect of profits and gains from Housing Projects [Sec. 80-IBA]

#### Applicable to

All assessee

#### Conditions to be satisfied

1. **Housing Project or Rental Housing Project:** The assessee is engaged in the business of
  - a. developing and building housing projects; or
  - b. developing and building rental housing project.

Housing project shall be a project which fulfils the following conditions:

- a. The project is approved by the competent authority after 01-06-2016, but on or before 31-03-2022.
- b. The project is completed within a period of 5 years from the date of approval by the competent authority.
  - ◉ Where the approval in respect of a housing project is obtained more than once, the project shall be deemed to have been approved on the date on which the building plan of such housing project was first approved by the competent authority;
  - ◉ The project shall be deemed to have been completed when a certificate of completion of project as a whole is obtained in writing from the competent authority.
- c. The carpet area of the shops and other commercial establishments included in the housing project does not exceed 3% of the aggregate carpet area.
- d. The project should satisfy the following measuring criteria:

| Location of the plot                                                                                                                                                                                                              | Minimum Size of plot of land | Maximum Size of carpet area of the residential unit | Minimum utilisation of Floor Area Ratio |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------------------------|-----------------------------------------|
| Within the metropolitan cities of Bengaluru, Chennai, Delhi National Capital Region (limited to Delhi, Noida, Greater Noida, Ghaziabad, Gurugram, Faridabad), Hyderabad, Kolkata and Mumbai (whole of Mumbai Metropolitan Region) | 1,000 sq. meters             | 60 sq. meters                                       | 90%                                     |
| Any other place                                                                                                                                                                                                                   | 2,000 sq. meters             | 90 sq. meters                                       | 80%                                     |

- e. The project is the only housing project on such plot of land;
- f. The stamp duty value of a residential unit in the housing project does not exceed ₹ 45 lakh.
- g. Where a residential unit in the housing project is allotted to an individual, no other residential unit in the housing project shall be allotted to the individual or the spouse or the minor children of such individual;
- h. The assessee maintains separate books of account in respect of the housing project.

### Quantum of Deduction

100% of the profits derived from such business.

### Other Points

- ◉ Deduction is not available to any assessee who executes the housing project as a works-contract awarded by any person (including the Central Government or the State Government).
- ◉ Where the housing project is not completed within the specified period, then deduction has been claimed and allowed earlier, shall be deemed to be the income of the assessee chargeable under the head “Profits and gains of business or profession” of the previous year in which the period for completion so expires.
- ◉ Double deduction is not available.
- ◉ Return of income in time: Refer sec. 80-IA
- ◉ Competent authority means the authority empowered to approve the building plan by or under any law for the time being in force.
- ◉ Floor Area Ratio means the quotient obtained by dividing the total covered area of plinth area on all the floors by the area of the plot of land.

- ⦿ Housing project means a project consisting predominantly of residential units with such other facilities and amenities as the competent authority may approve subject to the provisions of this section.
- ⦿ Rental housing project means a project which is notified by the Central Government on or before 31-03-2022 and fulfils such conditions as may be specified in the said notification.
- ⦿ Residential unit means an independent housing unit with separate facilities for living, cooking and sanitary requirements, distinctly separated from other residential units within the building, which is directly accessible from an outer door or through an interior door in a shared hallway and not by walking through the living space of another household.
- ⦿ Carpet area means the net usable floor area of an apartment, excluding the area covered by the external walls, areas under services shafts, exclusive balcony or verandah area and exclusive open terrace area, but includes the area covered by the internal partition walls of the apartment.

### 3.3.23 Special provisions in respect of certain undertakings in North-Eastern States [Sec. 80-IE]

#### Applicable to

All assessee

#### Conditions to be satisfied

1. **Time and Nature of business:** The assessee begins following activity during 01-04-2007 and 31-03-2017:
  - a. manufacture or production of any eligible article or thing; or  
Eligible article or thing means the article or thing other than the following:
    - i. Tobacco and manufactured tobacco substitutes;
    - ii. Pan masala;
    - iii. Plastic carry bags of less than 20 microns as specified by the Ministry of Environment and Forests; and
    - iv. Goods produced by petroleum oil or gas refineries.
  - b. undertakes substantial expansion; or  
Substantial expansion means increase in the investment in the plant and machinery by at least 25% of the book value of plant and machinery (before taking depreciation in any year), as on the first day of the previous year in which the substantial expansion is undertaken.
  - c. carry on any eligible business.
    - i. hotel (not below two star category);
    - ii. adventure and leisure sports including ropeways;
    - iii. providing medical and health services in the nature of nursing home with a minimum capacity of 25 beds;
    - iv. running an old-age home;
    - v. operating vocational training institute for hotel management, catering and food craft, entrepreneurship development, nursing and para-medical, civil aviation related training, fashion designing and industrial training;
    - vi. running information technology related training centre;
    - vii. manufacturing of information technology hardware; and
    - viii. Bio-technology
2. **Location:** Such activity takes place in any of the North-Eastern States.  
North-Eastern States means the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura.
3. **New Business:** It is not formed by splitting up, or the reconstruction, of a business already in existence  
Exception: Refer sec. 80-IAC

4. **New Plant & Machinery:** It is not formed by the transfer to a new business of machinery or plant previously used for any purpose.  
Exception: Refer sec. 80-IAC
5. Return of income is required to be furnished within due date.
6. A report of audit from chartered accountant (certifying that the deduction has been correctly claimed) shall be furnished one month prior to the due date of filing of the return of income.

#### Quantum of deduction

100% of the profits and gains of such business for a period of 10 consecutive assessment years, beginning from the assessment year relevant to the previous year in which such undertaking begins to manufacture or produce articles or things, or completes substantial expansion.

#### Other Points

- a. Double deduction is not available.
- b. Power of Assessing Officer to recomputed profit: Refer sec. 80-IA
- c. Profit from such business is only source of income: Refer sec. 80-IA
- d. No deduction shall be allowed if the deduction has not been claimed in the return of income.

### 3.3.24 Deduction u/s 80JJA in respect of profits and gains of business of collecting and processing of bio-degradable waste

#### Applicable to

All assessee

#### Conditions to be satisfied

Assessee is engaged in business of collecting and processing or treating of bio-degradable waste for –

- a) generating power; or b) producing bio-fertilizers, bio-pesticides or other biological agents; or c) producing bio-gas; or d) making pellets or briquettes for fuel; or e) organic manure.

#### Quantum of deduction

100% of the profit derived from such business for a period of 5 consecutive years from the year of commencement of such business.

#### Other Points

- a. Double deduction is not allowed.
- b. Inter-unit transfer: Refer sec. 80-IA
- c. Return of income in time: Refer sec. 80-IA
- d. No deduction shall be allowed if the deduction has not been claimed in the return of income.

### 3.3.25 Deduction u/s 80JJAA in respect of employment of new workmen

Available under both tax regimes

#### Applicable to

Any assessee subject to tax audit under sec. 44AB

#### Conditions to be satisfied

1. **New Business:** Business is not formed by splitting up, or the reconstruction, of an existing business.

Exception:

However, this condition is not applicable when conditions given u/s 33B are satisfied, which are as follows -

- The business of an industrial undertaking carried on in India is discontinued in any previous year by reason of extensive damage to, or destruction of, any building, machinery, plant or furniture owned by the assessee being used for business purpose.
  - Such damage was caused due to -
    - i. flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; or
    - ii. riot or civil disturbance; or
    - iii. accidental fire or explosion; or
    - iv. action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),
  - Such business is re-established, reconstructed or revived by the assessee at any time before the expiry of 3 years from the end of previous year in which damage was caused.
2. **No business reorganization:** Business is not acquired by the assessee by way of transfer from any other person or as a result of any business reorganization.
3. **Audit:** Books of account should be audited and report thereof should be submitted one month prior to the due date of the filing of the return of income.
4. **Claimed in the return:** No deduction shall be allowed if the deduction has not been claimed in the return of income.

### Quantum of deduction

30% of additional employee cost incurred in the course of such business in the previous year, for 3 assessment years including the assessment year relevant to the previous year in which such employment is provided

### Other Points

- Return of income is required to be furnished within due date of filing of return as specified u/s 139(1).
- Additional employee cost means the total emoluments paid or payable to additional employees employed during the previous year.
  - In the case of an existing business, the additional employee cost shall be nil, if:
    - a. there is no increase in the number of employees from the total number of employees employed as on the last day of the preceding year;
    - b. emoluments are paid otherwise than by an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through other specified electronic modes<sup>#</sup>.
  - In the first year of a new business, emoluments paid<sup>##</sup> or payable to employees employed during that previous year shall be deemed to be the additional employee cost.
- Additional employee means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include:
  - a. an employee whose total emoluments are more than ₹ 25,000 per month; or
  - b. an employee for whom the entire contribution is paid by the Government under the Employees' Pension Scheme notified in accordance with the provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952; or
  - c. an employee employed for a period of less than 240 days (150 days in case of an assessee who is engaged in the business of manufacturing of apparel or footwear or leather products) during the previous year; or

Taxpoint: Where an employee is employed during the previous year for a period of less than 240 days (or 150 days), but is employed for a period of 240 days (or 150 days) in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year.

<sup>#</sup> Includes payment made through credit card, debit card, net banking, IMPS (Immediate Payment Services), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Fund Transfer), BHIM (Bharat Interface for Money) Aadhar Pay].

<sup>##</sup> Paid through an account payee cheque or account payee bank draft or by use of electronic clearing system through a bank account or through other specified electronic modes.

- d. an employee who does not participate in the recognised provident fund.

Taxpoint: Casual employees don not participate in RPF.

- Emoluments means any sum paid or payable to an employee in lieu of his employment by whatever name called, but does not include:
  - a. any contribution paid or payable by the employer to any pension fund or provident fund or any other fund for the benefit of the employee under any law for the time being in force; and
  - b. any lump-sum payment paid or payable to an employee at the time of termination of his service or superannuation or voluntary retirement, such as gratuity, severance pay, leave encashment, voluntary retrenchment benefits, commutation of pension and the like.

### Provision Illustrated

ABC Ltd., an existing company appoints the following employees during the F.Y. 2025-26.

| Case | No. of employees | Date of appointment | Salary (in ₹ per person per month) |
|------|------------------|---------------------|------------------------------------|
| 1    | 10               | 02-May-2025         | 25,000                             |
| 2    | 15               | 01-June-2025        | 28,000                             |
| 3    | 20               | 01-March-2026       | 24,500                             |

Compute deduction u/s 80JJAA

### Solution

Computation of deduction u/s 80JJAA

| Case | Total salary (in ₹) | Amount of deduction                                                                        |
|------|---------------------|--------------------------------------------------------------------------------------------|
| 1    | 27,50,000           | ₹ 8,25,000 i.e., 30% of ₹ 27,50,000                                                        |
| 2    | 42,00,000           | Nil as salary exceeds ₹ 25,000 p.m.                                                        |
| 3    | 4,90,000            | Nil as employees are not employed for the required number of days during the previous year |

### Provision Illustrated

ABC Ltd., an existing company appoints 50 employees during the F.Y. 2025-26, details are as under

| No. of Employees | Salary p.m. | No. of days employed                              | Participation in RPF                  | Mode of payment                               |
|------------------|-------------|---------------------------------------------------|---------------------------------------|-----------------------------------------------|
| 25               | 20,000      | Out of 25, 2 were employed for less than 240 days | 5 employees do not participate in RPF | Through Electronic mode                       |
| 25               | 30,000      | Out of 25, 5 were employed for less than 240 days | 2 employees do not participate in RPF | Out of 25, salary to 2 employees paid in cash |

Compute deduction u/s 80JJAA

### Solution

Calculation of number of eligible additional employees

| Particular                                                                                | No. of Employees |
|-------------------------------------------------------------------------------------------|------------------|
| Total no. of employees                                                                    | 50               |
| Less: Employees whose emoluments are more than ₹ 25,000/-                                 | (25)             |
| Less: Employees who do not participate in RPF (out of those whose salary is ₹ 20,000/-)   | (5)              |
| Less: Employees who employed less than 240 days (out of those whose salary is ₹ 20,000/-) | (2)              |
| No. of eligible additional employees                                                      | 18               |

Deduction u/s 80JJAA = 30% of [₹ 20,000 × 18 × 12] = ₹ 12,96,000.

### 3.3.26 Deduction u/s 80LA in respect of certain incomes of Offshore Banking Units

Applicable to

- ⦿ A scheduled bank owning an offshore banking unit in a Special Economic Zone (SEZ); or
- ⦿ Any other bank incorporated by or under the laws of a country outside India and having an Offshore banking unit in SEZ.
- ⦿ Unit of an International Financial Services Center.

Offshore Banking Unit means a branch of a bank in India located in the SEZ and has obtained the permission u/s 23(1)(a) of the Banking Regulation Act, 1949.

International Financial Services Center means an International Financial Services Center which has been approved by the Central Government u/s 18(1) of the Special Economic Zones Act, 2005.

**Taxpoint:**

- ⦿ Assessee must be a scheduled bank;
- ⦿ It has a branch in India located in SEZ

**Conditions to be satisfied**

1. **Certificate of a chartered accountant:** Assessee must furnish along with the return of income, a report of a chartered accountant in Form 10CCF, certifying that the deduction has been correctly claimed.
2. **Submission of permission:** A copy of the permission obtained u/s 23(1)(a) of the Banking Regulation Act, 1949 or copy of permission or registration obtained under the International Financial Services Centre Authority Act, 2019 is required to be furnished along with the return of income.

**Quantum of deduction**

| In case of Unit of an International Financial Services Center                                                                                                                                                                                                                                                                                                                                                                                    |                    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| – For any 10 consecutive assessment years, at the option of the assessee, out of 15 years, beginning with the assessment year relevant to the previous year in which the permission, u/s 23(1)(a) of the Banking Regulation Act, 1949 or permission or registration under the Securities and Exchange Board of India Act, 1992 or permission or registration under the International Financial Services Centre Authority Act, 2019 was obtained. | 100% of the income |
| In any other case                                                                                                                                                                                                                                                                                                                                                                                                                                |                    |
| – For first 10 consecutive years beginning with the year in which the permission u/s 23(1)(a) of the Banking Regulation Act, 1949 was obtained or permission or registration under the SEBI Act, 1992 or any other relevant law was obtained.                                                                                                                                                                                                    | 100% of the income |
| Income here means –                                                                                                                                                                                                                                                                                                                                                                                                                              |                    |
| (a) Income from an offshore banking unit in a SEZ;                                                                                                                                                                                                                                                                                                                                                                                               |                    |
| (b) Income from the business referred in Sec. 6(1) of the Banking Regulation Act, 1949 with an undertaking located in a SEZ or any other undertaking which develops or develops and operates or operates and maintains a SEZ;                                                                                                                                                                                                                    |                    |
| (c) Income from any Unit of the International Financial Services Centre from its business for which it has been approved for setting up in such a Centre in a Special Economic Zone;                                                                                                                                                                                                                                                             |                    |
| (d) Income from the transfer of an asset, being an aircraft or a ship, which was leased by such unit to a person, subject to the condition that the unit has commenced operation on or before 31-03-2025.                                                                                                                                                                                                                                        |                    |

## Other Points

- a. Double deduction is not allowed
- b. Inter-unit transfer: Refer sec. 80-IA
- c. Return of income in time: Refer sec. 80-IA
- d. No deduction shall be allowed if the deduction has not been claimed in the return of income.

**3.3.27 Deduction in respect of inter-corporate dividend [Sec. 80M]**

## Applicable to

## Domestic Company

## Conditions to be satisfied

- a. Dividend Income: Gross total income of the assessee includes any income by way of dividends from any other domestic company or a foreign company or a business trust.
- b. Dividend Distribution: Assessee distributes dividend among its shareholder within due date
  - Due date means the date one month prior to the due date for furnishing the return of income.

## Quantum of Deduction

## Minimum of the following:

- ⊙ Dividend so received by the assessee; or
- ⊙ Dividend distributed by the assessee within due date

## Other Points

No Double Deduction: Where any deduction, in respect of the amount of dividend distributed by the domestic company, has been allowed in any previous year, no deduction shall be allowed in respect of such amount in any other previous year.

**3.3.28 Deduction u/s 80QQB in respect of royalty income of authors of books**

Not Available under the default tax regime

## Applicable to

## A resident individual (irrespective of his citizenship)

## Conditions to be satisfied

1. Profession of assessee: Assessee is an author or joint author of a book.
2. Nature of book: The book should be a work of literary, artistic or scientific nature. It shall not include brochures, commentaries, diaries, guides, magazines, journals, newspapers, pamphlets, text-books for school, tracts and other publications of similar nature, by whatever name called.
3. Nature of income: Gross total income of the assessee includes any income by way of –
  - a. any lump sum consideration for the assignment or grant of any of his interest in the copyright of book; or
  - b. royalty or copyright fees (whether receivable in lump sum or otherwise) in respect of the book. earned in India or earned from any source outside India.

Taxpoint: Consideration includes advance receipt of such nature, which is not returnable.

However, when such income is earned from a source outside India then –

- Remittance: Such receipts should be brought into India by the assessee in convertible foreign exchange<sup>#</sup> within 6 months from the end of the previous year or within such further period as the competent authority\* may allow in this behalf; and
- Certificate in Form 10H: The assessee must furnish a certificate in the Form 10H (obtained from the prescribed authority) along with his return of income.

<sup>#</sup> Convertible foreign exchange means foreign exchange which is for the time being treated by the Reserve Bank of India as convertible foreign exchange for the purpose of the Foreign Exchange Regulation Act, 1973 and any rules made thereunder.

Competent authority means the Reserve Bank of India or such other authority as is authorized under any law for the time being in force for regulating payments and dealings in foreign exchange.

4. Report: Assessee must furnish a certificate along with the return of income in Form 10CCD duly verified by the person responsible for making such payment to the assessee.

### Quantum of deduction

1. Deduction in case of lump sum royalty in lieu of all rights of the assessee in the book :-

Minimum of the following –

- a. 100% of such income; or
- b. ₹ 3,00,000

2. Deduction in other case –

| Case 1                                                                                            | Case 2                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Royalty or fee is not more than 15% of value of the book                                          | Royalty or fee is more than 15% of value of the book                                                                                                   |
| Minimum of the following –                                                                        | Minimum of the following –                                                                                                                             |
| <ul style="list-style-type: none"> <li>• 100% of such income; or</li> <li>• ₹ 3,00,000</li> </ul> | <ul style="list-style-type: none"> <li>• 100% of such income considering the royalty as 15% of value of book sold; or</li> <li>• ₹ 3,00,000</li> </ul> |

Taxpoint: In case of royalty or copyright fees i.e. not a lump sum consideration, deduction shall be restricted to 15% of the value of books (before allowing expenses attributable to such income) sold during the previous year.

### Computation of deduction

| Income                                        | Deduction                                                                                                                                                                                                                                              |
|-----------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income received in Lump sum                   |                                                                                                                                                                                                                                                        |
| Income earned in India                        | Minimum of the following – <ol style="list-style-type: none"> <li>a. 100% of such income (Receipts – Expenditure relating to such income)</li> <li>b. ₹ 3,00,000</li> </ol>                                                                            |
| Income earned outside India                   | Minimum of the following – <ol style="list-style-type: none"> <li>a. Money brought into India in convertible foreign exchange within time limit – Expenditure incurred relating to such income</li> <li>b. ₹ 3,00,000</li> </ol>                       |
| Income received in a mode other than lump sum |                                                                                                                                                                                                                                                        |
| Income earned in India                        | Minimum of the following - <ol style="list-style-type: none"> <li>a. 100% of income (Receipts – Expenditure relating to such income)</li> <li>b. 15% of sale value of the book – Expenditure relating to such income</li> <li>c. ₹ 3,00,000</li> </ol> |

|                             |                                                                                                                                                                                                                                                             |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income earned outside India | Minimum of the following -<br>a. Money brought in India in convertible foreign exchange within time limit– Expenditure incurred relating to such income<br>b. 15% of sale value of the book – Expenditure incurred relating to such income<br>c. ₹ 3,00,000 |
|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Other point

- Double deduction is not allowed
- Return of income in time
- No deduction shall be allowed if the deduction has not been claimed in the return of income.

### 3.3.30 Deduction u/s 80RRB in respect of royalty on patents

Not Available under the default tax regime

#### Applicable to

A resident individual (irrespective of citizenship of the individual), being a patentee (i.e. owner or co-owner of a patent)

Patentee means a person(s) who is true and first inventor of the invention and whose name is entered on the Patent register as the patentee (as owner or co-owner of a patent) in accordance with the Patent Act, 1970.

#### Conditions to be satisfied

- Nature of income: Assessee has earned income (either in India or outside India) by way of royalty in respect of patent registered on or after 1-4-2003 under the Patents Act, 1970.

Taxpoint:

- Royalty, in respect of a patent, means consideration (including any lump sum consideration) for—
  - the transfer of all or any rights (including the granting of a licence) in respect of a patent; or
  - the imparting of any information concerning the working of, or the use of, a patent; or
  - the use of any patent; or
  - the rendering of any services in connection with the activities referred above.
- It includes advance royalty, which is not refundable.
- It does not include -
  - any capital sum received for sale of patent, which is chargeable under the head Capital gains
  - consideration for sale of product manufactured with the use of patented process or of the patented article for commercial use .

However, when such income is earned from a source outside India, then –

- Remittance: Such receipts should be brought into India by the assessee in convertible foreign exchange<sup>#</sup> within 6 months from the end of the previous year or within such further period as the competent authority\* may allow in this behalf; and
- Certificate in Form 10H: The assessee must furnish a certificate in the Form 10H from the prescribed authority along with his return of income

<sup>#</sup> Convertible foreign exchange means foreign exchange which is for the time being treated by the Reserve Bank of India as convertible foreign exchange for the purpose of the Foreign Exchange Regulation Act, 1973 and any rules made there under.

\* Competent authority means the Reserve Bank of India or such other authority as is authorized under any law for the time being in force for regulating payments and dealings in foreign exchange.

2. Certificate to be attached: Assessee must furnish a certificate in Form 10CCE duly signed by the prescribed authority along with the return of income.

Prescribed authority here means Controller u/s 1(b) of the Patent Act, 1970

### Quantum of deduction

| Case                                                                                                                                                                                                                                                                                                                                                                          | Deduction                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Income earned in India                                                                                                                                                                                                                                                                                                                                                        | Minimum of the following - <ul style="list-style-type: none"> <li>➤ 100% of such income; or</li> <li>➤ ₹ 3,00,000</li> </ul>                                                                                        |
| Income earned outside India                                                                                                                                                                                                                                                                                                                                                   | Minimum of the following - <ul style="list-style-type: none"> <li>➤ Income in respect of money brought into India in convertible foreign exchange within prescribed time limit; or</li> <li>➤ ₹ 3,00,000</li> </ul> |
| Deduction should not exceed the royalty amount as per licence: Where a compulsory licence is granted in respect of any patent under the Patents Act, 1970, the income by way of royalty for the purpose of allowing deduction under this section shall not exceed the amount of royalty under the terms and conditions of a licence settled by the Controller under that Act. |                                                                                                                                                                                                                     |

### Notes

#### a. Revocation of patent

Situation: Where the patent is revoked by the Controller or the High Court and the assessee is subsequently disqualified as patentee.

Treatment: Earlier deduction allowed under this section shall be deemed to be wrongly allowed and Assessing Officer has the power to rectify the assessment-order within 4 years from the end of the previous year in which such order of the High Court or the Controller was passed

#### b. Double deduction is not permissible

#### c. Return of income in time

#### d. No deduction shall be allowed if the deduction has not been claimed in the return of income.

### 3.3.31 Deduction in respect of interest on deposits in savings account [Sec. 80TTA]

Not Available under the default tax regime

#### Applicable to

An individual (other than senior citizen covered u/s 80TTB) or a Hindu Undivided Family

#### Conditions to be satisfied

Gross total income of an assessee includes any income by way of interest on deposits (not being time deposits<sup>#</sup>) in a savings account with:

<sup>#</sup> established under the Coal Mines Provident Fund and Miscellaneous Provisions Act, 1948 or Employees' Provident Fund and Miscellaneous Provisions Act, 1952

- a banking company;
- a co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
- a Post Office

Quantum of deduction

Minimum of the following

- a. Interest on such deposits in saving account
- b. ₹ 10,000

**Other Points**

- ⊙ As per Notification No. 32/2011 dated 03-06-2011, interest on Post Office Saving Bank is exempt u/s 10(15(i) to the extent of the interest of ₹ 3,500 (in case of single account) and ₹ 7,000 (in case of joint account)
- ⊙ Where such income is derived from any deposit in a savings account held by, or on behalf of, a firm, an association of persons or a body of individuals, no deduction shall be allowed under this section in respect of such income in computing the total income of any partner of the firm or any member of the association or any individual of the body.

**3.3.32 Deduction in respect of interest on deposits in case of senior citizens [Sec. 80TTB]**

Not Available under the default tax regime

Applicable to

Senior Citizen

Conditions to be satisfied

Gross total income includes any income by way of interest on deposits with:

- A banking company applies;
- A co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a co-operative land development bank); or
- A Post Office

Quantum of deduction

Minimum of the following

- a. Interest on such deposits
- b. ₹ 50,000

Other Point

- ⊙ Where such income is derived from any deposit held by, or on behalf of, a firm, an association of persons or a body of individuals, no deduction shall be allowed.

**3.3.33 Deduction u/s 80U in respect of person with disability**

Not Available under the default tax regime

Applicable to

A resident individual (irrespective of citizenship of the individual)

Conditions to be satisfied

1. Assessee is a disable-individual: Assessee, at any time during the previous year, is certified by the medical authority to be a person with disability.
2. Report: Assessee must furnish a copy of the certificate issued by the medical authority in the prescribed form along with the return of income, in respect of the assessment year for which the deduction has been claimed.

#### Quantum of Deduction

|                                                                                                                                  |            |
|----------------------------------------------------------------------------------------------------------------------------------|------------|
| Assessee is suffering from severe disability (i.e. disability to the extent of 80% or more)                                      | ₹ 1,25,000 |
| Assessee is suffering from disability but not severe disability (i.e. disability to the extent of 40% or more but less than 80%) | ₹ 75,000   |
| Deduction under this section is irrespective of actual expenditure incurred i.e. deduction is statutory.                         |            |

Disability, Person with disability and Person with severe disability: Refer Sec.80DD

#### Other points

##### Revision of medical certificate

**Condition:** Where the extent of disability requires reassessment after a period stipulated in the aforesaid certificate.

**Treatment:** After the expiry of previous certificate, deduction under this section shall be allowed only if a new certificate is obtained from the medical authority and a copy thereof is furnished along with the return of income.

Note: Deduction u/s 80U is for disable-assessee whereas deduction u/s 80DD is for dependant disable-relative

#### Illustration 33:

Mr. X, is suffering from low-vision (certified as severe disability). He has the following incomes details -

|                         |            |
|-------------------------|------------|
| Net Salary              | ₹ 1,45,000 |
| Short term capital gain | ₹ 45,000   |
| Long term capital gain  | ₹ 1,50,000 |

Mrs. X, suffering from leprosy (certified as 50% disable), is fully dependant on Mr. X. Compute his total income, if he opts for old tax regime.

#### Solution :

Since Mr. X is suffering from severe disability, he can claim deduction u/s 80U of ₹ 1,25,000. Further, Mrs. X is also a person with disability & dependant on Mr. X, therefore, Mr. X can also claim deduction u/s 80DD of ₹ 75,000.

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

| Particulars                                       | Details  | Amount                |
|---------------------------------------------------|----------|-----------------------|
| Salaries                                          |          | 1,45,000              |
| Capital gains                                     |          |                       |
| Short term capital gains                          | 45,000   |                       |
| Long term capital gains                           | 1,50,000 | 1,95,000              |
| <b>Gross Total Income</b>                         |          | <b>3,40,000</b>       |
| Less: Deduction u/s                               |          |                       |
| 80DD (Relative with disability)                   | 75,000   |                       |
| 80U (Assessee is a person with severe disability) | 1,25,000 | 1,90,000 <sup>1</sup> |
| <b>Total Income</b>                               |          | <b>1,50,000</b>       |

<sup>1</sup>. Total deduction u/s 80C to 80U cannot exceed GTI excluding LTCG, STCG covered u/s 111A, and casual income like winning from lotteries, etc.

### Illustration 34:

Preeti furnished the following details -

| Particulars                                                                     | Amount   |
|---------------------------------------------------------------------------------|----------|
| Income from Business                                                            |          |
| Business A (Readymade garments)                                                 | 4,50,000 |
| Business C (Processing bio-degradable wastes) (started 10 years ago)            | 25,000   |
| Long term capital gain                                                          | 25,000   |
| Short term capital gain                                                         | 65,000   |
| Saving Bank interest                                                            | 2,000    |
| Interest on deposits with IDBI                                                  | 1,000    |
| Interest paid on loan taken for deposits in IDBI                                | 1,200    |
| Interest on NSC (including last year interest ₹ 1,500)                          | 4,200    |
| Investment in NSC                                                               | 500      |
| LIC premium paid on the life of dependent blind mother (Sum assured ₹ 1,00,000) | 12,000   |
| Investment in LIC annuity plan                                                  | 8,000    |
| Donation to National Defence Fund                                               | 12,500   |

Compute her total income, if she opts for the old tax regime, and tax liability.

### Solution :

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

| Particulars                                 | Amount | Amount   | Amount          |
|---------------------------------------------|--------|----------|-----------------|
| Profits and gains of business or profession |        |          |                 |
| Business A                                  |        | 4,50,000 |                 |
| Business C                                  |        | 25,000   | 4,75,000        |
| Capital gains                               |        |          |                 |
| Long term capital gain                      |        | 25,000   |                 |
| Short term capital gain                     |        | 65,000   | 90,000          |
| Income from other sources                   |        |          |                 |
| Saving Bank interest                        |        | 2,000    |                 |
| Interest on deposit with IDBI               | 1,000  |          |                 |
| Less: Interest paid on loan                 | 1,200  | (200)    |                 |
| Interest on NSC                             |        | 4,200    | 6,000           |
| <b>Gross Total Income</b>                   |        |          | <b>5,71,000</b> |
| Less: Deduction u/s                         |        |          |                 |
| 80C <sup>5</sup>                            |        | 3,200    |                 |
| 80CCC (Deposit in LIC annuity plan)         |        | 8,000    |                 |

|                                                      |  |        |                 |
|------------------------------------------------------|--|--------|-----------------|
| 80DD (Dependent blind mother)                        |  | 75,000 |                 |
| 80G (Donation to National Defence Fund)              |  | 12,500 |                 |
| 80JJA (Business of processing bio-degradable wastes) |  | 25,000 |                 |
| 80TTA (Saving Bank Interest)                         |  | 2,000  | (75,700)        |
| <b>Total Income</b>                                  |  |        | <b>4,95,300</b> |

Note: Tax liability is nil as total income is within exempted limit.

§ Calculation of deduction u/s 80C

|                                                                                           |                |
|-------------------------------------------------------------------------------------------|----------------|
| Interest on NSC (excluding last year interest i.e. ₹ 4,200 – ₹ 1,500)                     | ₹ 2,700        |
| Investment in NSC                                                                         | ₹ 500          |
| LIC premium paid on the life of mother (Premium paid for policy taken on life of parents) | Nil            |
| <b>Total</b>                                                                              | <b>₹ 3,200</b> |

## Illustration 35:

|                                               |             |
|-----------------------------------------------|-------------|
| Vikash has the following salary structure –   | ₹           |
| Basic salary                                  | 80,000 p.m. |
| Dearness allowance                            | 10,000 p.m. |
| Entertainment allowance                       | 500 p.m.    |
| Children education allowance (for 3 children) | 1,000 p.m.  |
| Contribution to RPF by his employer           | 12,000 p.m. |
| Own contribution to RPF                       | 12,000 p.m. |

His employer also provides rent-free furnished accommodation at Kolkata for which his employer paid ₹ 32,000 p.m. (₹ 2,000 for furniture and ₹ 30,000 for accommodation). However, he is charged ₹ 1,000 p.m. for accommodation and ₹ 1,000 p.m. for furniture.

He also supplied the following details for computing total income –

- Fixed Deposit interest ₹ 52,000
- Rent received ₹ 1,50,000 from a house at Mumbai
- Income from royalty on a book (artistic nature) @ 20% ₹ 3,20,000
- He contributed ₹ 5,000 to approved scientific research association
- He contributed ₹ 10,000 to a political party
- Interest on Government securities ₹ 14,000
- Investment in PPF ₹ 25,000
- His date of birth is 7-9-1979.

Compute total income, if he opts for the old regime.

**Solution :**

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

| Particulars                                                           | Amount | Amount   | Amount    | Amount    |
|-----------------------------------------------------------------------|--------|----------|-----------|-----------|
| Salaries                                                              |        |          |           |           |
| Basic                                                                 |        |          | 9,60,000  |           |
| Allowances                                                            |        |          |           |           |
| Dearness Allowance                                                    |        | 1,20,000 |           |           |
| Entertainment Allowance                                               |        | 6,000    |           |           |
| Children Education Allowance                                          | 12,000 |          |           |           |
| Less: Exempted ( $\text{₹ } 100 \times 12 \times 2$ )                 | 2,400  | 9,600    | 1,35,600  |           |
| Perquisites                                                           |        |          |           |           |
| Rent free furnished accommodation                                     |        |          |           |           |
| - For accommodation, lower of 10% of salary <sup>1</sup> or rent paid |        | 1,09,560 |           |           |
| - For furniture                                                       |        | 24,000   |           |           |
|                                                                       |        | 1,33,560 |           |           |
| Less: Rent paid for accommodation and furniture                       |        | 24,000   | 1,09,560  |           |
| Employer's contribution to RPF                                        |        | 1,44,000 |           |           |
| Less: Exempted (12% of salary <sup>1</sup> )                          |        | 1,29,600 | 14,400    |           |
|                                                                       |        |          | 12,19,560 |           |
| Less: Standard Deduction u/s 16(ia)                                   |        |          | 50,000    | 11,69,560 |
| Income from house property                                            |        |          |           |           |
| Gross Annual Value (being rent received)                              |        |          | 1,50,000  |           |
| Less: Municipal tax paid                                              |        |          | Nil       |           |
| <b>Net Annual Value (NAV)</b>                                         |        |          | 1,50,000  |           |
| Less: Deduction u/s                                                   |        |          |           |           |
| 24(a) Standard Deduction @ 30% of NAV                                 |        | 45,000   |           |           |
| 24(b) Interest on loan                                                |        | Nil      | 45,000    | 1,05,000  |
| Income from other sources                                             |        |          |           |           |
| Fixed Deposit interest                                                |        |          | 52,000    |           |
| Royalty income                                                        |        |          | 3,20,000  |           |
| Interest on Government securities                                     |        |          | 14,000    | 3,86,000  |
| <b>Gross Total Income</b>                                             |        |          |           | 16,60,560 |
| Less: Deduction u/s                                                   |        |          |           |           |
| 80C: Own contribution to RPF                                          |        | 1,20,000 |           |           |
| Contribution to PPF                                                   |        | 25,000   | 1,45,000  |           |
| 80GG (House rent paid) being minimum of -                             |        |          |           |           |
| a) $\text{₹ } 5,000 \text{ p.m.} \times 12$                           |        | 60,000   |           |           |
| b) 25% of Adjusted GTP <sup>2</sup>                                   |        | 3,15,140 |           |           |
| c) Rent paid over 10% of Adjusted GTP <sup>2</sup>                    |        |          |           |           |
| ( $\text{₹ } 12,000 - \text{₹ } 1,26,056$ )                           |        | Nil      | Nil       |           |
| 80GGA: Donation to scientific research association                    |        |          | 5,000     |           |

| Particulars                                                  | Amount | Amount   | Amount   | Amount    |
|--------------------------------------------------------------|--------|----------|----------|-----------|
| 80GGC: Contribution to political party                       |        |          | 10,000   |           |
| 80QQB: Royalty income being minimum of -                     |        |          |          |           |
| a) 100% of income                                            |        | 3,20,000 |          |           |
| b) 15% of sale value of the book $[(3,20,000/20) \times 15]$ |        | 2,40,000 |          |           |
| c) Statutory amount                                          |        | 3,00,000 | 2,40,000 | 4,00,000  |
| <b>Total Income</b>                                          |        |          |          | 12,60,560 |

Note

Salary for the purpose of –

| Particulars                  | Accommodation    | RPF              |
|------------------------------|------------------|------------------|
| Basic salary                 | 9,60,000         | 9,60,000         |
| Dearness allowance           | 1,20,000         | 1,20,000         |
| Entertainment allowance      | 6,000            | -                |
| Children Education allowance | 9,600            | -                |
| <b>Total</b>                 | <b>10,95,600</b> | <b>10,80,000</b> |

<sup>2</sup> Adjusted GTI = Gross taxable income – Long term capital gain – STCG being covered by sec. 111A - All deduction under 80's other than sec. 80GG – Income u/s 115A, etc.

$$= ₹ 16,60,560 - ₹ (1,45,000 + 5,000 + 10,000 + 2,40,000) = ₹ 12,60,560$$

## RELIEF

When an assessee is charged for -

- Arrear or Advance salary; or
- Gratuity, Commuted pension, etc.
  - then he may fall under higher rate of tax (of progressive tax-slab) e.g. instead of 20% he may have to pay tax @ 30%. To compensate aggrieved assessee from such higher rate, sec. 89(1) provides for 'Relief'.

### 3.3.34 Relief [Sec. 89]

**Applicable to:** An assessee, who is in receipt of –

- Arrear salary or Advance salary or in any other way is in receipt, in any one financial year, of salary for more than 12 months; or
- Profit in lieu of salary u/s 17(3) e.g. gratuity, commuted pension, etc.; or
- Family pension, being paid in arrears.

Note: An assessee, who receives leave encashment during continuation of his service, can also claim relief u/s 89.

#### Conditions to be satisfied

**Charged at higher rate:** Due to above receipt, total income of the assessee is assessed at a rate higher than that at which it would otherwise have been assessed.

**Apply to Assessing Officer:** Assessee has made an application in this behalf to the Assessing Officer.

**Quantum of Relief:** As computed by method provided in Rule 21A

**Method of calculation of relief [Rule 21A]**

Relief when salary is paid in arrears or in advance, etc

Where any portion of salary/family pension is received in arrears or in advance (hereinafter referred as additional salary), following steps are to be followed for calculating relief –

| Step | Particulars                                                                                                                                                                                        |
|------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1    | Calculate the tax payable for the previous year in which such additional salary is received, on:<br>1(a) Total income including additional salary<br>1(b) Total income excluding additional salary |
| 2    | Calculate the tax payable for the previous year to which such additional salary relates, on –<br>2(a) Total income including additional salary<br>2(b) Total income excluding additional salary    |
| 3    | a) Add tax calculated on 1(a) and 2(b) = Tax on receipt basis<br>b) Add tax calculated on 1(b) and 2(a) = Tax on accrual basis                                                                     |
| 4    | Relief u/s 89 = Tax on receipt basis – Tax on accrual basis                                                                                                                                        |

**Illustration 36:**

Mr. Sai, an employee, furnishes the following particulars for previous year ending on 31-3-2026:

|                                                                                                |             |
|------------------------------------------------------------------------------------------------|-------------|
| a) Salary income as computed (after all deduction) for the year                                | ₹ 25,07,000 |
| b) During the year, arrear of bonus were received (not included above) related to F.Y. 2018-19 | ₹ 50,000    |
| c) Assessed income of financial year 2018-19 (consists of salary only)                         | ₹ 9,56,000  |
| d) On 25-3-2026, amount deposited in PPF A/c                                                   | ₹ 50,000    |
| e) Income from other sources for the P.Y. 2025-26                                              | ₹ 50,000    |

You are requested to compute relief u/s 89(1) in terms of tax payable. The rates for the A.Y. 2019-20 are:

|                     |       |
|---------------------|-------|
| On first ₹ 2,50,000 | - Nil |
| On next ₹ 2,50,000  | - 5%  |
| On next ₹ 5,00,000  | - 20% |
| On balance          | - 30% |

4% HEC is also applicable

**Solution:**

Computation of total income and tax liability

| Particulars   | Previous Year 2025-26  |                        | Previous Year 2018-19  |                        |
|---------------|------------------------|------------------------|------------------------|------------------------|
|               | Including arrear bonus | Excluding arrear bonus | Including arrear bonus | Excluding arrear bonus |
|               | Col. 1(a)              | Col. 1(b)              | Col. 2(a)              | Col. 2(b)              |
| Salary        | 25,07,000              | 25,07,000              | 9,56,000               | 9,56,000               |
| Arrear salary | 50,000                 | -                      | 50,000                 | -                      |

| Particulars             | Previous Year 2025-26  |                        | Previous Year 2018-19  |                        |
|-------------------------|------------------------|------------------------|------------------------|------------------------|
|                         | Including arrear bonus | Excluding arrear bonus | Including arrear bonus | Excluding arrear bonus |
|                         | Col. 1(a)              | Col. 1(b)              | Col. 2(a)              | Col. 2(b)              |
| Taxable salary          | 25,57,000              | 25,07,000              | 10,06,000              | 9,56,000               |
| Other income            | 50,000                 | 50,000                 | Nil                    | Nil                    |
| Gross Total income      | 26,07,000              | 25,57,000              | 10,06,000              | 9,56,000               |
| Less: Deduction u/s 80C | NA                     | NA                     | Nil                    | Nil                    |
| Total income            | 26,07,000              | 25,57,000              | 10,06,000              | 9,56,000               |
| Tax (including cess)    | 3,76,584               | 3,60,984               | 1,18,872               | 1,07,848               |

**Computation of relief u/s 89**

| Particulars                 | Amount   | Amount       |
|-----------------------------|----------|--------------|
| Tax on receipt basis        |          |              |
| Tax calculated in Col. 1(a) |          | 3,76,584     |
| Tax calculated in Col. 2(b) |          | 1,07,848     |
|                             |          | 4,84,432     |
| Less: Tax on accrual basis  |          |              |
| Tax calculated in Col. 1(b) | 3,60,984 |              |
| Tax calculated in Col. 2(a) | 1,18,872 | 4,79,856     |
| <b>Relief u/s 89(1)</b>     |          | <b>4,576</b> |

Hence, tax liability for A.Y.2026-27 is ₹ 3,72,010 (i.e. ₹ 3,76,584 – ₹ 4,576). i.e., ₹ 3,72,010 (after rounding off u/s 288B)

**Relief when payment is in the nature of taxable gratuity**

Where past services extend over a period of fifteen years

|   | Particulars                                                                                                                                                                                              |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Calculate total income and tax liability considering taxable gratuity of the relevant previous year.                                                                                                     |
| 2 | Calculate total income and tax on total income in respect of each of the 3 previous years immediately preceding the relevant previous year, adding 1/3rd of the taxable gratuity in each of the 3 years. |
| 3 | Calculate average rate of tax for each year.<br>Average rate of tax (in %) = $\frac{\text{Tax, surcharge and cess after rebate of respective year} * 100}{\text{Total Income}}$                          |
| 4 | Calculate average of “average rate of tax” of 3 previous years immediately preceding the relevant previous year.                                                                                         |
| 5 | Calculate tax on taxable gratuity by applying average rate of tax of the relevant previous year.                                                                                                         |
| 6 | Calculate tax on taxable gratuity by applying average of average rate of tax (as computed in step 4)                                                                                                     |
| 7 | Relief u/s 89 = Tax as per Step 5 – Tax as per Step 6                                                                                                                                                    |

**Illustration 37:**

During the previous year, Shri Prajapati received from his employer ₹ 2,00,000 as gratuity, out of which ₹ 1,10,000 is exempt u/s 10. His relevant data of last few previous years are as follows:

|                            | P.Y.2025-26 | P.Y.2024-25 | P.Y.2023-24 | P.Y.2022-23 |
|----------------------------|-------------|-------------|-------------|-------------|
| Basic salary               | ₹ 24,46,000 | ₹ 8,70,000  | ₹ 7,70,000  | ₹ 6,65,000  |
| Income from House property | ₹ 41,000    | ₹ 18,000    | ₹ 20,000    | ₹ 20,000    |
| Regime                     | Default     | Old         | Old         | Old         |

Compute relief u/s 89.

### Solution

Computation of Relief u/s 89 and tax liability for A.Y.2026-27

| Particulars                                                                                      | Amount | Amount   |
|--------------------------------------------------------------------------------------------------|--------|----------|
| Tax liability after cess but before relief u/s 89                                                |        | 3,43,824 |
| Less: Relief u/s 89                                                                              |        |          |
| Tax on taxable gratuity @ Average rate of tax of P.Y.2025-26 (₹ 90,000 * 13.74% <sup>1</sup> )   | 12,366 |          |
| Tax on taxable gratuity @ Average of average tax of last 3 P.Y. (₹ 90,000 * 8.81% <sup>1</sup> ) | 7,929  | (4,437)  |
| Tax liability (Rounded off u/s 288B)                                                             |        | 3,39,390 |

<sup>1</sup> Working:

| Particulars                               | P.Y.2025-26 | P.Y.2024-25 | P.Y.2023-24 | P.Y.2022-23 |
|-------------------------------------------|-------------|-------------|-------------|-------------|
| Basic                                     | 24,46,000   | 8,70,000    | 7,70,000    | 6,65,000    |
| Taxable Gratuity                          | 90,000      | 30,000      | 30,000      | 30,000      |
| Gross salary                              | 25,36,000   | 9,00,000    | 8,00,000    | 6,95,000    |
| Less: Standard Deduction                  | 75,000      | 50,000      | 50,000      | 50,000      |
| Taxable Salary                            | 24,61,000   | 8,50,000    | 7,50,000    | 6,45,000    |
| Income from house property                | 41,000      | 18,000      | 20,000      | 20,000      |
| Gross total income                        | 25,02,000   | 8,68,000    | 7,70,000    | 6,65,000    |
| Less: Deduction                           | -           | -           | -           | -           |
| Total income                              | 25,02,000   | 8,68,000    | 7,70,000    | 6,65,000    |
| Tax on above                              | 3,30,600    | 86,100      | 66,500      | 45,500      |
| Less: Rebate u/s 87A                      | Nil         | Nil         | Nil         | Nil         |
| Tax after Rebate                          | 3,30,600    | 86,100      | 66,500      | 45,500      |
| Add: Cess                                 | 13,324      | 3,444       | 2,660       | 1,820       |
| Tax liability                             | 3,43,824    | 89,544      | 69,160      | 47,320      |
| Average tax on total income               |             |             |             |             |
| (Tax liability / Total income)            | 13.74%      | 10.32%      | 8.98%       | 7.12%       |
| Average of average tax of last three P.Y. |             |             | 8.81%       |             |

Where past services extend over a period of 5 years but does not exceed 15 years

In this case, the calculation of relief u/s 89 is same as in case of service extending over 15 years, with only exception that instead of taking average of tax-rate of 3 years, take average tax-rate of 2 years. Similarly, taxable gratuity shall be divided in past 2 years rather than 3 years. Further, following table can be referred:

|   | Particulars                                                                                                                                                                                            |
|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Calculate total income and tax on total income considering taxable gratuity of the relevant previous year.                                                                                             |
| 2 | Calculate total income and tax on total income in respect of each of the 2 previous years immediately preceding the relevant previous year, adding 1/2 of the taxable gratuity in each of the 2 years. |
| 3 | Calculate average rate of tax for each year.<br>Average rate of tax (in %) = $\frac{\text{Tax, surcharge and education cess after rebate of respective year} * 100}{\text{Total Income}}$              |
| 4 | Calculate average of "average rate of tax" of 2 previous years immediately preceding the relevant previous year.                                                                                       |
| 5 | Calculate tax on taxable gratuity by applying average rate of tax of the relevant previous year.                                                                                                       |
| 6 | Calculate tax on taxable gratuity by applying average of average rate of tax (as computed in step 4)                                                                                                   |
| 7 | Relief u/s 89 = Tax as per Step 5 – Tax as per Step 6                                                                                                                                                  |

Where past services do not extend over five years

Relief u/s 89 is not applicable.

#### Relief when payment is in the nature of compensation on termination of employment

Any compensation received by the assessee from his employer on termination of his employment is eligible for relief u/s 89 subject to following conditions –

- Employment is terminated after continuous service for not less than 3 years; and
- The unexpired portion of term of employment is also not less than 3 years.

Method of calculating relief: In this case, calculation of relief u/s 89 is same as in case of gratuity (where service extends over 15 years).

However, where assessee claims exemption u/s 10(10C), relief u/s 89 is not available to the assessee for such compensation.

#### Relief when payment is in the nature of commutation of pension

In this case, calculation of relief u/s 89 is same as in case of gratuity (where service extends over 15 years).

#### Relief in case of other payments

In any other case, the Board may grant relief after examining circumstances of the case.

# Taxation of Individual (including AMT but excluding Non-resident) & HUF

## 3.4

### 3.4.1 Computation of Total Income & Tax Liability of Individual

Computation of Total Income requires the complete knowledge of all heads of income and deduction under Chapter VIA.

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

| Particulars                                                                                                                                    | Amount |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Salaries                                                                                                                                       | ***    |
| Income from house property                                                                                                                     | ***    |
| Profits and gains of business or profession                                                                                                    | ***    |
| Capital gains                                                                                                                                  | ***    |
| Income from other sources                                                                                                                      | ***    |
| <b>Gross Total Income</b>                                                                                                                      | ****   |
| Less: Deductions u/s 80C to 80U (subject to Max. of GTI before casual income, STCG covered u/s 111A & LTCG) [Deductions are subject to regime] | ***    |
| <b>Total Income / Taxable Income (Rounded off u/s 288A)</b>                                                                                    | ****   |

#### Computation of Tax Liability of Mr. X ..... for the A.Y. 2026-27

| Particulars                                                                 | Rate         | Details | Amount |
|-----------------------------------------------------------------------------|--------------|---------|--------|
| Total Income other than STCG u/s 111A, LTCG & casual income [as per regime] |              |         | ***    |
| Add: Tax on casual income                                                   | 30%          |         | ***    |
| Add: Tax on LTCG                                                            | 12.5%/20%/0% |         | ***    |
| Add: Tax on STCG covered u/s 111A                                           | 15% / 20%    |         | ***    |
| <b>Total tax liability before rebate and cess</b>                           |              |         | PQR    |
| Less: Rebate u/s 87A                                                        |              |         | **     |
|                                                                             |              |         | STY    |
| Add: Surcharge                                                              |              |         | **     |
|                                                                             |              |         | ABC    |
| Add: Health and Education cess @ 4%                                         |              |         | **     |
| <b>Tax liability after cess</b>                                             |              |         | ***    |
| Less: Relief u/s 86, 89, 90 & 91                                            |              |         | **     |

| Particulars                                                                | Rate | Details | Amount |
|----------------------------------------------------------------------------|------|---------|--------|
| <b>Tax liability</b>                                                       |      |         | ***    |
| Less: Advance Tax                                                          |      | ***     |        |
| Less: Tax Deducted / Collected at Source                                   |      | ***     |        |
| Less: Any other prepaid tax                                                |      | ***     | ***    |
| <b>Tax Payable (if + ve) or Refundable (if – ve) (Rounded of u/s 288B)</b> |      |         | ***    |

### Default Tax Regime for Individual / HUF [Sec. 115BAC(1A)]

#### Applicable to

Individual / HUF / AOP/ BOI / AJP

#### Conditions

- a. Total income of the assessee shall be computed:
  - i. Without any exemption or deduction under following provisions

| Deduction not available under following section | Details                                                                                                                                                                              |
|-------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10(5)                                           | Leave Travel Concession                                                                                                                                                              |
| 10(13A)                                         | House Rent Allowance                                                                                                                                                                 |
| 10(14)                                          | Special Allowances<br><i>Exception:</i> Few prescribed allowances                                                                                                                    |
| 10(17)                                          | Allowance to MPs/MLAs                                                                                                                                                                |
| 10(32)                                          | Exemption in respect of clubbing of minor child                                                                                                                                      |
| 10AA                                            | Special Economic Zone                                                                                                                                                                |
| 16                                              | Deduction under the head Salaries - Deduction for Entertainment allowance and Deduction for professional tax<br><i>Taxpoint:</i> Standard deduction upto ₹ 75,000/- shall be allowed |
| 24(b) in respect of self occupied property      | Interest on borrowed capital in respect of self-occupied property<br><i>Taxpoint:</i> Deduction is available in respect of other properties like let out, deemed to be let out       |
| 32(1)(ia)                                       | Additional Depreciation                                                                                                                                                              |
| 32AD                                            | Investment Allowance                                                                                                                                                                 |
| 33AB                                            | Tea / Coffee / Rubber Development Allowance                                                                                                                                          |
| 33ABA                                           | Site Restoration Fund                                                                                                                                                                |
| 35(2AA) or 35(1)(ii) / (ia) / (iii)             | Scientific Research through outside institution                                                                                                                                      |
| 35AD                                            | Capital Expenditure in respect of specified business                                                                                                                                 |
| 35CCC                                           | Agriculture Extension Project                                                                                                                                                        |

| Deduction not available under following section | Details                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Deduction under chapter VIA                     | <p><b>Exception:</b></p> <p>a) Deduction in respect of employer's contribution to NPS u/s 80CCD(2);</p> <p>b) Deduction in respect of Government's Contribution to Agniveer Corpus Fund u/s 80CCH(2);</p> <p>c) Deduction u/s 80JJAA; and</p> <p>d) Deduction u/s 80LA (subject to certain conditions),</p> <p>- is available</p> |

- ii. without set off of any loss:
  - a. carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred above;
  - b. under the head "Income from house property" with any other head of income;
- iii. by claiming the depreciation, if any, u/s 32 [except additional depreciation], determined in prescribed manner; and
- iv. without any exemption or deduction for allowances or perquisite, by whatever name called, provided under any other law for the time being in force.

### **Rate of Tax**

Under this tax regime, income tax shall be computed at the option of the assessee considering the following rate:

| Total income                    | Rate of tax |
|---------------------------------|-------------|
| Upto ₹ 4,00,000                 | Nil         |
| From ₹ 4,00,001 to ₹ 8,00,000   | 5%          |
| From ₹ 8,00,001 to ₹ 12,00,000  | 10%         |
| From ₹ 12,00,001 to ₹ 16,00,000 | 15%         |
| From ₹ 16,00,001 to ₹ 20,00,000 | 20%         |
| From ₹ 20,00,001 to ₹ 24,00,000 | 25%         |
| Above ₹ 24,00,000               | 30%         |

### **Taxpoint:**

- If a person opts for this regime, ₹ 4,00,000 shall be considered as basic exemption limit irrespective of his age. In other words, for all category of individual i.e., senior citizen, super senior citizen and others, basic exemption limit is ₹ 4,00,000
- Rebate u/s 87A is available to a resident individual if his total income does not exceed ₹ 12,00,000. However, where his income is marginally exceeds the limit of ₹ 12,00,000, he is entitled for the rebate u/s 87A [Please refer illustration given in the chapter Basic Concepts]. However, rebate u/s 87A is not available from tax calculated at special rate of tax.
- Computed tax is further increased by applicable surcharge, if any, [subject to maximum of 25%] and health and education cess
- If any income is taxable at special rate u/s 110 to sec. 115BBG [except sec. 115BAC(1A)], such income shall be taxable at that special rate of tax. Further, rebate u/s 87A is not available from such tax.

**Other Points:**

- ◉ **Full effect of loss and depreciation:** The loss and depreciation referred above shall be deemed to have been given full effect to and no further deduction for such loss or depreciation shall be allowed for any subsequent year. Where there is a depreciation allowance in respect of a block of assets which has not been given full effect to prior to the assessment year 2021-22, corresponding adjustment shall be made to the written down value of such block of assets as on 01-04-2020 in the prescribed manner (if the option is exercised for a previous year relevant to the assessment year 2021-22). Loss under the head 'Income from House Property' cannot be carried forward.
- ◉ **Exercise of option:** The provision of this section shall not apply if an option is exercised in the prescribed manner by the person:

|                                                         |                                                                                                                                                                                                                             |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Where the person has income from business or profession | Within the due date specified u/s 139(1) for furnishing the returns of income for any previous year relevant to the assessment year <b>and</b> such option <b>once</b> exercised shall apply to subsequent assessment years |
| Where the person not having aforesaid income            | Alongwith the return of income to be furnished u/s 139(1) for a previous year relevant to the assessment year                                                                                                               |

- ◉ **Option to opt for old tax regime [Sec. 115BAC(6)]:** Where an assessee opts for the old regime of taxation (or wants to shift from old tax regime to the default tax regime), then he should exercise the option in the prescribed manner:

|                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Where the person not having business or profession income | Alongwith the return of income to be furnished u/s 139(1) for a previous year relevant to the assessment year. He may opt to pay tax under old tax regime in one year and exercise the option to shift out of old tax regime in another year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Where the person has income from business or profession   | <p>Within the due date specified u/s 139(1) for furnishing the returns of income for any previous year relevant to the assessment year <b>and</b> such option <b>once</b> exercised shall apply to subsequent assessment years.</p> <p>Such person who has exercised the above option of shifting out of the default tax regime u/s 115BAC(1A) for any previous year shall be able to withdraw such option <b>only once</b> and pay tax under the default tax regime u/s 115BAC(1A) for a previous year other than the year in which it was exercised.</p> <p>Thereafter, such person shall <b>never</b> be eligible to exercise this option, except where such person ceases to have any business income in which case, option would be available.</p> |

- ◉ **Alternate Minimum Tax:** In case, the person is computing his tax as per provision of sec. 115BAC(1A), the provision of alternate minimum tax (AMT) u/s 115JC is not applicable. Consequently, any credit of AMT cannot be adjusted against tax liability computed u/s 115BAC(1A).

**Example**

Akhil, 35 years, has provided following details relating to his income for the previous year 2025-26:

- Income from business ₹ 15,00,000
- Income from saving bank interest ₹ 12,000
- Interest on PPF ₹ 36,000
- Investment in PPF ₹ 1,50,000

You are requested to compute his tax liability and advise him whether he should opt for the old tax regime by exercising option given u/s 115BAC(6).

**Solution**

Computation of Income and tax liability of Mr. Akhil for A.Y. 2026-27

| Particulars                                                              | Old Tax Regime   | Default Tax Regime |
|--------------------------------------------------------------------------|------------------|--------------------|
| Business Income                                                          | 15,00,000        | 15,00,000          |
| Interest on saving bank deposit                                          | 12,000           | 12,000             |
| Interest on PPF                                                          | Exempt           | Exempt             |
| Gross Total Income                                                       | 15,12,000        | 15,12,000          |
| <i>Less: Deduction</i>                                                   |                  |                    |
| U/s 80C (PPF Contribution)                                               | 1,50,000         | NA                 |
| U/s 80TTA (Interest on Saving Bank Interest)                             | 10,000           | NA                 |
| <b>Total Income</b>                                                      | <b>13,52,000</b> | <b>15,12,000</b>   |
| Tax on above                                                             | 2,18,100         | 1,06,800           |
| <i>Less: Rebate u/s 87A (As income exceeds ₹ 5,00,000 / ₹ 12,00,000)</i> | NA               | NA                 |
| Tax after rebate                                                         | 2,18,100         | 1,06,800           |
| <i>Add: Surcharge</i>                                                    | Nil              | Nil                |
| Tax and surcharge                                                        | 2,18,100         | 1,06,800           |
| Add: Health & Education cess                                             | 8,724            | 4,272              |
| <b>Tax liability (Rounded off u/s 288B)</b>                              | <b>2,26,820</b>  | <b>1,11,070</b>    |

In the instant case, tax liability under default tax regime is lower, hence it is advisable to not to opt for option available u/s 115BAC(6)

**General Illustrations:****Illustration 36:**

Determine the tax liability of Mr. Ratan under the old tax regime, who is a handicapped, for the A.Y. 2026-27:

| Particulars                                                                                                                                                    | Amount   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Gross Salary                                                                                                                                                   | 3,35,000 |
| Annual value of let-out house property                                                                                                                         | 60,000   |
| Lottery income                                                                                                                                                 | 50,000   |
| Taxable business & profession income                                                                                                                           | 50,000   |
| He paid LIC premium                                                                                                                                            | 10,000   |
| Mr. Ratan deposited in LIC annuity plan ₹ 12,000 & paid medical insurance premium ₹ 5,000.<br>How shall your answer differ, if he opts for default tax regime. |          |

**Solution :****Computation of income and tax liability if he has opted for the old tax regime**

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

| Particulars  | Details  | Amount |
|--------------|----------|--------|
| Salaries     |          |        |
| Gross salary | 3,35,000 |        |

| Particulars                               | Details | Amount          |
|-------------------------------------------|---------|-----------------|
| Less: Standard Deduction                  | 50,000  | 2,85,000        |
| Income from house property                |         |                 |
| Annual value of let-out house property    | 60,000  |                 |
| Less: Standard deduction u/s 24(a)        | 18,000  | 42,000          |
| Profits & gains of business or profession |         | 50,000          |
| Income from other sources                 |         |                 |
| Lottery income                            |         | 50,000          |
| <b>Gross Total Income</b>                 |         | <b>4,27,000</b> |
| Less: Deduction u/s                       |         |                 |
| 80C (LIC Premium)                         | 10,000  |                 |
| 80CCC (Deposit in LIC annuity plan)       | 12,000  |                 |
| 80D (Medical insurance premium paid)      | 5,000   |                 |
| 80U (Assessee is handicapped)             | 75,000  | 1,02,000        |
| <b>Total Income</b>                       |         | <b>3,25,000</b> |

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

| Particulars                   | Rate          | On     | Details | Amount        |
|-------------------------------|---------------|--------|---------|---------------|
| Casual income (Note) ₹ 50,000 | 30%           |        |         | 15,000        |
| Other Income (Note)           |               |        |         |               |
| Upto ₹ 2,50,000               | -             |        | -       |               |
| From ₹ 2,50,001 to ₹ 2,75,000 | 5%            | 25,000 | 1,250   | 1,250         |
| <b>Tax Liability</b>          |               |        |         | <b>16,250</b> |
| Less: Rebate u/s 87A          |               |        |         | 12,500        |
|                               |               |        |         | 3,750         |
| Add: Health & Education cess  | 4% of ₹ 3,750 |        |         | 150           |
| <b>Tax and cess payable</b>   |               |        |         | <b>3,900</b>  |

**Note:** Taxable income can be divided as follows:

- Casual income ₹ 50,000 on which tax @ 30% is applicable, and
- Income other than casual income ₹ 2,75,000 (being ₹ 3,25,000 – ₹ 50,000) on which slab is applicable.

#### Computation of income and tax liability if he has opted for default tax regime

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

| Particulars                            | Details  | Amount   |
|----------------------------------------|----------|----------|
| Salaries                               |          |          |
| Gross salary                           | 3,35,000 |          |
| Less: Standard Deduction               | 75,000   | 2,60,000 |
| Income from house property             |          |          |
| Annual value of let-out house property | 60,000   |          |

| Particulars                               | Details | Amount   |
|-------------------------------------------|---------|----------|
| Less: Standard deduction u/s 24(a)        | 18,000  | 42,000   |
| Profits & gains of business or profession |         | 50,000   |
| Income from other sources                 |         |          |
| Lottery income                            |         | 50,000   |
| Gross Total Income                        |         | 4,02,000 |
| Less: Deduction u/s                       |         |          |
| 80C (LIC Premium)                         | NA      |          |
| 80CCC (Deposit in LIC annuity plan)       | NA      |          |
| 80D (Medical insurance premium paid)      | NA      |          |
| 80U (Assessee is handicapped)             | NA      | Nil      |
| Total Income                              |         | 4,02,000 |

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

| Particulars                                                                         | Rate          | On       | Details | Amount |
|-------------------------------------------------------------------------------------|---------------|----------|---------|--------|
| Casual income (Note) ₹ 50,000                                                       | 30%           |          |         | 15,000 |
| Other Income (Note)                                                                 |               |          |         |        |
| Upto ₹ 4,00,000                                                                     | 0%            | 3,52,000 | 0       | 0      |
| Tax Liability                                                                       |               |          |         | 15,000 |
| Less: Rebate u/s 87A (not available from income liable to be taxed at special rate) |               |          |         | Nil    |
|                                                                                     |               |          |         | 15,000 |
| Add: Health & Education cess                                                        | 4% of ₹15,000 |          |         | 600    |
| Tax and cess payable                                                                |               |          |         | 15,600 |

Old regime is better.

### Illustration 37:

Compute taxable income and tax liability (under the old tax regime) of Sri Dev from the following information:

- He is working with X Ltd. for a basic of ₹ 24,000 p.m. and dearness allowance ₹ 2,000 p.m. Bonus ₹ 50,000
- He and his employer contribute to RPF @ 6% of salary.
- His income from business & profession is ₹ 8,52,000
- During the year, interest on fixed deposit ₹ 5,000
- LIC premium paid ₹ 4,000

How shall your answer differ if he opts for default tax regime

**Solution :**

**Computation of income and tax liability if he has opted for the old tax regime**

Computation of Total Income of Sri Dev for the A.Y. 2026-27

| Particulars | Details | Amount |
|-------------|---------|--------|
| Salaries    |         |        |

| Particulars                                                 | Details  | Amount    |
|-------------------------------------------------------------|----------|-----------|
| Basic                                                       | 2,88,000 |           |
| Bonus                                                       | 50,000   |           |
| Dearness allowance                                          | 24,000   |           |
| Employer's contribution to RPF (as less than 12% of salary) | Nil      |           |
| Gross Salary                                                | 3,62,000 |           |
| Less: Standard Deduction u/s 16(ia)                         | 50,000   | 3,12,000  |
| Profits & gains of business or profession                   |          | 8,52,000  |
| Income from other sources                                   |          |           |
| Interest on Fixed deposit                                   |          | 5,000     |
| <b>Gross Total Income</b>                                   |          | 11,69,000 |
| Less: Deduction u/s 80C <sup>1</sup>                        |          | 22,720    |
| <b>Total Income</b>                                         |          | 11,46,280 |

Computation of Tax Liability for the A.Y. 2026-27

| Income                          | Rate | On       | Tax      |
|---------------------------------|------|----------|----------|
| Upto ₹ 2,50,000                 | -    |          | -        |
| From ₹ 2,50,001 to ₹ 5,00,000   | 5%   | 2,50,000 | 12,500   |
| From ₹ 5,00,001 to ₹ 10,00,000  | 20%  | 5,00,000 | 1,00,000 |
| From ₹ 10,00,001 to ₹ 11,46,280 | 30%  | 1,46,280 | 43,884   |
| Tax liability                   |      |          | 1,56,384 |
| Less: Rebate u/s 87A            |      |          | Nil      |
|                                 |      |          | 1,56,384 |
| Add: Health and Education cess  |      |          | 6,255    |
| Tax and cess payable            |      |          | 1,62,640 |

### 1. Computation of deduction u/s 80C

| Particulars                                        | Amount |
|----------------------------------------------------|--------|
| LIC premium paid                                   | 4,000  |
| Employees contribution to RPF (6% of basic and DA) | 18,720 |
| <b>Total</b>                                       | 22,720 |

Computation of income and tax liability if he has opted for default tax regime

Computation of Total Income of Sri Dev for the A.Y. 2026-27

| Particulars                                                 | Details  | Amount |
|-------------------------------------------------------------|----------|--------|
| Salaries                                                    |          |        |
| Basic                                                       | 2,88,000 |        |
| Bonus                                                       | 50,000   |        |
| Dearness allowance                                          | 24,000   |        |
| Employer's contribution to RPF (as less than 12% of salary) | Nil      |        |
| Gross Salary                                                | 3,62,000 |        |

| Particulars                               | Details | Amount    |
|-------------------------------------------|---------|-----------|
| Less: Standard Deduction u/s 16(ia)       | 75,000  | 2,87,000  |
| Profits & gains of business or profession |         | 8,52,000  |
| Income from other sources                 |         |           |
| Interest on Fixed deposit                 |         | 5,000     |
| <b>Gross Total Income</b>                 |         | 11,44,000 |
| Less: Deduction u/s 80C                   |         | NA        |
| <b>Total Income</b>                       |         | 11,44,000 |

Computation of Tax Liability for the A.Y. 2026-27

| Income                         | Rate | On       | Tax    |
|--------------------------------|------|----------|--------|
| Upto ₹ 4,00,000                | -    |          | -      |
| From ₹ 4,00,001 to ₹ 8,00,000  | 5%   | 4,00,000 | 20,000 |
| From ₹ 8,00,001 to ₹ 11,44,000 | 10%  | 3,44,000 | 34,400 |
| <b>Tax liability</b>           |      |          | 54,400 |
| Less: Rebate u/s 87A           |      |          | 54,400 |
|                                |      |          | Nil    |
| Add: Health and Education cess |      |          | Nil    |
| <b>Tax and cess payable</b>    |      |          | Nil    |

Default tax regime is better.

### Illustration 38:

Anil (aged 67 years) is an employee of a Government organisation at Burdwan. During the year ending 31.3.2026, he received the following income from his employer:

|                         | ₹           |
|-------------------------|-------------|
| Salary                  | 50,000 p.m. |
| Dearness allowance      | 4,000 p.m.  |
| Entertainment allowance | 6,500 p.m.  |
| Annual bonus            | 20,000      |

Rent-free unfurnished accommodation of which licence fee is ₹ 30,000 whereas fair rental value is ₹ 1,00,000.

Find his taxable income and tax liability, under the old tax regime, for the assessment year 2026-27 on the basis of the following further information:

- His own contribution to a Provident Fund is ₹ 30,000 and his employer's contributed the same amount.
- He pays life insurance premium ₹ 30,000 p.a.

Do you think he has opted for an optimum tax regime

### Solution :

Computation of income and tax liability if he has opted for the old tax regime

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

| Particulars  | Details | Amount | Amount   |
|--------------|---------|--------|----------|
| Salaries     |         |        |          |
| Basic salary |         |        | 6,00,000 |

| Particulars                                               | Details                     | Amount | Amount          |
|-----------------------------------------------------------|-----------------------------|--------|-----------------|
| Bonus                                                     |                             |        | 20,000          |
| Allowances:                                               |                             |        |                 |
| Dearness allowance                                        |                             | 48,000 |                 |
| Entertainment allowance                                   |                             | 78,000 | 1,26,000        |
| Perquisite u/s 17(2):                                     |                             |        |                 |
| Rent free accommodation                                   | Licence fee                 |        | 30,000          |
| Employer's contribution to PF                             | Contribution to SPF         |        | Nil             |
| <b>Gross Taxable Salary</b>                               |                             |        | <b>7,76,000</b> |
| Less: Deduction u/s                                       |                             |        |                 |
| 16(ia) Standard Deduction                                 |                             | 50,000 |                 |
| 16(ii) Entertainment allowance (Least of the followings): |                             |        |                 |
| - 20% of basic                                            | 1,20,000                    |        |                 |
| - Maximum limit                                           | 5,000                       |        |                 |
| - Actual amount                                           | 78,000                      |        |                 |
|                                                           | He is a Government employee | 5,000  | 55,000          |
| <b>Gross Total Income</b>                                 |                             |        | <b>7,21,000</b> |
| Less: Deduction u/s                                       |                             |        |                 |
| 80C                                                       | Note 1                      |        | 60,000          |
| <b>Total Income</b>                                       |                             |        | <b>6,61,000</b> |

Computation of Tax Liability of Mr. Anil for the A.Y.2026-27

| Income                         | Rate          | On       | Tax           |
|--------------------------------|---------------|----------|---------------|
| Upto ₹ 3,00,000                | -             |          | -             |
| From ₹ 3,00,001 to ₹ 5,00,000  | 5%            | 2,00,000 | 10,000        |
| From ₹ 5,00,001 to ₹ 6,61,000  | 20%           | 1,61,000 | 32,200        |
| Tax liability before cess      |               |          | 42,200        |
| Less: Rebate u/s 87A           |               |          | Nil           |
|                                |               |          | 42,200        |
| Add: Health and Education Cess | ₹ 42,200 x 4% |          | 1,688         |
| <b>Tax and cess payable</b>    |               |          | <b>43,890</b> |

1. Computation of Deduction u/s 80C

| Particulars                        | Amount        |
|------------------------------------|---------------|
| Insurance premium                  | 30,000        |
| Employee's own contribution to SPF | 30,000        |
| <b>Total</b>                       | <b>60,000</b> |

Computation of income and tax liability if he has opted for default tax regime

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

| Particulars  | Details | Amount | Amount   |
|--------------|---------|--------|----------|
| Salaries     |         |        |          |
| Basic salary |         |        | 6,00,000 |
| Bonus        |         |        | 20,000   |

| Particulars                    | Details             | Amount | Amount          |
|--------------------------------|---------------------|--------|-----------------|
| Allowances:                    |                     |        |                 |
| Dearness allowance             |                     | 48,000 |                 |
| Entertainment allowance        |                     | 78,000 | 1,26,000        |
| Perquisite u/s 17(2):          |                     |        |                 |
| Rent free accommodation        | Licence fee         |        | 30,000          |
| Employer's contribution to PF  | Contribution to SPF |        | Nil             |
| <b>Gross Taxable Salary</b>    |                     |        | <b>7,76,000</b> |
| Less: Deduction u/s            |                     |        |                 |
| 16(ia) Standard Deduction      |                     | 75,000 |                 |
| 16(ii) Entertainment allowance |                     | NA     | 75,000          |
| <b>Gross Total Income</b>      |                     |        | <b>7,01,000</b> |
| Less: Deduction u/s            |                     |        |                 |
| 80C                            |                     |        | NA              |
| <b>Total Income</b>            |                     |        | <b>7,01,000</b> |

Computation of Tax Liability of Mr. Anil for the A.Y. 2026-27

| Income                           | Rate | On       | Tax           |
|----------------------------------|------|----------|---------------|
| Upto ₹ 4,00,000                  | -    |          | -             |
| From ₹ 4,00,001 to ₹ 7,01,000    | 5%   | 3,01,000 | 15,050        |
| <b>Tax liability before cess</b> |      |          | <b>15,050</b> |
| Less: Rebate u/s 87A             |      |          | 15,050        |
|                                  |      |          | Nil           |
| Add: Health and Education Cess   |      |          | Nil           |
| <b>Tax and cess payable</b>      |      |          | <b>Nil</b>    |

His tax liability under default tax regime is nil whereas tax liability under old tax regime is ₹43,890, hence, we can conclude that he has not taken a wise decision.

### Illustration 39:

Mrs. Ria (age 46 years), a professor in a college furnishes the following particulars of her income for the previous year 2025-26:

|                                                                                           | ₹        |
|-------------------------------------------------------------------------------------------|----------|
| a. Income from salary                                                                     | 3,51,000 |
| b. Income from House Property                                                             |          |
| i. Rent Received                                                                          | 24,000   |
| ii. Municipal Tax                                                                         | 2,000    |
| c. Income from other sources                                                              |          |
| i. Bank interest on fixed deposit                                                         | 12,000   |
| ii. Dividend from Indian Company                                                          | 10,000   |
| iii. Examiner's remuneration from Calcutta University                                     | 5,700    |
| d. Deposited in P.P.F.                                                                    | 40,000   |
| e. Own Contribution to R.P.F.                                                             | 12,000   |
| f. Paid premium on insurance on own health                                                | 16,000   |
| g. Donated ₹ 10,000 to National Relief Fund and ₹ 15,000 to a trust registered u/s 80G(5) |          |

From the above information, compute total income and tax liability (under the old tax regime) of Mrs. Ria for the assessment year 2026–27.

## Solution :

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

| Particulars                                                            | Amount | Amount | Amount   |
|------------------------------------------------------------------------|--------|--------|----------|
| Salaries                                                               |        |        | 3,51,000 |
| Income from house property                                             |        |        |          |
| Gross Annual Value being Rent Received                                 |        | 24,000 |          |
| Less: Municipal Tax paid                                               |        | 2,000  |          |
| <b>Net Annual Value (NAV)</b>                                          |        | 22,000 |          |
| Less: Standard Deduction u/s 24(a) [30% of NAV]                        |        | 6,600  | 15,400   |
| Income from other sources                                              |        |        |          |
| Bank Interest on fixed deposit                                         |        | 12,000 |          |
| Dividend from Indian companies                                         |        | 10,000 |          |
| Examiner's Remuneration                                                |        | 5,700  | 27,700   |
| <b>Gross Total Income</b>                                              |        |        | 3,94,100 |
| Less: Deductions                                                       |        |        |          |
| - u/s 80C                                                              |        |        |          |
| Own Contribution to RPF                                                | 12,000 |        |          |
| Deposit in PPF                                                         | 40,000 | 52,000 |          |
| - u/s 80D (Mediclaime)                                                 |        | 16,000 |          |
| - u/s 80G                                                              |        |        |          |
| Donation to National Defence Fund                                      |        | 10,000 |          |
| Donation to Trust (50%#)                                               |        | 7,500  | 85,500   |
| <b>Total Income</b>                                                    |        |        | 3,08,600 |
| Tax on above $[(\text{₹ } 2,50,000 \times 0\%) + (58,600 \times 5\%)]$ |        |        | 2,930    |
| Less: Rebate u/s 87A                                                   |        |        | 2,930    |
| <b>Tax Payable</b>                                                     |        |        | Nil      |

# As payment is within the limit

## Illustration 40:

Sri Chandan Saha furnished the following information for the previous year 2025-26:

|                                | ₹        |
|--------------------------------|----------|
| Income from salary (net)       | 6,00,000 |
| Income from house property     | 1,40,000 |
| Short-term capital loss        | 15,000   |
| Long-term capital gain         | 40,000   |
| Interest on bank fixed deposit | 25,000   |
| Dividend from Indian Company   | 10,000   |

He made the following payments:

- i. Life insurance premium on own life ₹ 25,000 (sum assured ₹ 2,00,000 taken on 15.10.2024)
  - ii. Deposit in Public Provident Fund ₹ 1,40,000
  - iii. Own contribution to Recognised Provident Fund ₹ 20,000
  - iv. Medical insurance premium on own health ₹ 10,000 and on the health of spouse ₹ 8,000 paid by cheque.
- Compute his income and tax payable (under the old tax regime) for the assessment year 2026-27.

**Solution :**

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

| Particulars                        | Amount   | Amount   | Amount          |
|------------------------------------|----------|----------|-----------------|
| Income from salary                 |          |          | 6,00,000        |
| Income from house property         |          |          | 1,40,000        |
| Capital Gains                      |          |          |                 |
| Long term capital gain             |          | 40,000   |                 |
| Less: Short term capital loss      |          | 15,000   | 25,000          |
| Income from other sources          |          |          |                 |
| Interest on bank fixed deposit     |          | 25,000   |                 |
| Dividend from Indian companies     |          | 10,000   | 35,000          |
| <b>Gross Total Income</b>          |          |          | <b>8,00,000</b> |
| Less: Deductions                   |          |          |                 |
| - u/s 80C                          |          |          |                 |
| LIC (Max. upto 10% of sum assured) | 20,000   |          |                 |
| Deposit in PPF                     | 1,40,000 |          |                 |
| Own contribution to RPF            | 20,000   |          |                 |
| Max. Limit                         | 1,80,000 | 1,50,000 |                 |
| - u/s 80D (Mediclaime)             |          | 18,000   | 1,68,000        |
| <b>Total Income</b>                |          |          | <b>6,32,000</b> |

Computation of Tax liability of Sri Chandan Saha for the A.Y. 2026-27

| Particulars                    | Rate           | On       | Details | Amount        |
|--------------------------------|----------------|----------|---------|---------------|
| LTCG of ₹ 25,000               | 12.50%         |          |         | 3,125         |
| Other Income (Note)            |                |          |         |               |
| Upto ₹ 2,50,000                | -              |          | -       |               |
| From ₹ 2,50,001 to ₹ 5,00,000  | 5%             | 2,50,000 | 12,500  |               |
| From ₹ 5,00,001 to ₹ 6,07,000  | 20%            | 1,07,000 | 21,400  | 33,900        |
| <b>Tax Liability</b>           |                |          |         | <b>37,025</b> |
| Less: Rebate u/s 87A           |                |          |         | -             |
|                                |                |          |         | 37,025        |
| Add: Health and Education cess | 4% of ₹ 37,025 |          |         | 1,481         |
| Tax and cess payable           |                |          |         | 38,506        |
| Rounded off u/s 288B           |                |          |         | 38,510        |

However, if he has opted for default tax regime, in that case his income and tax liability are as under:

| Particulars                                                         | Amount          |
|---------------------------------------------------------------------|-----------------|
| Gross Total Income as per old tax regime                            | 8,00,000        |
| Less: Extra benefits of standard deduction under default tax regime | 25,000          |
| <b>Total Income</b>                                                 | <b>7,75,000</b> |

Computation of Tax liability of Sri Chandan Saha for the A.Y. 2026-27

| Particulars                    | Rate          | On       | Details | Amount       |
|--------------------------------|---------------|----------|---------|--------------|
| LTCG of ₹ 25,000               | 12.5%         |          |         | 3,125        |
| Other Income                   |               |          |         |              |
| Upto ₹ 4,00,000                | -             |          | -       |              |
| From ₹ 4,00,001 to ₹ 7,50,000  | 5%            | 3,50,000 | 17,500  | 17,500       |
| Tax Liability                  |               |          |         | 20,625       |
| Less: Rebate u/s 87A           |               |          |         | 17,500       |
|                                |               |          |         | 3,125        |
| Add: Health and Education cess | 4% of ₹ 3,125 |          |         | 125          |
| Tax and cess payable           |               |          |         | 3,250        |
| <b>Rounded off u/s 288B</b>    |               |          |         | <b>3,250</b> |

He should opt for default tax regime.

### 3.4.2 Alternate Minimum Tax (AMT) [Sec. 115JC]

#### Applicable to

All assessee (other than company) who has claimed any deduction under:

- ⊙ Sec. 80H to Sec. 80RRB (other than sec. 80P); or
- ⊙ Sec. 10AA
- ⊙ Sec. 35AD

#### Exception:

The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.

#### Taxpoint:

- 8 The exception is not applicable in case of Firm and Limited Liability Partnership. That means, AMT is applicable on LLP / Firm (claiming deduction under aforesaid section) even though adjusted total income does not exceed ₹ 20 lakh.
- 8 The provisions of this section shall apply to a person who has exercised the option referred to in sec. 115BAC or 115BAC(6). In other words, the provision of AMT is applicable only if the assessee is taxable under old tax regime. However, if the assessee is taxable under default tax regime, the provision of AMT is not applicable.
- 8 Further, the provision of AMT is not applicable in case of co-operative society paying tax as per provision of sec. 115BAE(5).
- 8 The provision is not applicable to the specified fund referred to in clause (c) of the Explanation to sec. 10(4D).

**Scheme of Alternate Minimum Tax (AMT)**

|        |                                                                                                                                                                                                                                                                                                                     |                  |       |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------|
| Step 1 | Compute regular income tax liability (before Cess) of the assessee covered under these provisions                                                                                                                                                                                                                   | A                | ****  |
| Step 2 | Compute Adjusted Total income of the assessee i.e.                                                                                                                                                                                                                                                                  | B                | ***** |
|        | Total income of the assessee                                                                                                                                                                                                                                                                                        |                  | ****  |
|        | Add:                                                                                                                                                                                                                                                                                                                |                  |       |
|        | ⊙ Deduction claimed u/s 80H to sec. 80RRB (other than sec. 80P)                                                                                                                                                                                                                                                     |                  | ***   |
|        | ⊙ Deduction claimed u/s 35AD less Depreciation u/s 32                                                                                                                                                                                                                                                               |                  | ***   |
|        | ⊙ Deduction u/s 10AA                                                                                                                                                                                                                                                                                                |                  | ***   |
|        | Adjusted Total Income                                                                                                                                                                                                                                                                                               | F                | ****  |
|        | Note:<br>i. If 'C', 'D' and 'E' is zero, then these provisions are not applicable to any assessee.<br>ii. if 'F' does not exceed Rs.20 lakh, then these provisions are not applicable in case of an Individual / HUF / AOP / BOI / Artificial juridical person. However, the provision is applicable on LLP / Firm. |                  |       |
| Step 3 | Compute Alternate Minimum Tax (AMT) [Being 18.5% of Adjusted Total Income]                                                                                                                                                                                                                                          | $G = F * 18.5\%$ | ***** |
| Step 4 | Income Tax liability                                                                                                                                                                                                                                                                                                | Higher of A & G  | ***** |
|        | Add: Health & Education Cess                                                                                                                                                                                                                                                                                        |                  | **    |
|        | Tax liability after Cess                                                                                                                                                                                                                                                                                            |                  | ***** |

**Impact where AMT is applicable i.e., case where value of Step 3 is higher than value of Step 1**

- Adjusted total income (as computed in step 2) shall be deemed as total income of the assessee.
- Tax liability of the assessee shall be 18.5% (+ surcharge + cess) of adjusted total income of the assessee.

**Exceptions**

- In case of a unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange, AMT shall be computed considering 9% (instead of 18.5%) of adjusted total income.
- In case of co-operative society, AMT shall be computed considering 15% (instead of 18.5%) of adjusted total income.

**Taxpoint:** Rate of AMT are as under:

| Assessee                                                                                                                 | Rate of AMT |
|--------------------------------------------------------------------------------------------------------------------------|-------------|
| Unit located in an International Financial Services Centre and derives its income solely in convertible foreign exchange | 9%          |
| Co-operative society                                                                                                     | 15%         |
| Other                                                                                                                    | 18.5%       |

- A report in Form 29C from a chartered accountant is required to be upload one month prior to the due date of furnishing of return of income u/s 139(1).
- All other provisions of the Act, like advance tax, interest, etc. is applicable to such assessee.

**Provision Illustrated**

Compute tax of the following assessee (all individuals has opted for old tax regime):

| Particulars                                                                                                                                                                                                 | Mr. W           | Mr. X            | Mr. Y            | A LLP            | B LLP           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|------------------|------------------|-----------------|
| Gross Total Income being Business Income                                                                                                                                                                    | 15,00,000       | 25,00,000        | 27,00,000        | 32,00,000        | 8,00,000        |
| Deduction u/s 80C                                                                                                                                                                                           | 1,00,000        | 1,00,000         | 1,00,000         | Nil              | Nil             |
| Deduction u/s 80G                                                                                                                                                                                           | 25,000          | 1,00,000         | Nil              | 1,00,000         | 1,00,000        |
| Deduction u/s 80IE                                                                                                                                                                                          | 7,75,000        | Nil              | 8,00,000         | Nil              | 2,00,000        |
| <b>Total Income</b>                                                                                                                                                                                         | <b>6,00,000</b> | <b>23,00,000</b> | <b>18,00,000</b> | <b>31,00,000</b> | <b>5,00,000</b> |
| Regular Tax                                                                                                                                                                                                 | 32,500          | 5,02,500         | 3,52,500         | 9,30,000         | 1,50,000        |
| Adjusted Total Income                                                                                                                                                                                       | 13,75,000       | 23,00,000        | 26,00,000        | 31,00,000        | 7,00,000        |
| Whether sec. 115JC is applicable or not<br><sup>1</sup> . As adjusted total income does not exceed `20 lakh<br><sup>2</sup> . As no deduction is claimed u/s 80H to 80RRB (other than sec. 80P) or u/s 10AA | No <sup>1</sup> | No <sup>2</sup>  | Yes              | No <sup>2</sup>  | Yes             |
| Alternate Minimum Tax (AMT) u/s 115JC [18.5% of adjusted total income]                                                                                                                                      | NA              | NA               | 4,81,000         | NA               | 1,29,500        |
| Tax (Higher of Regular Tax and AMT)                                                                                                                                                                         | 32,500          | 5,02,500         | 4,81,000         | 9,30,000         | 1,50,000        |
| Add: Health & Education Cess                                                                                                                                                                                | 1,300           | 20,100           | 19,240           | 37,200           | 6,000           |
| Tax and Cess Liability (Rounded off)                                                                                                                                                                        | 33,800          | 5,22,600         | 5,00,240         | 9,67,200         | 1,56,000        |

**Tax credit for alternate minimum tax [Sec. 115JD]**

- The excess of alternate minimum tax paid over the regular income-tax payable of that year shall be allowed as tax credit.
- Mathematically, tax credit available = Tax paid u/s 115JC – Regular Tax payable
- However, no interest shall be payable on the tax credit allowed.
- The amount of tax credit determined shall be carried forward and set off but such carry forward shall not be allowed beyond the 15<sup>th</sup> assessment year immediately succeeding the assessment year in which tax credit becomes allowable.
- The tax credit shall be allowed set-off in a year when regular tax becomes payable by the assessee.
- Set off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the alternate minimum tax payable u/s 115JC for that assessment year and the balance of the tax credit, if any, shall be carried forward. In other words, after setting off of AMT credit, tax liability of the year cannot be less than AMT for that year.
- The amount of tax credit in respect of any income-tax paid in any country or specified territory outside India u/s 90 or 90A or 91, allowed against the alternate minimum tax payable, exceeds the amount of the tax credit admissible against the regular income-tax payable by the assessee, then, while computing the amount of credit u/s 115JD, such excess amount shall be ignored.
- If the amount of regular income-tax or the AMT is reduced or increased as a result of any order passed under this Act, the amount of tax credit allowed under this section shall also be varied accordingly.
- Where the assessee is computing his tax liability as per provision of sec. 115BAC(1A) [i.e., default tax regime] or u/s 115BAE, brought forward credit of AMT cannot be adjusted.

**Examples:**

|                                                                                                                |       |
|----------------------------------------------------------------------------------------------------------------|-------|
| (a) Tax liability u/s 115JC (AMT)                                                                              | 500   |
| Regular Tax liability                                                                                          | 1,000 |
| Difference                                                                                                     | 500   |
| ₹ 500 cannot be treated as credit because liability u/s 115JC (AMT) is not greater than regular tax liability. |       |

|                           |                           |
|---------------------------|---------------------------|
| (b) <u>Year 1</u>         |                           |
| Liability u/s 115JC (AMT) | 2,000                     |
| Regular Tax Liability     | 1,000                     |
|                           | 1,000                     |
|                           | It can be carried forward |

|                           |       |
|---------------------------|-------|
| <u>Year 2</u>             |       |
| Liability u/s 115JC (AMT) | 2,500 |
| Regular Tax Liability     | 5,000 |
| Difference                | 2,500 |

Now regular liability is more than liability u/s 115JC (AMT), the credit carried forward can be set off to the extent of the difference i.e., ₹ 2,500

In year 2, tax payable shall be as under:

|                                         |       |
|-----------------------------------------|-------|
| Regular Tax Liability                   | 5,000 |
| Less: Set off of AMT credit             | 1,000 |
| Tax payable (before surcharge and cess) | 4,000 |

In the above example, if the credit carried forward was ₹ 3,500, then tax payable in year 2 would be calculated as under:

|                                                                  |       |
|------------------------------------------------------------------|-------|
| Regular Tax Liability                                            | 5,000 |
| Less: Set off of AMT credit                                      | 2,500 |
| Tax payable (Credit available ₹ 3,500 but restricted to ₹ 2,500) | 2,500 |

Here ₹ 1,000 (being balance credit left i.e., ₹ 3,500 – ₹ 2,500) is carried forward to the next year.

In other words, the excess of regular tax over AMT u/s 115JC is the amount of maximum set off permissible.

## HINDU UNDIVIDED FAMILY

### 3.4.4 Meaning of HUF

The term Hindu Undivided Family (or Joint Hindu Family) is not defined in the Income-tax Act. The term HUF has the same meaning as in Hindu law. A Hindu Undivided Family (HUF) consists of all persons lineally descended from a common ancestor including their wives and unmarried daughters.

**Taxpoint:** Only those undivided families are covered here, to which Hindu law applies.

**Notes**

1. An HUF is not the creation of a contract. Its membership arises from status.
2. Jain families are also treated as Hindu undivided family for the purpose of Income-tax Act. However, Muslim undivided family cannot be treated as HUF.
3. Once a family is assessed as Hindu undivided family, it will continue to be assessed as such till its partition.

### 3.4.5 Essential requirements of an HUF

An assessee shall be assessed as HUF if the following conditions are satisfied:

1. **Joint family property:** There should be a joint family property, which consists of either ancestral property or any property acquired with the aid of ancestral property.

**Ancestral property:** It is a property, which a man inherits from any of the three immediate male ancestors i.e. -

- His father;
- His grand father; and
- His great grand father

#### Notes

- a. Property inherited from any other person (e.g. father in law, uncle, etc.) is not an ancestral property.
- b. In the following cases income of ancestral property is taxable as income of HUF -
  - ⦿ Family of widow-mother and sons (minor or major)
  - ⦿ Family of husband and wife having no child.
  - ⦿ Family of two or more brothers.
  - ⦿ Family of uncle and nephew.
  - ⦿ Family of mother, son and son's wife.
  - ⦿ Family of a male and his late brother's wife.
2. **Coparcener:** There should be a coparcener. Coparcener means any person who satisfies two tests:
  - He/she acquires by birth an interest in joint family property; and
  - He/she has right to enforce partition.

#### Member of HUF vs Coparcener

- i. Coparcener must be a member of the family but a member may or may not be the coparcener of the family.

**Taxpoint:** All coparcener must be the member of the family but all members need not be coparcener of the family.

- ii. Coparcener acquires interest in the property of the HUF by birth. A person may acquire membership in HUF otherwise than by birth.
- iii. Member of the family who is not a coparcener of the family has no right to claim partition.

**Taxpoint:** A child in the womb of his mother is entitled to share of HUF property, on partition.

### 3.4.6 School of Hindu Law

There are two schools of Hindu law -

1. Dayabhaga School of Hindu Law; and
2. Mitakshara School of Hindu Law

| Law                  | Dayabhaga School of Hindu Law                                                                        | Mitakshara School of Hindu Law                                                              |
|----------------------|------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|
| Applicable to        | Rules of Dayabhaga school prevails in the State of West Bengal and Assam                             | Rules of Mitakshara school prevail over rest of India.                                      |
| <b>Features</b>      |                                                                                                      |                                                                                             |
| Interest in property | As per this thought, a child acquires interest in ancestral property only after the death of father. | As per this thought, a child acquires interest in ancestral property as soon as he is born. |

| Law                                                                                                                                                                                                                                    | Dayabhaga School of Hindu Law                                                                                                                                                                   | Mitakshara School of Hindu Law                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Right to claim partition                                                                                                                                                                                                               | Since son has no interest in ancestral property, he cannot claim partition till his father is alive.<br><br>Taxpoint: Father enjoys an absolute right to dispose of the property of the family. | Since son acquires interest in ancestral property by his birth, therefore he can claim partition at any time. |
| Fluctuation in coparcenary interest                                                                                                                                                                                                    | The coparcenary interest does not fluctuate on every birth or death of a male member. It fluctuates only on death of the father.                                                                | The coparcenary interest fluctuates on every birth or death of a male member.                                 |
| Note: After Hindu Succession (Amendment) Act 2005, the daughter (in the same manner as the son) of a coparcener shall by birth become a coparcener in her own right. The female heir can demand the partition of coparcenary property. |                                                                                                                                                                                                 |                                                                                                               |

### 3.4.7 Computation of total income and tax liability of HUF

There is no specific provision in Income-tax Act for computation of total income of HUF. Total income and tax liability of HUF shall be computed in same manner as in case of an individual.

#### Taxpoint:

|                                           |                                                                                                                                    |
|-------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Tax rate, health & education cess         | : As in case of an individual                                                                                                      |
| Residential Status                        | : Refer chapter “Residential Status”                                                                                               |
| Computation of income under various heads | : As usual, however, HUF cannot have any income under the head ‘Salaries’.                                                         |
| Clubbing of income                        | : As usual.                                                                                                                        |
|                                           | Sec. 64(1) & (1A) are not applicable in case of an HUF as it is specifically applicable to individual. Specially refer sec. 64(2). |
| Setoff & Carry forward of losses          | : As usual                                                                                                                         |
| Deductions                                | : Refer chapter “Deductions & Relief” [As per regime]                                                                              |
| Return and Assessment                     | : As usual                                                                                                                         |
| Advance tax                               | : As in case of an individual                                                                                                      |
| Tax Regime u/s 115BAC(1A)/(6)             | : Applicable                                                                                                                       |

#### Following points shall be considered –

- Remuneration to member of HUF due to investment of HUF fund:** Where joint fund is invested in a company or a firm, fees or remuneration received by any member of HUF as a director or partner from such company or firm by virtue of such investment shall be treated as income of the HUF. On the other hand, where such remuneration or fees is received by virtue of service rendered by such member (in his personal capacity) then such amount shall be taxable in hands of such member
- Income from ancestral property may not be taxed in the hands of HUF in certain cases:** As per Dayabhaga school, son has no right in the property during the life time of father, hence income arising from ancestral property to father, having no brother as coparcener, shall be treated as income of father and not of HUF.
- Remuneration to Karta:** Any genuine (not excessive) remuneration paid to the *Karta* for conducting business of the HUF is allowed expenditure in the hands of the HUF provided such remuneration is paid under a bonafide agreement and is in the interest of the family business.
- Personal income of the members:** Income of the member of HUF acquired in his personal capacity shall not be taxable in the hands of HUF.

**Taxpoint:** 'Stridhan' is an absolute property of a woman, income therefrom is not taxable in the hands of HUF.

5. **Income from impartible estate:** Though the impartible estate belongs to the family, income arising therefrom is taxable in the hands of the holder of the 'estate' and not in the hands of the HUF.

### 3.4.8 Partition of HUF [Sec. 171]

**Partition** means—

| Case                                                     | Partition                                                                                                                                                                                      |
|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Where the property admits of a physical division         | A physical division of the property.<br>Taxpoint: Mere physical division of the income without a physical division of the property producing the income shall not be deemed to be a partition. |
| Where the property does not admit of a physical division | Such division as the property admits of.<br>Taxpoint: Mere severance of status shall not be deemed to be a partition.                                                                          |

**Partial Partition** means a partition, which is partial as regards the persons constituting the Hindu undivided family, or the properties belonging to the Hindu undivided family, or both.

#### Person entitled to share on partition

Following persons can claim share on partition:

| Case                                             | Persons who can claim share on partition                                 |
|--------------------------------------------------|--------------------------------------------------------------------------|
| Any                                              | Coparceners                                                              |
| Any                                              | A child in the womb of his mother at the time of partition               |
| Partition between sons after the death of father | Mother – gets an equal share to that of son                              |
| Partition between father and sons                | Wife - gets an equal share to that of a son (apart from that of husband) |

### 3.4.9 Assessment after partition of a Hindu undivided family

An HUF assessed as such shall be deemed (for the purposes of this Act) to continue to be an HUF, except where a finding of partition has been given under this section [Sec. 171(1)]

1. **Inquiry by Assessing Officer:** Where, at the time of making assessment, it is claimed by or on behalf of any member of an HUF that a partition (whether total or partial), has taken place among the members of such family, the Assessing Officer shall make an inquiry after giving notice of the inquiry to all the members of the family [Sec. 171(2)]
2. **Record of findings:** On the completion of the inquiry, the Assessing Officer shall record his findings as to whether there has been a total or partial partition of the HUF and if there has been such a partition, the date on which it has taken place [Sec. 171(3)]
3. **Assessment upto the period of partition:** Where a finding of total or partial partition has been recorded by the Assessing Officer under this section, and the partition has taken place during the previous year —
  - the total income of the HUF in respect of the period up to the date of partition shall be assessed as if no partition had taken place; and
  - each member shall be jointly and severally<sup>#</sup> liable for tax on the income so assessed. [notwithstanding anything contained in sec.10(2)] [Sec. 171(4)]

<sup>#</sup>The liability of any member or group of members shall be computed according to the portion of the joint family property allotted to him or it at the partition [Sec. 171(7)]

4. **Partition after the expiry of previous year:** Where the finding of total or partial partition has been recorded by the Assessing Officer and the partition took place after the expiry of the previous year, the total income of the previous year of the joint family shall be assessed as if no partition had taken place. [Sec. 171(5)]
5. **Notice of partition after assessment:** If the Assessing Officer finds after completion of the assessment of HUF, that the family has already effected a partition (whether total or partial) the Assessing Officer shall proceed to recover tax from every person who was a member of the family before the partition, and every such person shall be jointly and severally liable for tax on the income so assessed. [Sec. 171(6)]
6. **Collection of penalty, interest, fine, etc.:** The provisions of this section shall apply in relation to the levy and collection of penalty, interest, fine or other sum (if any) in respect of any period up to the date of the partition, whether total or partial, as they apply in relation to the levy and collection of tax. [Sec. 171(8)]

**Treatment in case of partial partition taken place after 31-12-1978 [Sec. 171(9)]**

Where a partial partition has taken place among the members of an HUF after 31-12-1978, then -

- ⊙ no claim that such partial partition has taken place shall be inquired into u/s 171(2)
- ⊙ no finding regarding partition shall be recorded u/s 171(3).
- ⊙ such family shall continue to be liable to be assessed under this Act as if no such partial partition had taken place;
- ⊙ each member or group of members of such family immediately before such partial partition and the family shall be jointly and severally<sup>1</sup> liable for any tax, penalty, interest, fine or other sum payable under this Act by the family.

<sup>1</sup>. Liability of any member or group of members aforesaid shall be computed according to the portion of the joint family property allotted to him or it at such partial partition.

**Taxpoint:** Even though such tax, penalty etc. relates to the period, before or after such partial partition.

**G**enerally, tax on the income earned in the previous year is paid in the respective assessment year, but in certain cases, an assessee may be required to pay tax during the previous year itself, as Advance tax. The scheme of advance tax is based on the concept “Pay as you earn”. Under this scheme assessee needs to estimate its income and tax liability of the previous year and pay tax on basis of such estimation in the previous year itself. For instance, an assessee is required to pay tax on income earned, during the previous year 2025-26, in the assessment year 2026-27, however under the scheme of Advance tax, assessee is required to pay tax on the estimated income of the previous year 2025-26 in the previous year itself.

Applicable to

All assessee irrespective of his residential status and citizenship

Scheme of Advance tax [Sec.208]

Where the advance tax liability# of the assessee is ₹ 10,000 or more, the assessee should pay such tax in the previous year itself within the due date\$.

# Advance tax liability [Sec. 209]

| Particulars                                                           | Amount |
|-----------------------------------------------------------------------|--------|
| Estimated Gross Total Income                                          | ****   |
| Less: Deduction under chapter VIA as per regime opted by the assessee | ****   |
| Estimated Total Income                                                | ****   |
| Gross tax liability on Estimated Total Income                         | ****   |
| Less: Rebate u/s 87A as per regime opted by the assessee              | **     |
| Tax liability after Rebate                                            | ****   |
| Add: Surcharge (if applicable)                                        | ****   |
| <b>Tax and surcharge payable</b>                                      | ****   |
| Add: Health & Education cess                                          | ****   |
| <b>Tax liability after cess</b>                                       | ****   |
| Less: Tax deducted or collected at source / other Rebate & Relief     | ****   |
| <b>Advance tax liability</b>                                          | ****   |

\$ Due date for payment of advance tax [Sec. 211]

| <b>Assessee</b>                                                                           | <b>Due date of installment<br/>(of previous year)</b> | <b>Minimum amount payable</b>      |
|-------------------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------|
| An eligible assessee in respect of an eligible business referred to in sec. 44AD or 44ADA | On or before March 15                                 | 100% of advance tax liability      |
| Other Assessee                                                                            | On or before June 15                                  | Upto 15% of advance tax liability  |
|                                                                                           | On or before September 15                             | Upto 45% of advance tax liability  |
|                                                                                           | On or before December 15                              | Upto 75% of advance tax liability  |
|                                                                                           | On or before March 15                                 | Upto 100% of advance tax liability |

**Notes**

- a. Any amount paid u/s 211 on or before 31st March of the previous year, shall be treated as advance tax paid during the financial year.
- b. Where an assessee is a senior citizen (or super senior citizen) and does not have any income chargeable under the head “Profits and gains of business or profession”, provision of advance tax is not applicable. In other words, senior citizen not having business income is not liable to pay advance tax.
- c. Every income including capital gain, winning from lotteries, dividend, etc. is subject to advance tax. However, it is not possible to estimate capital gain, casual gain or dividend or where income under the head “Profits and gains of business or profession” accrues or arises for the first time, therefore, where the assessee has paid the whole of the amount of tax payable in respect of such income -
  - i. As part of the remaining installments of advance tax which were due; or
  - ii. Where no installments were due, by March 31 of the financial year immediately preceding the assessment year,  
- then it is deemed that all the provisions are complied.
- d. While calculating advance tax, net agricultural income shall also be taken into consideration for computing tax liability.
- e. If any assessee does not pay any installment within due date he shall be deemed to be an assessee in default in respect of such installment [Sec. 218]
- f. Any sum, other than a penalty or interest, paid by an assessee as advance tax shall be treated as a payment of tax and credit for such shall be given to the assessee in the regular assessment [Sec. 219]

### **3.5.1 Procedure to pay Advance Tax**

- a. On assessee’s own motion [Sec. 210(1)]

**Procedure for 1st installment**

1. Make an estimate of current year’s income, considering brought-forward losses, after deducting all allowable deductions under chapter VIA, if any.  
Note: The estimate is not required to be filed with the tax authorities.
2. Compute the tax liability on above estimated income at the rates in force during the financial year and reduce rebate, If any.

3. Add surcharge (if applicable).
4. Add Health and Education cess.
5. Deduct tax deducted or collected at source.
6. The amount so derived is the advance tax payable.

Where the advance tax payable is ₹ 10,000 or more, an appropriate percentage thereof should be deposited.

Procedure for subsequent installments

- i. Check if estimate of income made earlier requires revision.
  - ii. If not, deposit appropriate amount of second, third or fourth installment of advance tax.
  - iii. If estimate of income needs revision, then make a revised estimate and compute tax liability thereon.
  - iv. Determine advance tax payable in subsequent installments after deducting amount paid in earlier installments.
  - v. Deposit such advance tax.
- b. On receipt of order from the Assessing Officer [Sec. 210(3) or (4)]

The A.O. may pass an order and issue a notice of demand u/s 156 requiring the assessee to pay advance tax.

Conditions to be satisfied for issuing such order

- The assessee has already been assessed by way of a regular assessment in any previous year.
- The Assessing Officer is of opinion that such person is liable to pay advance tax.
- Such order can be passed at any time during the financial year but not after last day of February.
- Such order must be made in writing.
- Such order also specifies the amount of advance tax and the installments thereof to be paid by the assessee.

Note: Such order can be issued even if assessee has paid any installment of advance tax during the year, which is, in the opinion of the Assessing Officer, not as per provision of sec. 211.

Determination of advance tax by the Assessing Officer

The amount determined by the Assessing Officer shall be the higher of the following –

- Tax on latest assessed income as per regular assessment; or
- Tax on income declared by the assessee in the return relating to the previous year subsequent to the previous year for which regular assessment has been made.

Procedure to be followed by assessee on receipt of such order

| Case                                                                                                  | Advance tax to be paid by the assessee             | Whether intimation to AO is required                                                                 |
|-------------------------------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Where income estimated by the Assessing Officer is correct                                            | On the basis of the order of the Assessing Officer | No                                                                                                   |
| Where assessee estimates his current income to be higher than that estimated by the Assessing Officer | On the basis of his own estimate                   | No                                                                                                   |
| Where assessee estimates his current income to be lower than that estimated by the Assessing Officer  | On the basis of his own estimate                   | Yes, assessee shall submit his own estimate of current income to the Assessing Officer (in Form 28A) |

Note: As per sec. 210(4), Assessing Officer can revise his order to pay advance tax at any time before 1st March of the relevant previous year.

Interest on non-payment of advance tax

Where an assessee fails to pay advance tax or defers the payment of advance tax on specified date, he shall be liable to pay interest u/s 234B & 234C.

## General Illustrations:

### Illustration 41:

Find out the amount of advance tax payable by Mr. A on specified dates under the Income tax Act, 1961 for the financial year 2025-26:

|                                     |             |
|-------------------------------------|-------------|
| Business income                     | ₹ 14,85,000 |
| Long term capital gain on 31-5-2025 | ₹ 60,000    |
| Winning from lotteries on 12-6-2025 | ₹ 50,000    |
| Interest on loan                    | ₹ 10,000    |
| Other income                        | ₹ 5,000     |
| Investment in PPF                   | ₹ 10,000    |
| Tax deducted at source:             |             |
| Case 1                              | ₹ 1,30,000  |
| Case 2                              | ₹ 32,600    |

Solution :

Computation of total income of Mr. A for the previous year 2025-26

| Particulars                                 | Details | Amount    |
|---------------------------------------------|---------|-----------|
| Profits and gains of business or profession |         | 14,85,000 |
| Capital gains: Long term capital gains      |         | 60,000    |
| Income from other sources                   |         |           |
| Winning from lotteries                      | 50,000  |           |
| Interest on loan                            | 10,000  |           |
| Other income                                | 5,000   | 65,000    |
| Gross Total Income                          |         | 16,10,000 |
| Less: Deduction u/s 80C                     |         | NA        |
| Total Income                                |         | 16,10,000 |

Computation of tax liability of Mr. A for the previous year 2025-26

| Income                                    | Case 1   | Case 2   |
|-------------------------------------------|----------|----------|
| Long term capital gain (₹ 60,000 @ 12.5%) | 7,500    | 7,500    |
| Winning from lotteries (₹ 50,000 @ 30%)   | 15,000   | 15,000   |
| Balance income (₹ 15,00,000)              | 1,05,000 | 1,05,000 |
| Tax                                       | 1,27,500 | 1,27,500 |
| Less: Rebate u/s 87A                      | Nil      | Nil      |
|                                           | 1,27,500 | 1,27,500 |

| Income                       | Case 1   | Case 2   |
|------------------------------|----------|----------|
| Add: Health & Education cess | 5,100    | 5,100    |
|                              | 1,32,600 | 1,32,600 |
| Less: Tax Deducted at Source | 1,30,000 | 32,600   |
| Total Advance tax payable    | 3,260    | 1,00,000 |

Advance tax to be paid on specified dates –

| Case 1: Since amount of advance tax payable is less than ₹ 10,000, assessee is not liable to pay advance tax. |                   |          |                                                         |          |
|---------------------------------------------------------------------------------------------------------------|-------------------|----------|---------------------------------------------------------|----------|
| Case 2:                                                                                                       |                   |          |                                                         |          |
| Date                                                                                                          | Alternate 1       |          | Alternate 2                                             |          |
|                                                                                                               | Working           | Amount   | Working                                                 | Amount   |
| 15-06-2025                                                                                                    | 15% of ₹ 1,00,000 | 15,000   | 15% of ₹ 1,00,000                                       | 15,000   |
| 15-09-2025                                                                                                    | 30% of ₹ 1,00,000 | 30,000   | [(45% of ₹ 1,00,000) – ₹ 15,000]                        | 30,000   |
| 15-12-2025                                                                                                    | 30% of ₹ 1,00,000 | 30,000   | [(75% of ₹ 1,00,000) – (₹ 15,000 + ₹ 30,000)]           | 30,000   |
| 15-03-2026                                                                                                    | 25% of ₹ 1,00,000 | 25,000   | [100% of ₹ 1,00,000 – (₹ 15,000 + ₹ 30,000 + ₹ 30,000)] | 25,000   |
| Total                                                                                                         |                   | 1,00,000 | Total                                                   | 1,00,000 |

#### Illustration 42:

Find out the amount of advance tax payable by ABC Ltd. on specified dates for the F.Y. 2025-26:

|                                     |            |
|-------------------------------------|------------|
| Business income                     | ₹ 1,75,000 |
| Long-term capital gain on 16-7-2025 | ₹ 4,00,000 |
| Bank interest                       | ₹ 10,000   |
| TDS on business income              | ₹ 20,550   |

#### Solution :

Computation of total income of ABC Ltd. for the previous year 2025-26

| Particulars                                 | Amount   |
|---------------------------------------------|----------|
| Profits and gains of business or profession | 1,75,000 |
| Capital gains: Long term capital gains      | 4,00,000 |
| Income from other sources: Bank Interest    | 10,000   |
| Total Income                                | 5,85,000 |

Computation of tax liability of ABC Ltd. for the previous year 2025-26

| Particulars  | Long term capital gain | Other income |
|--------------|------------------------|--------------|
| Income       | 4,00,000               | 1,85,000     |
| Tax rate     | 12.5%                  | 30%          |
| Tax on above | 50,000                 | 55,500       |

| Particulars                  | Long term capital gain | Other income  |
|------------------------------|------------------------|---------------|
| Add: Surcharge               | Nil                    | Nil           |
| Tax and surcharge payable    | 50,000                 | 55,500        |
| Add: Health & Education cess | 2,000                  | 2,220         |
| <b>Tax and cess payable</b>  | <b>52,000</b>          | <b>57,720</b> |
| Less: TDS                    | -                      | 20,550        |
| <b>Advance tax payable</b>   | <b>52,000</b>          | <b>37,170</b> |

Advance tax to be paid on specified dates – Alternate 1

| Date       | Advance tax on LTCG           |            | Advance tax on income other than LTCG |            | Total (a + b) |
|------------|-------------------------------|------------|---------------------------------------|------------|---------------|
|            | Working                       | Amount (a) | Working                               | Amount (b) |               |
| 15-06-2025 | As LTCG occurred on 16/7/2025 | Nil        | 15% of ₹ 37,170                       | 5,576      | 5,576         |
| 15-09-2025 | 45% of ₹ 52,000               | 23,400     | 30% of ₹ 37,170                       | 11,151     | 34,551        |
| 15-12-2025 | 30% of ₹ 52,000               | 15,600     | 30% of ₹ 37,170                       | 11,151     | 26,751        |
| 15-03-2026 | 25% of ₹ 52,000               | 13,000     | 25% of ₹ 37,170                       | 9,292      | 22,292        |
| Total      |                               | 52,000     |                                       | 37,170     | 89,170        |

Advance tax to be paid on specified dates – Alternate 2

| Date       | Advance tax on LTCG                        |            | Advance tax on income other than LTCG                |            | Total (a + b) |
|------------|--------------------------------------------|------------|------------------------------------------------------|------------|---------------|
|            | Working                                    | Amount (a) | Working                                              | Amount (b) |               |
| 15-06-2025 | As LTCG occurred on 16/7/2025              | Nil        | 15% of ₹ 37,170                                      | 5,576      | 5,576         |
| 15-09-2025 | (45% of ₹ 52,000) – Nil                    | 23,400     | (45% of ₹ 37,170) – (₹ 5,576)                        | 11,151     | 34,551        |
| 15-12-2025 | (75% of ₹ 52,000) – (₹ 23,400)             | 15,600     | (75% of ₹ 37,170) – (₹ 5,576 + ₹ 11,151)             | 11,151     | 26,751        |
| 15-03-2026 | (100% of ₹ 52,000) – (₹ 23,400 + ₹ 15,600) | 13,000     | (100% of ₹ 37,170) – (₹ 5,576 + ₹ 11,151 + ₹ 11,151) | 9,292      | 22,292        |
| Total      |                                            | 52,000     |                                                      | 37,170     | 89,170        |

#### Illustration 43:

Find out the amount of advance tax payable by A on specified dates for the financial year 2025-26:

|                                                           |             |
|-----------------------------------------------------------|-------------|
| Business income (Tax of ₹ 1,61,016 is deducted at source) | ₹ 18,25,000 |
| Agricultural income                                       | ₹ 86,000    |

#### Solution :

Computation of tax liability of A for the previous year 2025-26

| Particulars                                                                                  | ₹        |
|----------------------------------------------------------------------------------------------|----------|
| Tax on ₹ 19,11,000 (i.e. agricultural income ₹ 86,000 + non-agricultural income ₹ 18,25,000) | 1,82,200 |

| Particulars                                                                             | ₹        |
|-----------------------------------------------------------------------------------------|----------|
| Less: Tax on ₹ 4,86,000 (i.e. agro income ₹ 86,000 + maximum exempted limit ₹ 4,00,000) | 4,300    |
| <b>Tax liability</b>                                                                    | 1,77,900 |
| Less: Rebate u/s 87A                                                                    | Nil      |
|                                                                                         | 1,77,900 |
| Add: Health & Education cess                                                            | 7,116    |
| <b>Tax and cess payable</b>                                                             | 1,85,016 |
| Less: TDS                                                                               | 1,61,016 |
| <b>Advance tax payable</b>                                                              | 24,000   |

Advance tax to be paid on specified dates –

| Date       | Alternate 1     |        | Alternate 2                                        |        |
|------------|-----------------|--------|----------------------------------------------------|--------|
|            | Working         | Amount | Working                                            | Amount |
| 15-06-2025 | 15% of ₹ 24,000 | 3,600  | 15% of ₹ 24,000                                    | 3,600  |
| 15-09-2025 | 30% of ₹ 24,000 | 7,200  | [(45% of ₹ 24,000) – ₹ 3,600]                      | 7,200  |
| 15-12-2025 | 30% of ₹ 24,000 | 7,200  | [(75% of ₹ 24,000) – (₹ 3,600 + ₹ 7,200)]          | 7,200  |
| 15-03-2026 | 25% of ₹ 24,000 | 6,000  | [100% of ₹ 24,000 – (₹ 3,600 + ₹ 7,200 + ₹ 7,200)] | 6,000  |
| Total      |                 | 24,000 | Total                                              | 24,000 |

# Tax Deducted at Source & Tax Collected at Source

3.6

## TAX DEDUCTED AT SOURCE (TDS)

### 3.6.1 Meaning

**I**t is a measure, in which person who are making payment of income are responsible to deduct tax from such income (at specified rates) and pay only net amount. Tax so deducted (called TDS) shall be deposited with the Government's treasury within the stipulated time. The payer will issue a certificate in Form 16 or 16A\* to the payee and the payee will get credit for TDS and his tax liability shall be reduced to that extent. In nutshell, the provisions are merely a mode of collection of income tax and a check on tax evasion through proper control and information.

#### Objects

- Quicker realisation of tax.
- Effective realisation of tax.

There are several provisions in the Act for TDS\*\*, being discussed infra:

### 3.6.2 TDS on salary [Sec.192]

Who is responsible to deduct tax:

Any person responsible for paying any income chargeable under the head "Salaries" (i.e. employer) is required to deduct tax at source.

#### When tax shall be deducted:

Tax shall be deducted at the time of payment of such income.

#### Rate of TDS:

Tax shall be deducted at the average rate of tax, computed on basis of prescribed rates in force for the financial year in which payment to employee is made.

#### Other Points:

Following points shall be kept in mind by the person responsible to deduct tax at source u/s 192 -

1. **Maximum exempted limit:** Tax shall not be deducted if taxable salary is less than basic exemption limit.
2. **Payment of tax by the employer:** The employer paying any income in the nature of non-monetary perquisite may pay, at his option, tax on such income without making any deduction therefrom at the time when such tax was otherwise deductible. For this purpose, tax shall be determined at the average of income-tax computed on the basis of the rates in force for the financial year, on the income chargeable under the head "Salaries". It is to be noted that tax paid on non-monetary perquisites by the employer shall not be considered as income of the employee.

\* All deductors (including Government deductors who deposit TDS in the Central Government Account through book entry) shall issue TDS certificate generated through TIN central system and which is downloaded from the TIN website with a unique TDS certificate number.

\*\* As per provision of sec.206AA, if resident payee fails to provide his PAN, tax is required to be deducted at the rate mentioned in respective section or 20%, whichever is higher. [The sec.206AA is discussed later in the chapter]

3. **Particulars of perquisites:** The employer shall furnish a statement to the employee (whose salary exceeds ₹ 1,50,000) giving correct and complete particulars of perquisites or profits in lieu of salary provided to employee and the value thereof in Form 12BA provided salary of such employee exceeds ₹ 2,00,000.
4. **Salary from more than one source:** As per Sec. 192(2), where assessee is working simultaneously with more than one employer, he may furnish to any one employer at his choice, details (in Form No. 12B) of income taxable under the head “Salaries” due to or received by him from other employer(s) and such employer shall deduct tax on aggregate salary.
5. **Treatment of other income:** As per Sec. 192(2B), where an assessee who receives any income chargeable under the head “Salaries” has, in addition, any income chargeable under any other head of income for the same financial year, he may (or may not) furnish to employer the particulars (in plain paper) of—

- such other income (only income and not loss)
- any tax deducted (or collected) reported by the employee.
- the loss, if any, under the head “Income from house property” (Losses under any other head are not to be considered)

Tax deducted u/s 192 shall be higher of the following:

- Tax deductible from income, that would be so deductible, if loss under the head ‘Income from House Property’, other income (only income) and the tax deducted (or collected) had been taken into account.
  - Tax deductible from income under the head “Salaries”, that would be so deductible (after adjusting loss under the head Income from house property), if the other income (or loss) had not been taken into account.
6. **Evidence of claim:** The responsible person shall, for the purposes of estimating income of the assessee or computing tax deductible, obtain the evidence or proof or particulars of prescribed claims (including claim for set-off of loss) from the assessee in such form and manner as may be prescribed.
  7. **TDS on ESOP:** ESOPs have been a significant component of the compensation for the employees of start-ups, as it allows the founders and start-ups to employ highly talented employees at a relatively low salary amount with balance being made up via ESOPs. ESOPs are taxed as perquisites u/s 17(2). The taxation of ESOPs is split into two components:
    - i. Tax on perquisite as income from salary at the time of exercise.
    - ii. Tax on income from capital gain at the time of sale.

The tax on perquisite is required to be paid at the time of exercising of option which may lead to cash flow problem as this benefit of ESOP is in kind. In order to ease the burden of payment of taxes by the employees of the eligible start-ups or TDS by the start-up employer, it is provided that for the purpose of deducting or paying tax, a person, being an eligible start-up [u/s 80-IAC], responsible for paying any income to the assessee being such perquisite, deduct or pay, as the case may be, tax on such income within 14 days:

- a. after the expiry of 48 months from the end of the relevant assessment year; or
  - b. from the date of the sale of such specified security or sweat equity share by the assessee; or
  - c. from the date of which the assessee ceases to be the employee of the person;
- whichever is the earlier.

The tax shall be deducted or paid at the rates in force of the financial year in which the said security or sweat equity share is allotted or transferred.

Similar provision is applicable, in case, employee is paying tax directly (in case tax is not deducted).

**Provision Illustrated**

Mr. X working in Y Ltd. furnishes the following, compute the tax to be deducted at source by Y Ltd.

|                                     |             |
|-------------------------------------|-------------|
| Taxable salary                      | ₹ 25,00,000 |
| Loss from House Property            | ₹ 5,000     |
| Loss from Business                  | ₹ 10,000    |
| Gross Interest Income (TDS ₹ 5,000) | ₹ 60,000    |
| Investment in PPF                   | ₹ 10,000    |
| Tax Regime declared by Mr. X        | Default     |

**Solution**

Computation of tax to be deducted at source by Y Ltd

| Particulars                                                     | Tax on income including other income | Tax on income excluding other income |
|-----------------------------------------------------------------|--------------------------------------|--------------------------------------|
| Salary income                                                   | 25,00,000                            | 25,00,000                            |
| Loss from House Property                                        | NA                                   | NA                                   |
| Interest Income                                                 | 60,000                               | Nil                                  |
| Gross Total Income                                              | 25,60,000                            | 25,00,000                            |
| Less: Deduction u/s 80C [Investment in PPF]                     | NA                                   | NA                                   |
| Total Income                                                    | 25,60,000                            | 25,00,000                            |
| Tax on above                                                    | 3,48,000                             | 3,30,000                             |
| Less: Rebate u/s 87A                                            | Nil                                  | Nil                                  |
| Tax after rebate                                                | 3,48,000                             | 3,30,000                             |
| Add: Health & Education cess @ 4%                               | 13,920                               | 13,200                               |
| Tax and cess payable                                            | 3,61,920                             | 3,43,200                             |
| Less: Tax deducted at source on other income                    | 5,000                                | 5,000                                |
| Balance                                                         | 3,56,920                             | 3,38,200                             |
| Tax to be deducted by Y Ltd. (Higher of ₹3,56,920 or ₹3,38,200) | 3,56,920                             |                                      |

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorizing the payer to deduct no tax or deduct tax at lower rate. [Refer sec.197]

**3.6.3 TDS on Payment from Employees Provident Fund [Sec. 192A]**

Who is responsible to deduct tax: The trustees of the Employees' Provident Fund Scheme, 1952, framed u/s 5 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 or any person authorised under the scheme to make payment of accumulated balance due to employees.

When tax shall be deducted: At the time of making of payment.

Tax is deducted on: The accumulated balance due to an employee participating in a recognised provident fund includible in his total income owing to the not applicability of the provisions of rule 8 of Part A of the Fourth Schedule.

Rule 8 of Part A of the Fourth Schedule provides the accumulated balance due and becoming payable to an employee participating in a recognised provident fund shall be exempted:

- a. if he has rendered continuous service with his employer for a period of 5 years or more; or
- b. if, though he has not rendered such continuous service, the service has been terminated by reason of the employee's ill-health, or by the contraction or discontinuance of the employer's business or other cause beyond the control of the employee; or
- c. if, on the cessation of his employment, the employee obtains employment with any other employer, to the extent the accumulated balance due and becoming payable to him is transferred to his individual account in any recognised provident fund maintained by such other employer.

Taxpoint: If the accumulated balance paid to the assessee is exempt then tax is not required to be deducted.

Rate of TDS: 10%

- ⊙ Any person entitled to receive any amount on which tax is deductible shall furnish his Permanent Account Number (PAN) to the person responsible for deducting such tax, failing which tax shall be deducted at 20%.

When TDS is not applicable: Aggregate amount of such payment to the payee is less than ₹ 50,000.

### **3.6.4 TDS on Interest on Securities [Sec 193]**

Who is responsible to deduct tax: Any person responsible for payment of interest on securities (other than interest on Government securities and certain specified securities) to any resident person.

Note: Where interest payable by the payer to payee, during the financial year, the amount or the aggregate of amounts does not exceed ₹ 10,000, tax shall not be deducted at source.

Note: In the following cases tax is not required to be deducted:

1. No tax shall be deducted at source if during the financial year, interest payable by the payer to payee does not exceed ₹ 10,000
2. Any interest payable on any security of the Central or State Government. (However, tax is required to be deducted on interest payable on 8% Savings (Taxable) Bonds, 2003 or Floating Rate Savings Bonds, 2020 (Taxable) or 7.75% Savings (Taxable) Bonds, 2018.
3. Any interest payable to a "business trust", as defined u/s 2(13A), in respect of any securities, by a special purpose vehicle referred to in the Explanation to sec. 10(23FC)
4. Any interest payable on securities beneficially held by Life Insurance Corporation of India or General Insurance Corporation of India or any of the 4 companies formed by virtue of the scheme framed u/s 16(1) of the General Insurance Business (Nationalisation) Act, 1972 or any other insurer.
5. Any interest payable to Regimental Fund or non-Public Fund established by Armed Force [income of whose is exempt u/s 10(23AA).

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Taxpoint: Where any amount is credited to any account (for e.g. "Interest payable account" or "Suspense account") instead of Payee account, such crediting shall be deemed to be credit of such income to the account of the payee.

Rate of TDS: 10% (No surcharge, health and education cess)

Exemption or relaxation from the provision:

- ⊙ When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorizing the payer to deduct tax at lower rate or deduct no tax; [Refer sec.197]

- When a declaration in Form 15G (in duplicate) is furnished by the assessee to the payer [Refer sec.197A]

### 3.6.5 TDS on Dividends [Sec. 194]

Who is responsible to deduct tax: The principal officer of a domestic company paying dividend\* u/s 2(22) to any resident shareholder.

Note: In the following cases, tax is not required to be deducted:

- Dividend is paid to an insurance company
- Dividend is paid to a business trust [as defined u/s 2(13A)], by a special purpose vehicle referred to in the Explanation to sec. 10(23FC);
- Dividend paid to an individual shareholder, if:
  - the dividend is paid by the company by any mode other than cash; and
  - the amount of such dividend or the aggregate of the amounts of such dividend distributed or paid or likely to be distributed or paid during the financial year by the company to the shareholder, does not exceed ₹ 10,000:
- Dividend paid to any other notified person

When tax shall be deducted: At the time of payment

Rate of TDS: 10% (No surcharge, health and education cess) on dividend considered u/s 2(22)

Exemption or relaxation from the provision:

- When the recipient applies to the Assessing Officer in Form No. 13 and gets a certificate authorizing the payer to deduct tax at lower rate or deduct no tax [Refer sec.197]
- When a declaration in Form 15G (in duplicate) is furnished by the assessee to the payer [Refer sec.197A]

### 3.6.6 TDS on Interest other than interest on securities [Sec. 194A]

Who is responsible to deduct tax

Following person are responsible to deduct tax at source on interest other than interest on securities to a resident person -

- Any person, other than Individual or HUF; or
- An individual or a HUF, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed ₹ 1 crore in case of business or ₹ 50 lakh in case of profession during the financial year immediately preceding the financial year in which such interest is credited or paid.

Note: No tax shall be deducted at source if during the financial year, interest payable by the payer to payee does not exceed ₹ 10,000.

However, following persons are responsible to deduct tax at source on interest other than interest on securities paid or payable to a resident person if during the financial year, interest paid/payable exceeds ₹50,000 (₹1,00,000 in case payee is a senior citizen):

- A banking company;
- Co-operative society engaged in carrying on the business of banking;
- Post office in respect of notified scheme

\* Money received by the shareholder on buy back of share is also treated as dividend, hence the provision of sec. 194 is applicable

**Taxpoint:** In case of interest payable by banking company or co-operative society or housing company, such limit shall be computed with reference to branch. However, where payer has adopted Core Banking Solution (CBS), the aforesaid limit shall be computed with reference to entity and not branch.

**When tax shall be deducted:** At the time of payment or crediting the payee, whichever is earlier.

**Rate of TDS:** 10% (No surcharge, health and education cess)

**Taxpoint:** The Central Government may notify that the deduction of tax shall not be made or shall be made at such lower rate, from payment made to specified person.

### Other points

Following interests are not subject to TDS -

- ⊙ Interest payable to -
  - a. Banking company; or
  - b. Co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank); or
  - c. Financial corporation established by or under a Central, State or Provincial Act; or
  - d. The Life Insurance Corporation of India; or
  - e. The Unit Trust of India; or
  - f. Any company or co-operative society carrying on the business of insurance; or
  - g. Such other notified institution, association or body [No notification shall be issued after 31-03-2020].
- ⊙ Interest credited or paid by a firm to a partner of the firm;
- ⊙ Interest credited or paid by a co-operative society (other than a co-operative bank) to a member thereof or to such income credited or paid by a co-operative society
- ⊙ Interest on deposits with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank;
- ⊙ Interest on deposits (other than time deposits) with a co-operative society, other than a co-operative society or bank referred above, engaged in carrying on the business of banking

Exception [in case of co-operative society]

Aforesaid co-operative society shall be liable to deduct tax, if:

- a. the total sales, gross receipts or turnover of the co-operative society exceeds ₹ 50 crore during the financial year immediately preceding the financial year in which the interest is credited or paid; and
  - b. the aggregate of the amounts of such interest, credited or paid, during the financial year is more than ₹ 1,00,000 in case of payee being a senior citizen (₹ 50,000 in other cases).
- ⊙ Interest credited or paid in respect of deposits under any notified scheme like NSC, Indira Vikas Patra, Kisan Vikas Patra and Post office Monthly Income Account.
  - ⊙ Interest credited or paid in respect of deposits (other than time deposits and recurring deposit) with a banking company.
    - TDS is also required to be deducted on Recurring Deposits.
  - ⊙ Interest credited on the compensation amount awarded by the Motor Accidents Claims Tribunal;

- Interest paid on the compensation amount awarded by the Motor Accidents Claims Tribunal where the amount of such income or, as the case may be, the aggregate of the amounts of such income paid during the financial year does not exceed ₹ 50,000
- Interest credited or paid by the Central Government under any provision of the Income Tax Act
- Income which is paid or payable by an infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company or scheduled bank in relation to a Zero Coupon Bond issued on or after 1-6-2005 by such company or fund.
- Income by way of interest referred to in sec. 10(23FC)
- Interest on FDRs, made in the name of the Registrar General of the Court or the depositor of the fund on the directions of the Court, will not be subject to TDS till the matter is decided by the Court. However, once the Court decides the ownership of the money lying in the fixed deposit, the provisions of section 194A will apply to the recipient of the income

#### Exemption or relaxation from the provision

- When the recipient applies to the assessing officer in Form No. 13 and gets a certificate authorizing the payer to deduct tax at lower rate or deduct no tax. [Refer sec.197]
- When a declaration in Form 15G is furnished by the assessee to the payer [Refer sec.197A]

#### Adjustment for short-deduction

The person responsible to deduct tax may at the time of making any deduction, increase or reduce the amount to be deducted for the purpose of adjusting any excess or deficiency arising out of any previous deduction or failure to deduct during the financial year.

### 3.6.7 TDS on Winning from lotteries or cross word puzzles, etc. [Sec. 194B]

Who is responsible to deduct tax: Any person responsible for paying to any person any income by way of winning from any lottery or crossword puzzle or card game and other game of any sort or from gambling or betting of any form or nature whatsoever, exceeding ₹ 10,000 (in respect of single transaction).

Taxpoint: If income is more than ₹ 10,000 in aggregate (say ₹ 12,000), then tax shall be deducted on the whole amount (i.e. ₹ 12,000).

Rate of TDS: 30% (in case of non-resident payee, applicable surcharge, health and education cess shall also be considered)

| Payee           | Rate of TDS as a % of amount paid or payable |
|-----------------|----------------------------------------------|
| Resident Person | 30%                                          |
| Non-Resident    | 30% + Surcharge + Health and Education cess  |

When tax shall be deducted: At the time of payment.

#### Other Points

- If prize is given partly in cash and partly in kind then tax on whole prize (i.e. aggregate of cash and value of prize in kind) shall be deducted from the cash prize.
- If prize is given in kind only (or cash prize is not sufficient), then payer should ensure that tax has been paid on such income before releasing such prize.

- Where a certain percentage has to be forgone either in favour of Government or an agency conducting lotteries, then such portion is not subject to deduction of tax at source.
- Where an agent receives the prize money on unsold ticket or becomes entitled to an unclaimed prize, it shall form part of his business income and therefore not liable for tax deduction u/s 194B
- If prize money is paid in instalments, then tax shall be deducted at the time of payment of each instalment.
- Tax shall be deducted on payment of commission, etc. to the lottery agent u/s 194G and not u/s 194B.
- In case of winning from online gaming, TDS shall be deducted u/s 194BA.

### 3.6.8 TDS on winning from Online Gaming [Sec. 194BA]

Who is responsible to deduct tax: Any person responsible for paying to any person any income by way of winnings from any online game during the financial year

**Threshold limit:** Nil i.e., there is no threshold limit for deducting TDS under this section

**Rate of TDS:** See sec. 194B (TDS on Winning from lotteries or cross word puzzles or card games, etc.)

**Taxpoint:** In a case where the net winnings are wholly in kind or partly in cash, and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the net winnings, the person responsible for paying shall, before releasing the winnings, ensure that tax has been paid in respect of the net winnings

When tax shall be deducted:

| Case                                                                    | TDS                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Where there is a withdrawal from user account during the financial year | Tax shall be deducted at the time of such withdrawal on the net winnings comprised in such withdrawal<br><br>Further, on the remaining amount of net winnings in the user account tax shall be deducted at the end of the financial year |
| In other case                                                           | TDS of net winnings in the user account shall be deducted at the end of the financial year                                                                                                                                               |

#### Other Points

- "Online gaming intermediary" means an intermediary that offers one or more online games;
- "User" means any person who accesses or avails any computer resource of an online gaming intermediary;
- "User account" means account of a user registered with an online gaming intermediary.

### 3.6.9 TDS on winning from Horse races [Sec. 194BB]

Who is responsible to deduct tax: Any person<sup>1</sup> responsible for paying to any person any income by way of winning from horse races, exceeding ₹ 10,000 (in respect of single transaction).

**Rate of TDS:** See sec. 194B (TDS on Winning from lotteries or cross word puzzles or card games, etc.)

When tax shall be deducted: At the time of payment.

#### Other Points

- Any person, here means a book-maker or a person to whom a licence has been granted by the Government for horse racing or arranging for wagering, betting in any race course.
- Race-income other than horse races like camel races etc is not covered by this section.

### 3.6.10 TDS on payment to Contractor [Sec. 194C]

Who is responsible to deduct tax :

Any specified person<sup>1</sup> responsible for paying any sum to any resident-contractor for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract.

<sup>1</sup> Following are the specified person -

- a. The Central Government or any State Government; or
- b. Any local authority; or
- c. Any corporation established by or under a Central, State or Provincial Act; or
- d. Any company; or
- e. Any co-operative society;
- f. Any authority, constituted in India by or under any law, engaged either for the purpose of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or for both; or
- g. Any society registered under the Societies Registration Act, 1860 or under any law corresponding to that Act in force in any part of India; or
- h. Any trust; or
- i. Any University established or incorporated by or under a Central, State or Provincial Act and an institution declared to be a University u/s 3 of the University Grants Commission Act, 1956; or
- j. Any Government of a foreign State or a foreign enterprise or any association or body established outside India; or
- k. Any firm; or
- l. Individual or a HUF or an association of persons or a body of individuals (if not covered by aforesaid cases), has total sales, gross receipts or turnover from business or profession carried on by him exceeding ₹ 1 crore in case of business or ₹ 50 lakh in case of profession during the financial year immediately preceding the financial year in which such sum is credited or paid to the account of the contractor.

Note: However, no individual or a HUF shall be liable to deduct income-tax where amount is credited or paid exclusively for personal purposes of such individual or any member of HUF.

When tax cannot be deducted:-

#### ⊙ Case 1

When following conditions are satisfied then tax cannot be deducted:

- i. Any sum credited or paid in pursuance of any contract, the consideration for which does not exceed ₹ 30,000; and  
Taxpoint: The limit of ₹ 30,000 is on individual contract.
- ii. Where the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the financial year does not exceed ₹ 1,00,000

#### ⊙ Case 2

When following conditions are satisfied then tax cannot be deducted:

- a. Amount is paid or payable to a resident contractor during the course of plying, hiring or leasing goods carriage (here-in-after referred to as transport operator).
- b. Such operator furnishes his Permanent Account Number (PAN) to the payer.
- c. Where such contractor owns 10 or less goods carriages at any time during the previous year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

Taxpoint: Tax is not required to be deducted even if amount of payment exceeds Rs. 1,00,000/-

When tax shall be deducted: At the time of payment or crediting the party, whichever is earlier.

#### **Rate of TDS:**

| Payee             | Rate as a % of amount paid or payable |
|-------------------|---------------------------------------|
| Individual or HUF | 1%                                    |
| Other Payee       | 2%                                    |

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax. [Refer sec.197]

#### **Other Points**

- ⊙ Contract shall include sub-contract.
- ⊙ “Work” shall include —
  - a. advertising;
  - b. broadcasting and telecasting including production of programmes for such broadcasting or telecasting;
  - c. carriage of goods and passengers by any mode of transport other than by railways;
  - d. catering.
  - e. manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee u/s 40A(2)(b),
 but does not include
  - manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer; or
  - any sum on which provision of sec. 194J is applicable
- ⊙ Where any sum is paid or credited for carrying out any work mentioned in (e), tax shall be deducted at source:
  - (i) on the invoice value excluding the value of material, if such value is mentioned separately in the invoice; or
  - (ii) on the whole of the invoice value, if the value of material is not mentioned separately in the invoice.

### **3.6.11 TDS on Insurance Commission [194D]**

Who is responsible to deduct tax: Any person responsible for paying to a resident person any income by way of remuneration or reward (i.e. commission etc.) for soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance.

Note: Tax shall not be deducted if the aggregate amounts of remuneration or reward credited or paid during the financial year to the payee does not exceed ₹ 20,000.

When tax shall be deducted: At the time of payment or crediting the party whichever is earlier.

Rate of TDS:

| Payee            | Rate of TDS |
|------------------|-------------|
| Domestic Company | 10%         |
| Other Payee      | 2%          |

Exemption or relaxation from the provision

- ⊙ When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorizing the payer to deduct tax at lower rate or deduct no tax; [Refer sec.197]
- ⊙ When a declaration in Form 15G (in duplicate) is furnished by the assessee to the payer [Refer sec.197A]

### **3.6.12 TDS on Payment in respect of Life Insurance Policy [194DA]**

Who is responsible to deduct tax: Any person responsible for paying to a resident any sum under a life insurance policy, including the sum allocated by way of bonus on such policy other than the amount not includible in the total income u/s 10(10D).

- ⊙ TDS is not required to be deducted on any payment which is exempt u/s 10(10D).
- ⊙ Tax shall not be deducted if the aggregate amounts of payments to the payee during the financial year is less than ₹ 1,00,000.

When tax shall be deducted: At the time of payment

Rate of TDS: 2% (No surcharge, health and education cess) on the income comprised therein.

### **3.6.13 TDS on payment to non-resident sportsman or sports associations [Sec. 194E]**

Who is responsible to deduct tax: Any person who is responsible to pay the following income –

| Payee                                                                                 | Income by way of                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sportsman (including an athlete) or an entertainer being non-resident foreign citizen | 1. Participation in India in any game (excluding card game or gambling) or sport<br>2. Advertising<br>3. Contribution of articles relating to any game or sports in any newspaper, magazine or journal. |
| Sports association being non-resident                                                 | Any game (other than card game) or sports organised in India                                                                                                                                            |

Rate of TDS: 20% (+ Surcharge + health and education cess)

When tax shall be deducted: At the time of payment or crediting the party whichever is earlier.

### **3.6.14 Payments in respect of deposits under National Savings Scheme, etc.[Sec. 194EE]**

Who is responsible to deduct tax: Any person [i.e. post office] responsible for paying an amount (either principal or interest) referred to in sec. 80CCA(2)(a) [i.e. National Saving Scheme, 1987]

Note: Tax shall not be deducted at source if the aggregate amount of such payments to the payee during the financial year is less than ₹ 2,500.

When tax shall be deducted: At the time of payment.

**Rate of TDS:**

| Payee        | Rate of TDS as a % of amount paid or payable  |
|--------------|-----------------------------------------------|
| Resident     | 10%                                           |
| Non-Resident | 10% (+ Surcharge + Health and Education cess) |

Exemption or relaxation from the provision

- Where the payment is made to the heirs of the deceased assessee.
- When a declaration in Form 15-G (in duplicate) is furnished by the assessee to the payer.

**3.6.15 TDS on Commission on sale of lottery tickets [Sec. 194G]**

Who is responsible to deduct tax: Any person responsible for paying any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets to any person, who is stocking, distributing, purchasing or selling such tickets.

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS:

| Payee        | Rate of TDS as a % of amount paid or payable |
|--------------|----------------------------------------------|
| Resident     | 2%                                           |
| Non-Resident | 2% (+ Surcharge + Health & Education cess)   |

When TDS cannot be made

Where amount of commission, etc. on such tickets does not exceed ₹ 20,000.

Exemption or relaxation from the provision

When the recipient applies to the assessing officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax. [Refer sec.197]

**3.6.16 TDS on commission, etc. other than insurance commission [Sec. 194H]**

Who is responsible to deduct tax: Following persons are responsible to deduct tax at source on commission or brokerage (other than commission on insurance) to a resident person -

- ⊙ Any person, other than individual or HUF; &
- ⊙ Individual or HUF whose total sales, gross receipts or turnover from business or profession carried on by him exceeding ₹ 1 crore in case of business or ₹ 50 lakh in case of profession during the financial year immediately preceding the financial year in which such sum is credited or paid.

Note:

- No tax shall be deducted if the aggregate amounts of commission or brokerage credited or paid during the financial year to the payee does not exceed ₹ 20,000.
- No deduction shall be made on any commission or brokerage payable by Bharat Sanchar Nigam Limited or Mahanagar Telephone Nigam Limited to their public call office franchisees.

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS: 2%

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form No. 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax [Refer sec.197]

When commission is retained by an agent

Where commission or brokerage is retained by the consignee/agent while remitting the sale consideration, the consignor/principal will have to deposit the tax deductible on the amount of such retained commission - [Circular No.619]

Other Points: Commission or brokerage includes any payment received or receivable, directly or indirectly, by a person acting on behalf of another person for services rendered (not being professional services) or for any services in the course of buying or selling of goods or in relation to any transaction relating to any asset, valuable article or thing, not being securities.

### 3.6.17 TDS on Rent [Sec. 194-I]

Who is responsible to deduct tax: Following persons are responsible to deduct tax at source on rent to a resident person -

- ⊙ Any person, other than individual or HUF; &
- ⊙ Individual or HUF whose total sales, gross receipts or turnover from business or profession carried on by him exceeding ₹ 1 crore in case of business or ₹ 50 lakh in case of profession during the financial year immediately preceding the financial year in which such sum is credited or paid

Note: Tax shall not be deducted where rent credited or paid for a month or part of a month does not exceed ₹ 50,000.

Taxpoint: Where the share of each co-owner is known, the limit of ₹50,000 is applicable to each co-owner separately.

“Rent” means any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of (either separately or together) any, -

|                                                                  |                                          |                                                                |
|------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------|
| a) Land                                                          | b) Building (including factory building) | c) Land appurtenant to a building (including factory building) |
| d) Machinery                                                     | e) Plant                                 |                                                                |
| f) Furniture                                                     | g) Fittings                              | h) Equipment                                                   |
| - whether or not any or all of the above are owned by the payee. |                                          |                                                                |

When tax shall be deducted: At the time of payment or crediting the account of payee, whichever is earlier.

Rate of TDS:

| Nature of Assets                                                                                                                      | Rate |
|---------------------------------------------------------------------------------------------------------------------------------------|------|
| Machinery or plant or equipment                                                                                                       | 2%   |
| Land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings | 10%  |

When TDS cannot be made

- ⊙ Where the payee is the Government, local authorities u/s 10(20) and statutory authorities u/s 10(20A), then TDS cannot be made - [Circular No. 699, dated 30-1-1995].
- ⊙ Where rent is credited or paid to a business trust, being a real estate investment trust, in respect of any real estate asset, referred to in sec. 10(23FCA), owned directly by such business trust

Exemption or relaxation from the provision

- When a declaration in Form 15G (in duplicate) is furnished by the assessee to the payer [Refer sec.197A]
- When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax. [Refer sec.197]

### Other Points

- Payment by an individual reimbursed by the company: Where an employee or an individual representing a company (like a consultant, auditor, etc.) makes a payment for hotel accommodation directly to the hotel, the question of tax deduction at source would not normally arise (except where he is covered u/s 44AB). This is because, it is the employee or such individual who makes the payment and the company merely reimburses the expenditure. [Circular No. 5/2002, dated 30-7-2002]
- Lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights over land or any other property are not payments in the nature of rent within the meaning of sec. 194-I. Therefore, such payments are not liable for TDS u/s 194-I [Circular 35/2016 dated 13-10-2016]

### 3.6.18 TDS on transfer of certain immovable property other than agricultural land [Sec. 194-IA]

Who is responsible to deduct tax: Any person, being a transferee, responsible for paying (other than the person referred to in sec. 194LA) to a resident transferor any sum by way of consideration for transfer of any immovable property (other than rural agricultural land)

- “Immovable property” means any land (other than rural agricultural land) or any building or part of a building.
- “Rural agricultural land” – as discussed in Chapter ‘Capital Gain’

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS: 1% of such consideration or stamp duty value of such property, whichever is higher.

When TDS cannot be made: Where both the consideration for the transfer of an immovable property and stamp duty value of the property are less than ₹ 50 lakh.

- Consideration for transfer of any immovable property shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property;
- Where there is more than one transferor or transferee in respect of any immovable property, then the aggregate consideration paid or payable by all the transferees to all the transferors for the transfer of such immovable property shall be considered

### Other Points:

The deductor is not required to obtain Tax Deduction Account Number as required u/s 203A.

### 3.6.19 TDS on Payment of rent by certain individual / HUF [Sec. 194-IB]

Who is responsible to deduct tax: Any person, being an individual or a Hindu undivided family (other than those referred to in sec. 194-I), responsible for paying to a resident any rent.

- “Rent” means any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any land or building or both

When tax shall be deducted: At the time of credit of rent for the last month of the previous year (or the last month of tenancy, if the property is vacated during the year) to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier

Rate of TDS: 2%

When TDS cannot be made: Where rent for a month or part thereof does not exceed ₹ 50,000

Other Points:

- ⦿ The deductor is not required to obtain Tax Deduction Account Number as required u/s 203A.
- ⦿ As per provision of sec. 206AA, if payee fails to provide his PAN, TDS is required to be deducted @ 20%. However, deduction under this section shall not exceed the amount of rent payable for the last month of the previous year (or the last month of the tenancy).

### 3.6.20 TDS on Payment under Joint Development Agreement [Sec. 194-IC]

Who is responsible to deduct tax: Any person, responsible for paying any consideration referred to in sec. 45(5A) [i.e., Joint Development Agreement] to a resident person.

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS: 10%

### 3.6.21 Fees for Professional or Technical Services [Sec. 194J]

Who is responsible to deduct tax: Following persons are responsible to deduct tax at source for paying fees for professional or for technical service or royalty or any sum referred to in sec.28(va) (i.e., fees for non-competence) or director fees (which is not covered u/s 192) to a resident person -

- ⦿ Any person, other than individual or HUF; &
- ⦿ Individual or HUF, whose total sales, gross receipts or turnover from business or profession carried on by him exceeding ₹ 1 crore in case of business or ₹ 50 lakh in case of profession during the financial year immediately preceding the financial year in which such sum is credited or paid.

Note: Tax cannot be deducted if the aggregate amount of such fees credited or paid during the financial year to the payee does not exceed:

| Nature of Payment                                                     | Amount   |
|-----------------------------------------------------------------------|----------|
| Professional fees                                                     | ₹ 50,000 |
| Fees for technical service                                            | ₹ 50,000 |
| Royalty                                                               | ₹ 50,000 |
| Any sum referred to in sec.28(va)                                     | ₹ 50,000 |
| Director fees by whatever name called, (which is not covered u/s 192) | Nil      |

Note: ₹ 50,000 limit is not on individual transaction. If several professional bills in a year together exceed the amount of ₹ 50,000, tax shall be deducted, even though any individual bill amount does not exceed ₹ 50,000.

Taxpoint: U/s 194C limit of ₹ 30,000 was on individual transaction, whereas u/s 194J limit of ₹ 50,000 is applicable on all transactions together made during the year.

No threshold limit is provided for director fees. i.e., TDS is applicable even amount is less than ₹ 50,000.

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS:

| Case                                                                                                                       | Rate of Tax |
|----------------------------------------------------------------------------------------------------------------------------|-------------|
| Payee is engaged only in the business of operation of call centre                                                          | 2%          |
| Fees for technical services (other than professional services)                                                             |             |
| Royalty where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematographic films |             |
| other                                                                                                                      | 10%         |

When TDS cannot be made

1. Individual or HUF shall not be liable to deduct income-tax on fees which is credited or paid exclusively for personal purposes of such individual or any member of HUF.
2. Fees paid by non-resident: Any fees paid through regular banking channels to any professional who is resident in India by the non-resident who does not have any agent or business connection or permanent business establishment in India, may not be subject to this provision [Circular No.726 dated 16-10-1995].

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax. [Refer sec. 197]

Other Points

“Professional services” means services rendered by a person in the course of carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or advertising (i.e. Model, photographer, artist providing service to advertising agency) or such other profession as is notified by the Board for the purposes of section 44AA or of this section;

“Fees for technical services” means any consideration (including any lump sum consideration) for rendering of any managerial, technical or consultancy services (including the provision of services of technical or other personnel) but does not include consideration for any construction, assembly, mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head “Salaries”.

### 3.6.22 TDS on income in respect of units [Sec. 194K]

Who is responsible to deduct tax: Any person responsible for paying to a resident any income in respect of:

- a. units of a Mutual Fund specified u/s 10(23D); or
- b. units from the Administrator of the specified undertaking; or
- c. units from the specified company

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS: 10%

When TDS cannot be made: In the following cases tax shall not be deducted:

- a. If the aggregate amounts of income credited or paid during the financial year to the payee does not exceed ₹10,000
- b. If the income is of the nature of capital gains.

Exemption or relaxation from the provision

- ⊙ When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorizing the payer to deduct tax at lower rate or deduct no tax; [Refer sec.197]
- ⊙ When a declaration in Form 15G (in duplicate) is furnished by the assessee to the payer [Refer sec.197A]

### 3.6.23 TDS on payment of compensation on acquisition of certain immovable property [Sec. 194LA]

Who is responsible to deduct tax: Any person responsible for paying to a resident any sum, being compensation or the enhanced compensation or the consideration or the enhanced consideration on account of compulsory acquisition of any immovable property (other than agricultural land)

When tax shall be deducted: At the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

Rate of TDS: 10%

When TDS cannot be made

Where the amount of such payment or the aggregate amount of such payments to a resident during the financial year does not exceed ₹ 5,00,000.

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax [Refer sec. 197]

Other points

1. Agricultural land means agricultural land in India.
2. Immovable property means any land (other than agricultural land) or any building or part of a building.
3. Deduction shall not be made where payment is made in respect of any award or agreement which has been exempted from levy of income-tax u/s 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013

### 3.6.24 Payment of certain sums by certain individuals or Hindu undivided family [Sec. 194M]

Who is responsible to deduct tax: An individual or a Hindu undivided family (other than those who are required to deduct income-tax as per the provisions of sec. 194C, 194H or 194J) responsible for paying following sum during the financial year:

- i. any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract,
- ii. any sum to any resident by way of commission (not being insurance commission referred to in section 194D) or brokerage or
- iii. any sum to any resident by way of fees for professional services

Note: Tax cannot be deducted if the aggregate amount of such sum credited or paid to a resident during the financial year does not exceed ₹ 50 lakh

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS: 2% [w.e.f 01-10-2024, 2%]

Other Point: The payer is not required to obtain TAN. He shall deposit the tax deducted under this section by using his PAN.

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax [Refer sec. 197]

### 3.6.25 Payment of certain amounts in cash [Sec. 194N]

Who is responsible to deduct tax: Every person, being,—

- i. a banking company to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act);
- ii. a co-operative society engaged in carrying on the business of banking; or
- iii. a post office,

who is responsible for paying cash (in aggregate) in excess of ₹ 1 crore (₹ 3 crore in case of co-operative society) during the previous year, to any person from one or more accounts maintained by the recipient with it.

However, where payee is defaulter, the limit is ₹ 20 lakhs

Defaulter means the recipient who has not filed the returns of income for all of the 3 assessment years relevant to the 3 previous years, for which the time limit to file return of income u/s 139(1) has expired, immediately preceding the previous year in which the payment of the sum is made to him

When tax shall be deducted: At the time of payment

Rate of TDS:

| Case                                                                | Rate |
|---------------------------------------------------------------------|------|
| Where payee is co-operative society                                 |      |
| - In case of defaulter                                              |      |
| - Aggregate payment exceeds ₹ 20 lakh but does not exceed ₹ 3 crore | 2%   |
| - Aggregate payment exceeds ₹ 3 crore                               | 5%   |
| In any other case                                                   | 2%   |
| Where payee is other than co-operative society                      |      |
| - In case of defaulter                                              |      |
| - Aggregate payment exceeds ₹ 20 lakh but does not exceed ₹ 1 crore | 2%   |
| - Aggregate payment exceeds ₹ 1 crore                               | 5%   |
| - In any other case                                                 | 2%   |

Example

A payee withdrew ₹ 3,50,00,000 (on different dates) in cash from his bank account, TDS would be deducted as under:

| Nature of Payee      | Defaulter or Not | TDS         | Working                            |
|----------------------|------------------|-------------|------------------------------------|
| Co-operative society | No               | ₹ 1,00,000  | ₹ 50 lakh × 2%                     |
| Co-operative society | Yes              | ₹ 8,10,000  | ₹ 2.80 crore × 2% + ₹ 50 lakh × 5% |
| Other person         | No               | ₹ 5,00,000  | ₹ 2.50 crore × 2%                  |
| Other person         | Yes              | ₹ 14,10,000 | ₹ 80 lakh × 2% + ₹ 2.50 crore × 5% |

#### Exception

The provision is not applicable if payment is made to:

- the Government;
- any banking company or co-operative society engaged in carrying on the business of banking or a post office;
- any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the guidelines issued in this regard by the Reserve Bank of India under the Reserve Bank of India Act, 1934;
- any white label automated teller machine operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007;
- such other person or class of persons, which the Central Government may, by notification in the Official Gazette, specify in consultation with the Reserve Bank of India.
- Other notified person

Provision of sec. 194N shall not apply to Foreign Representations duly approved by the Ministry of External Affairs of the Government of India including Diplomatic Missions, agencies of the United Nations, International Organisations, Consulates and Offices of Honorary Consuls which are exempt from paying taxes in India as per the Diplomatic Relations (Vienna Convention) Act 1972 and the United Nations (Privileges and Immunities) Act 1947

Other Point: Tax deducted u/s 194N is not considered as deemed receipt of income.

### **3.6.26 TDS on payment of certain sums by e-commerce operator to e-commerce participant [194-O]**

Who is responsible to deduct tax: Where sale of goods or provision of services of an e-commerce participant is facilitated by an e-commerce operator through its digital or electronic facility or platform (by whatever name called), such e-commerce operator shall deduct tax.

Note: If following conditions are satisfied, TDS shall not be deducted:

- e-commerce participant is an individual or Hindu undivided family.
- The gross amount of such sale or services or both during the previous year does not exceed ₹ 5,00,000
- Such e-commerce participant has furnished his Permanent Account Number or Aadhaar number to the e-commerce operator.

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Rate of TDS: 0.1% of the gross amount of such sales or services or both [if e-commerce participant does not intimate his PAN to eCommerce operator, then rate of TDS is 5%]

**Taxpoint:** Any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant for the sale of goods or provision of services or both, facilitated by an e-commerce operator, shall be deemed to be the amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sale or services for the purpose of deduction of tax

### Other Points

- A transaction in respect of which tax has been deducted by the e-commerce operator (or which is not liable to deduction due to threshold limit), shall not be liable to TDS under any other provisions. However, any amount received is or receivable by an e-commerce operator for hosting advertisements or providing any other services which are not in connection with the sale or services, other provision relating to TDS, if any, is applicable.
- “Electronic commerce” means the supply of goods or services or both, including digital products, over digital or electronic network;
- “e-Commerce operator” means a person who owns, operates or manages digital or electronic facility or platform for electronic commerce;
- “e-Commerce participant” means a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce;
- “Services” includes “fees for technical services” and fees for “professional services”, as defined in sec. 194J
- E-auction services carried out through an electronic portal [Circular No. 20/2021 dated 25-11-2021]
- In case of purchase of goods through the digital or electronic facility or platform, every e-commerce operator, facilitating the sale of goods or provision of services of an e-commerce participant through its digital or electronic facility or platform, is required to deduct tax at source u/s 194-O.
- In an e-auction, the e-auctioneer is only responsible for the price discovery, and the transaction of purchase/sale is carried out directly by the purchase & seller. Further, the price so discovered can be negotiated between parties without the knowledge of the e-auctioneer. Thus, the CBDT has clarified that section 194-O shall not apply in relation to e-action activities carried out by e-auctioneers if the prescribed conditions have been satisfied.

### Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer in Form 13 and gets a certificate authorising the payer to deduct tax at lower rate or deduct no tax [Refer sec. 197]

## 3.6.27 TDS in respect of certain specified senior citizen [Sec. 194P]

**Who is responsible to deduct tax:** Specified Bank

**When tax shall be deducted:** In case of a specified senior citizen, the specified bank shall, after giving effect to the deduction allowable under Chapter VI-A and rebate allowable u/s 87A, compute the total income of such specified senior citizen for the relevant assessment year and deduct income-tax on such total income on the basis of the rates in force (i.e. slab rates).

### Taxpoint:

- Such specified senior citizen is not required to file his return of income for the assessment year relevant to the previous year in which the tax has been deducted.
- Specified bank means notified banking company

- ⦿ Specified senior citizen means an individual, being a resident in India:
  - a. who is of the age of 75 years or more at any time during the previous year;
  - b. who is having income of the nature of pension and no other income except the interest income received or receivable from any account maintained by such individual in the same specified bank in which he is receiving his pension income; and
  - c. has furnished a declaration to the specified bank containing such particulars, in such form and verified in such manner, as may be prescribed.

### 3.6.28 TDS on certain sums for purchase of goods [Sec. 194Q]

Who is responsible to deduct tax: Any person, being a buyer who is responsible for paying any sum to any resident seller for purchase of any goods of the value or aggregate of such value exceeding ₹ 50 lakhs in any previous year.

- ⦿ “Buyer” means a person whose total sales, gross receipts or turnover from the business carried on by him exceed ₹ 10 crore during the financial year immediately preceding the financial year in which the purchase of goods is carried out. However, buyer does not include certain notified person provided they satisfied specified conditions.

When tax shall be deducted: At the time of payment or crediting the payee, whichever is earlier.

Taxpoint: Where any amount is credited to any account (for e.g. “Suspense account” or by any other name) instead of seller account, such crediting shall be deemed to be credit of such sum to the account of the seller.

Rate of TDS: 0.1% of such sum exceeding ₹ 50 lakhs. In case where seller do not have PAN, then rate of TDS shall be 5%

Taxpoint

- ⦿ TDS u/s 194Q shall be deducted on the taxable value i.e. exclusive of GST component (or other indirect tax component). However, on the amount paid as advance, TDS shall be deducted on entire amount since GST component cannot be separately identified. [Circular 13/2021 dated 30-06-2021]
- ⦿ The provision is not applicable where seller is Central or State Government. The exemption is not applicable where seller is public sector undertaking or corporation. [Circular 20/2021 dated 25-11-2021]
- ⦿ Purchase Return: The tax is required to be deducted at the time of payment or credit, whichever is earlier. Thus, before purchase return happens, the tax must have already been deducted u/s 194Q on that purchase. If that is the case and against this purchase return the money is refunded by the seller, then this tax deducted may be adjusted against the next purchase against the same seller. No adjustment is required if the purchase return is replaced by the goods by the seller as in that case the purchase on which tax was deducted u/s 194Q has been completed with goods replaced.
- ⦿ The provisions of this section shall not apply to a transaction on which:
  - a. tax is deductible under any of the provisions of this Act; and
  - b. tax is collectible u/s 206C
- ⦿ 194O -vs.- 194Q: If tax has been deducted by the e-commerce operator on a transaction u/s 194-O [including transactions on which tax is not deducted on account of 194-O(2)], that transaction shall not be subjected to tax deduction u/s 194Q.
- ⦿ The provision is not applicable in case of following transactions:
  - a. Transaction in securities and commodities traded through recognised stock exchange
  - b. Transaction in electricity, renewable energy certificate and energy saving certificate through power exchanges [Circular 13/2021 dated 30-06-2021]

Exemption or relaxation from the provision

When the recipient applies to the Assessing Officer and gets a certificate authorising the payer to deduct tax at a lower rate or deduct no tax [Refer sec. 197]

### **3.6.29 TDS on benefit or perquisite in respect of business or profession [Sec. 194R]**

Who is responsible to deduct tax: Any person responsible for providing to a resident, any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession, by such resident.

- ⊙ However, tax is not required to be deducted where provider of such facility is an individual or a Hindu undivided family, whose total sales, gross receipts or turnover does not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, during the financial year immediately preceding the financial year in which such benefit or perquisite, as the case may be, is provided by such person
- ⊙ Person responsible for providing means the person providing such benefit or perquisite, or in case of a company, the company itself including the principal officer thereof

When tax shall be deducted: Before providing such benefit or perquisite to a resident.

Rate of TDS: 10% of the value or aggregate of value of such benefit or perquisite

When TDS is not applicable: Where the value or aggregate of value of the benefit or perquisite provided or likely to be provided to such resident during the financial year does not exceed ₹ 20,000

Taxpoint

Where the benefit or perquisite, as the case may be, is wholly in kind or partly in cash and partly in kind but such part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of such benefit or perquisite, the person responsible for providing such benefit or perquisite shall, before releasing the benefit or perquisite, ensure that tax required to be deducted has been paid in respect of the benefit or perquisite

### **3.6.30 TDS on Payment on transfer of virtual digital asset [Sec. 194S]**

Who is responsible to deduct tax: Any person responsible for paying to any resident any sum by way of consideration for transfer of a virtual digital asset.

When tax shall be deducted: At the time of credit of such sum to the account of the resident or at the time of payment of such sum by any mode, whichever is earlier

Where any sum is credited to any account, whether called "Suspense Account" or by any other name, in the books of account of the person liable to pay such sum, such credit of the sum shall be deemed to be the credit of such sum to the account of the payee

Rate of TDS: 1%

When TDS is not applicable: No tax shall be deducted in a case, where:

| Consideration is payable by              | Value                                                                                                 |
|------------------------------------------|-------------------------------------------------------------------------------------------------------|
| A specified person                       | The value or aggregate value of such consideration does not exceed ₹ 50,000 during the financial year |
| Any person other than a specified person | The value or aggregate value of such consideration does not exceed ₹ 10,000 during the financial year |

- ⊙ Specified person means a person,
  - a. being an individual or a HUF, whose total sales, gross receipts or turnover from the business carried on

by him or profession exercised by him does not exceed ₹ 1 crore in case of business or ₹ 50 lakh in case of profession, during the financial year immediately preceding the financial year in which such virtual digital asset is transferred;

- b. being an individual or a Hindu undivided family, not having any income under the head “Profits and gains of business or profession

Taxpoint

- ⊙ The provisions of sections 203A shall not apply to a specified person.
- ⊙ In case of a transaction to which sec. 194O are also applicable along with the provisions of this section, then, tax shall be deducted u/s 194S.
- ⊙ Where the consideration for transfer of virtual digital asset is:
  - a. wholly in kind or in exchange of another virtual digital asset, where there is no part in cash; or
  - b. partly in cash and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of such transfer,

the person responsible for paying such consideration shall, before releasing the consideration, ensure that tax required to be deducted has been paid in respect of such consideration for the transfer of virtual digital asset.

### 3.6.31 TDS on Payment on Remuneration/Interest to Partner [Sec. 194T]

Who is responsible to deduct tax: Firm, responsible for paying any sum in the nature of salary, remuneration, commission, bonus or interest to a partner of the firm.

When tax shall be deducted: At the time of credit of such sum to the account of the partner (including the capital account) or at the time of payment of such sum, whichever is earlier

Rate of TDS: 10%

When TDS is not applicable: Where aggregate of such sums credited or paid or likely to be credited or paid to the partner of the firm does not exceed ₹ 20,000 during the financial year.

Taxpoint:

- ⊙ Tax is required to be deducted on the entire remuneration/interest even though such remuneration or interest is not taxable in the hands of the partner.

### 3.6.32 Other Provisions

TDS on sums payable to Government, Reserve Bank or certain corporations [Sec. 196]

No deduction of tax shall be made from any sums payable to following person:

- i. the Government, or
- ii. the Reserve Bank of India, or
- iii. a corporation established by or under a Central Act which is, under any law for the time being in force, exempt from income-tax on its income, or
- iv. a Mutual Fund specified u/s 10(23D),

Tax deducted is income received [Sec. 198]

- ⊙ All sums deducted [including income-tax paid outside India, by way of deduction, in respect of which an assessee is allowed a credit against the tax payable under this Act] shall, for the purpose of computing the income of an assessee, be deemed to be income received. E.g., If Mr. X received interest of ₹ 18,000 (after

deduction of tax ₹ 2,000), then interest income of Mr. shall be considered as ₹ 20,000/-.

Exception: The sum being the tax paid, u/s 192(1A) [i.e., tax paid by employer on non-monetary perquisite] and u/s 194N for the purpose of computing the income of an assessee, shall not be deemed to be income received.

- Where any income is paid 'net of tax' (i.e., tax chargeable on such income shall be borne by the payer), then for the purpose of deducting tax, such income is required to be grossed up [Sec. 195A]. However, grossing up is not required in case of tax on non-monetary perquisite paid by the employer.

Credit for tax deducted [Sec. 199]

- Any deduction made in accordance with the foregoing provisions of this Chapter and paid to the Central Government shall be treated as a payment of tax on behalf of the person from whose income the deduction was made. If such income is assessable in the hands of other person, credit shall be given to such other person.
- Any sum referred to in sec. 192(1A) and paid to the Central Government shall be treated as the tax paid on behalf of such employee.
- The Board may, for the purposes of giving credit in respect of tax deducted or tax paid in terms of the provisions of this Chapter, make such rules as may be necessary, including the rules for the purposes of giving credit to a person other than those referred above and also the assessment year for which such credit may be given.

Certificate for deduction at lower rate [Sec. 197]

- Where the Assessing Officer, on an application (Form 13) made by a person, is satisfied that existing and estimated tax liability of a person justifies the deduction of tax at lower rate or no deduction of tax, as the case may be, the Assessing Officer shall issue a certificate for deduction of tax at such lower rate or no deduction of tax.
- The certificate shall be valid for such period of the previous year as may be specified in the certificate, unless it is cancelled by the Assessing Officer at any time before the expiry of the specified period.
- The certificate shall be valid only with regard to the person responsible for deducting the tax and named therein.
- The certificate shall be issued direct to the person responsible for deducting the tax under advice to the person who made an application for issue of such certificate

Computation of lower rate [Rule 28AA]

The existing and estimated liability shall be determined by the Assessing Officer after taking into consideration the following:

- tax payable on estimated income of the previous year relevant to the assessment year;
- tax payable on the assessed or returned income, as the case may be, of the last 3 previous years;
- existing liability under the Income-tax Act, 1961 and Wealth-tax Act, 1957;
- advance tax payment for the assessment year relevant to the previous year till the date of making application;
- tax deducted / collected at source for the assessment year relevant to the previous year till the date of making application

In nutshell, the Assessing Officer may issue a certificate for deduction of tax at source at lower rate calculated in the manner specified below:

|                                                                                                       |                   |
|-------------------------------------------------------------------------------------------------------|-------------------|
| Calculate estimated total income of the current year                                                  | A                 |
| Calculate tax payable thereon                                                                         | B                 |
| Examine the advance tax already paid or tax already deducted for the current year                     | C                 |
| Reduce advance tax already paid or tax already deducted from the current year estimated tax liability | D=B-C             |
| Calculate average rate of tax                                                                         | $E = D / A * 100$ |
| Calculate average of the average rate of tax of preceding 3 years                                     | F                 |
| Rate of TDS for Certificate                                                                           | Higher of E and F |

No deduction to be made in certain cases [Sec. 197A]

- ⊙ No deduction shall be made under any section from any payment made to New Pension System Trust referred to in sec. 10(44).
- ⊙ No deduction of tax shall be made u/s 194 (Dividend) and 194EE (NSS),
  - a. The payee is a resident individual;
  - b. The aggregate amount of income paid or credited does not exceed basic exemption limit
  - c. Such individual furnishes to the payer, a declaration in writing in duplicate in the Form 15G (Form 15H in case of senior citizen).
  - d. Such declaration states that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be nil.
- ⊙ No deduction of tax shall be made u/s 192A (payment of the accumulated balance of provident fund) or 193 (interest on securities) or 194A (other interest) or 194D (insurance commission) or 194DA (payment in respect of life insurance policy) or 194-I (rent),
  - a. The payee is a person other than a company or a firm.
  - b. The aggregate amount of income paid or credited does not exceed basic exemption limit.
  - c. Such person furnishes to the payer a declaration in writing in duplicate in the form 15G (Form 15H in case of senior citizen).
  - d. Such declaration states that the tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be nil.
- ⊙ No deduction of tax shall be made, or deduction of tax shall be made at such lower rate, from such payment to such notified person or class of persons, including institution, association or body or class of institutions, associations or bodies.

### 3.6.33 Duty of person responsible for deducting tax at source

Deposit of TDS within Time-Limit [Sec. 200 read with Rule 30]

Tax deducted by the deductor shall be deposited electronically through internet banking facility to the credit of the Central Government within following time limit –

| TDS                                            | Time limit |
|------------------------------------------------|------------|
| a) Tax is deducted on behalf of the Government |            |

| TDS                                                                                                                                                                                                                                                                                                                  | Time limit                                                                                                                                                                               |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ➤ Where the tax is paid without production of an income-tax challan                                                                                                                                                                                                                                                  | On the same day                                                                                                                                                                          |
| ➤ Where the tax is paid with production of an income-tax challan                                                                                                                                                                                                                                                     | On or before 7 days from the end of the month in which tax is deducted                                                                                                                   |
| b. When the Assessing Officer (after obtaining prior approval from Joint Commissioner) permits quarterly payment of tax:                                                                                                                                                                                             |                                                                                                                                                                                          |
| ➤ Where deduction is made u/s 192, 194A, 194D or 194H                                                                                                                                                                                                                                                                | Within July 7 (for Quarter ending on June 30), October 7 (for Quarter ending on September 30), January 7 (for Quarter ending on December 31) & April 30 (for Quarter ending on March 31) |
| c. In any other case                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                          |
| ➤ For the month of March                                                                                                                                                                                                                                                                                             | Within forthcoming 30 <sup>th</sup> April                                                                                                                                                |
| ➤ For the months other than month of March                                                                                                                                                                                                                                                                           | Within 7 days from the end of the month in which tax is deducted at source.                                                                                                              |
| Exception: Where tax is deducted u/s 194-IA or 194-IB, tax shall be paid to the credit of the Central Government within a period of 30 days from the end of the month in which the deduction is made and shall be accompanied by a challan-cum-statement in Form No. 26QB (for sec. 194-IA) / 26QC (for sec. 194-IB) |                                                                                                                                                                                          |

#### Issuance of certificate to payee

Any person responsible for deducting tax, shall require to issue a certificate (electronically generated) to the payee -

| Nature of payment | Certificate | Time-limit                                                                                                                           |
|-------------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------|
| Salary            | 16          | Annual certificate shall be issued on or before June 15 of the financial year following the financial year in which tax is deducted. |
| Others            | 16A         | Quarterly certificate shall be issued within 15 days from the due date of furnishing quarterly TDS return                            |

#### Furnishing of statement in respect of payment of any income to residents without deduction of tax [Sec. 206A]

- Any banking company or co-operative society or public company referred to in sec.194A(3) responsible for paying to a resident any income not exceeding ₹50,000, where the payer is a banking company or a co-operative society, and ₹10,000 in any other case by way of interest (other than interest on securities), shall prepare such statement in such form, containing such particulars, for such period, verified in such manner and within such time, as may be prescribed, and deliver or cause to be delivered the said statement to the prescribed income-tax authority or to the person authorised by such authority.
- The Board may require any person, other than above, responsible for paying to a resident any income liable for deduction of tax at source under Chapter XVII, to prepare such statement in such form, containing such particulars, for such period, verified in such manner and within such time, as may be prescribed, and deliver or cause to be delivered the said statement to the income-tax authority or the authorised person referred above.
- The person responsible for paying to a resident any of the aforesaid income may also deliver to the income-tax authority, a correction statement for rectification of any mistake or to add, delete or update the information furnished in the statement delivered in such form and verified in such manner, as may be prescribed.

#### Duty to furnish statement

Any person after paying the tax collected to the credit of the Central Government prepare following quarterly statements:

| Particulars                                                                                   | Form No. |
|-----------------------------------------------------------------------------------------------|----------|
| Tax is deducted from salary u/s 192                                                           | 24Q      |
| Tax is deducted from payment made to non-resident, foreign company or not-ordinarily resident | 27Q      |
| In other cases                                                                                | 26Q      |

Note: The person may also deliver to the prescribed authority a correction statement for rectification of any mistake or to add, delete or update the information furnished in the statement delivered under this sub-section in such form and verified in such manner as may be specified by the authority. However, w.e.f. 01-04-2025, no correction statement shall be delivered after the expiry of 6 years from the end of the financial year in which the statement is required to be delivered.

Due date of furnishing quarterly statement

| Particulars                        | Due date of submission of quarterly return |
|------------------------------------|--------------------------------------------|
| For quarter ending on 30 June      | July 31 of the financial year              |
| For quarter ending on 30 September | October 31 of the financial year           |
| For quarter ending on 31 December  | January 31 of the financial year           |
| For quarter ending on 31 March     | May 31 of the forthcoming financial year   |

Processing of statements of tax deducted at source [Sec. 200A]

- ⊙ The aforesaid statement (including correction statement) shall be processed in the following manner:
    - a. the sums deductible shall be computed after making the following adjustments:
      - i. any arithmetical error in the statement; or
      - ii. an incorrect claim, apparent from any information in the statement<sup>#</sup>;
    - b. the interest, if any, shall be computed on the basis of the sums deductible as computed in the statement.
    - c. the fee, if any, shall be computed in accordance with the provisions of sec. 234E;
    - d. the sum payable by, or the amount of refund due to, the deductor shall be determined after adjustment of the amount computed under clause (b) and clause (c) against any amount paid u/s 200 or 201 or 234E and any amount paid otherwise by way of tax or interest or fee;
    - e. an intimation shall be prepared or generated and sent to the deductor specifying the sum determined to be payable by, or the amount of refund due to, him under clause (d); and
    - f. the amount of refund due to the deductor in pursuance of the determination under clause (d) shall be granted to the deductor
  - ⊙ Time Limit: Such intimation shall not be sent after the expiry of 1 year from the end of the financial year in which the statement is filed.
  - ⊙ For the purposes of processing of statements, the Board may make a scheme for centralised processing of statements of tax deducted at source to expeditiously determine the tax payable by or refundable to the deductor.
- <sup>#</sup> An incorrect claim apparent from any information in the statement shall mean a claim, on the basis of an entry, in the statement:
- i. of an item, which is inconsistent with another entry of the same or some other item in such statement;
  - ii. in respect of rate of deduction of tax at source, where such rate is not in accordance with the provisions of this Act;

### **3.6.34 Tax deduction and collection account number [Sec. 203A]**

Every person, deducting tax or collecting tax, who has not been allotted a tax-deduction account number or tax-collection account number, shall within specified time, apply to the Assessing Officer for the allotment of a “tax-deduction and collection-account number” in Form 49B. Where such number has been allotted to a person, such person shall quote such number—

- a. in all challans for the payment of tax deducted or collected;
- b. in all certificates furnished u/s 203 or sec. 206C(5);
- c. in all the statements prepared and delivered u/s 200(3) or 206C(3);
- d. in all the returns delivered u/s 206 or 206C(5A) or (5B) to any income-tax authority; and
- e. in all other documents pertaining to such transactions as may be prescribed in the interests of revenue.

Note: The section is not applicable to the person deducting tax u/s 194-IA or 194-IB

### **3.6.35 Requirement to furnish Permanent Account Number [Sec. 206AA]**

- ⊙ Any person entitled to receive any sum or income or amount, on which tax is deductible (hereafter referred to as deductee) shall furnish his Permanent Account Number (PAN) to the person responsible for deducting such tax (hereafter referred to as deductor), failing which tax shall be deducted at the higher of the following rates:
  - i. at the rate specified in the relevant provision of this Act; or
  - ii. at the rate or rates in force; or
  - iii. at the rate of 20%
- ⊙ In case of non-PAN case covered u/s 194-O or 194-Q, rate of TDS shall be 5%.
- ⊙ No declaration u/s 197A shall be valid unless the person furnishes his Permanent Account Number in such declaration.
- ⊙ In case any declaration becomes invalid, the deductor shall deduct the tax at source accordingly.
- ⊙ No certificate u/s 197 shall be granted unless the application made for the purpose contains the Permanent Account Number of the applicant.
- ⊙ The deductee shall furnish his Permanent Account Number to the deductor and both shall indicate the same in all the correspondence, bills, vouchers and other documents which are sent to each other.
- ⊙ Where the Permanent Account Number provided to the deductor is invalid or does not belong to the deductee, it shall be deemed that the deductee has not furnished his Permanent Account Number to the deductor.
- ⊙ In the case of a non-resident, not being a company, or a foreign company and not having PAN, the provisions of sec. 206AA shall not apply in respect of payments in the nature of interest, royalty, fees for technical services and payments on transfer of any capital asset, if the deductee furnishes the specified details and the documents to the deductor [Notification 53 dated 24-06-2016]

### **3.6.37 Electronic-payment of tax [Rule 125]**

The following persons shall pay tax electronically:

- i. a company; and
- ii. a person (other than a company), to whom provisions of section 44AB (tax audit) are applicable.

Taxpoint:

- ⊙ Pay tax electronically shall mean, payment of tax by way of:
  - (i) internet banking facility of the authority bank; or
  - (ii) credit or debit cards;
- ⊙ For the purpose of this rule, tax includes interest, penalty and payment of any amount by a deductor by way of Tax Deducted at Source (TDS) or Tax Collected at Source (TCS).
- ⊙ An assessee can make electronic payment of taxes also from the account of any other person. However, the challan for making such payment must clearly indicate the Permanent Account Number (PAN) of the assessee on whose behalf the payment is made. It is not necessary for the assessee to make payment of taxes from his own account in an authorized bank.

### 3.6.38 Direct payment [Sec. 191]

- ⊙ In the case of income in respect of which:
  - Provision is not made for deducting income-tax at the time of payment;
  - Income-tax has not been deducted in accordance with the provisions of this Chapter, tax shall be payable by the assessee direct.
- ⊙ If any person, including the principal officer of a company,—
  - a. who is required to deduct any sum in accordance with the provisions of this Act; or
  - b. referred to in sec. 192(1A), being an employer,
 does not deduct, or after so deducting fails to pay, or does not pay, the whole or any part of the tax, as required by or under this Act, then, such person shall, without prejudice to any other consequences which he may incur, be deemed to be an assessee in default. [Sec. 201(1)].

Exception

First proviso to sec. 201(1) states that the payer is not deemed as an assessee in default:

- i. Such resident recipient has furnished his return of income u/s 139
- ii. Such resident recipient has taken into account such sum for computing income in such return of income; and
- iii. Such resident recipient has paid the tax due on the income declared by him in such return of income,
- iv. The payer furnishes a prescribed certificate [Form No. 26A] to this effect from a chartered accountant
- ⊙ Penalty: No penalty shall be charged u/s 221 from such person, principal officer or company unless the Assessing Officer is satisfied that such person or principal officer or company, as the case may be, has without good and sufficient reasons failed to deduct and pay the tax. [Second Proviso to Sec. 201(1)]
- ⊙ Other Point: Relaxation in case of tax on perquisite in respect of allotment of ESOP shares [Refer sec. 192]

### 3.6.39 Deduction only one mode of recovery [Sec. 202]

The power to recover tax by deduction under the foregoing provisions of this Chapter is only one mode for recovery of tax. However, the Assessing Office can use any other prescribed methods of recovery in addition to TDS.

### 3.6.40 TDS is to be deducted on amount excluding GST component

Wherever in terms of the agreement/contract between the payer and the payee, the GST component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source under Chapter XVII-B of the Act on the amount paid/payable without including such GST component

## TAX COLLECTION AT SOURCE (TCS)

Apart from TDS, another device applied for quicker collection of tax is Tax collection at source (TCS) u/s 206C.

### 3.6.41 Applicability of Sec. 206C

1. Every seller<sup>1</sup>, shall collect tax from the buyer<sup>2</sup> of any specified goods<sup>3</sup>, at the time of -
  - Debiting the amount payable by the buyer to the account of the buyer; or
  - Receipt of such amount from the buyer,
  - whichever is earlier.
2. Every person, who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in -
  - any parking lot; or
  - toll plaza; or
  - mine or quarry excluding mines or quarrying of mineral oil (mineral oil includes Petroleum and Natural gas), to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purpose of business shall collect tax from the licensee or lessee at the time of:
    - Debiting the amount payable by the licensee or lessee to the account of the licensee or lessee; or
    - Receipt of such amount from the licensee or lessee,
    - whichever is earlier.
3. Every person -
  - a. being an authorised dealer, who receives an amount, for remittance out of India from a buyer, being a person remitting such amount out of India under the Liberalised Remittance Scheme of the Reserve Bank of India;
  - b. being a seller of an overseas tour program package, who receives any amount from a buyer, being the person who purchases such package
 shall collect from the buyer at the time of
  - Debiting the amount payable by the buyer; or
  - Receipt of such amount from the said buyer
  - whichever is earlier,

#### Taxpoint

- The provision shall not be applicable to a person (being a buyer) who is a non-resident and who does not have a permanent establishment in India.
- Authorised dealer means a person authorised by the Reserve Bank of India u/s 10(1) of the Foreign Exchange Management Act, 1999 to deal in foreign exchange or foreign security;
- Overseas tour programme package means any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.

#### Exception

- i. The authorised dealer shall not collect the sum, if aggregate of the amounts being remitted by a buyer is less than ₹10,00,000 in a financial year and is for a purpose other than purchase of overseas tour program package.

Taxpoint: If remittance is more than ₹ 10,00,000 (say ₹ 11,00,000), then tax shall be collected on excess amount (i.e. ₹ 1,00,000).

- ii. The authorised dealer shall not collect the sum on an amount in respect of which the sum has been collected by the seller.
- iii. The provision is not applicable, if the buyer is:
  - a. liable to deduct tax at source under any other provision of this Act and has deducted such amount;
  - b. the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority as defined in the Explanation to sec. 10(20) or any other notified person

Meaning of important terms [for points 1 to 3]

3. "Seller" means -
  - a. The Central Government; or
  - b. State Government; or
  - c. Local authority; or
  - d. Statutory corporation; or
  - e. Authority established by or under a Central, State or Provincial Act; or
  - f. Company; or
  - g. Firm; or
  - h. Co-operative society; or
  - i. An individual or a HUF, whose total sales, gross receipts or turnover from the business or profession carried on by him exceed ₹ 1 crore in case of business or ₹ 50 lakh in case of profession during the financial year immediately preceding the financial year in which such goods are sold.
2. "Buyer" (for specified goods other than motor car) means a person who obtains in any sale (by way of auction, tender or any other mode) specified goods or the right to receive any such goods but does not include, —
  - i. A public sector company, the Central Government, a State Government and an embassy, a High Commission, Legation, Commission, consulate and the trade representation, of a foreign state and a club; or
  - ii. A buyer in the retail sale of such goods purchased by him for personal consumption.
    - ⊙ Buyer in case of motor vehicle or other specified goods does not include:
      - a. the Central Government, a State Government and an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State; or
      - b. a local authority; or
      - c. a public sector company which is engaged in the business of carrying passengers
3. "Specified goods" includes:
  - i. Alcoholic Liquor for human consumption
  - ii. Tendu leaves;
  - iii. Timber or any other forest produce\* (not being tendu leaves) obtained under a forest lease;
  - iv. Timber obtained by any mode other than under a forest lease;
  - v. Scrap.
  - vi. Specified minerals i.e., coal, lignite and iron-ore
  - vii. Motor car or any other specified goods\*\*, value of which exceeds ₹ 10 lakhs

\* Forest produce shall have the same meaning as defined in any State Act for the time being in force, or in the Indian Forest Act, 1927

\*\* Specified goods: Following goods of the value exceeding ₹ 10 lakh

a. any wrist watch; b. any art piece such as antiques, painting, sculpture; c. any collectibles such as coin, stamp; d. any yacht, rowing boat, canoe, helicopter; e. any pair of sunglasses; f. any bag such as handbag, purse; g. any pair of shoes; h. any sportswear and equipment such as golf kit, ski-wear; i. any home theatre system; j. any horse for horse racing in race clubs and horse for polo

## Rate of TCS

| Particulars                                                                                                                                             | Rate as a % of the amount payable by the buyer or licensee or lessee*                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| 1. Alcoholic liquor for human consumption                                                                                                               | 1%                                                                                                          |
| 2. Tendu leaves                                                                                                                                         | 5%                                                                                                          |
| 3. Timber or any other forest produce (not being tendu leaves) obtained under a forest lease                                                            | 2%                                                                                                          |
| 4. Timber obtained by any mode other than under a forest lease                                                                                          | 2%                                                                                                          |
| 5. Scrap                                                                                                                                                | 1%                                                                                                          |
| 6. Specified minerals                                                                                                                                   | 1%                                                                                                          |
| 7. Motor vehicle or other specified goods, value of which exceeds ₹10 lakh                                                                              | 1%                                                                                                          |
| 8. Parking lot, toll plaza, mining and quarrying                                                                                                        | 2%                                                                                                          |
| 9. In case of point 3                                                                                                                                   |                                                                                                             |
| a. if the amount being remitted out is a loan obtained from any financial institution as defined in sec. 80E, for the purpose of pursuing any education | 0%                                                                                                          |
| b. Remittance for education (Other than above) or for medical purpose                                                                                   | 5% (after threshold limit of ₹ 10 lakhs)                                                                    |
| c. Overseas tour program package                                                                                                                        | - Upto ₹ 10 lakhs – 5%<br>- Above ₹ 10 lakhs – 20%<br>Non PAN Cases: 10% upto ₹ 10 lakhs and 20% thereafter |
| d. In other case                                                                                                                                        | 20% (after threshold limit of ₹ 10 lakhs)                                                                   |

\* However, where the purchaser or licensee or lessee is a non-resident non-corporate assessee or a non-domestic company, then surcharge (if any applicable), health and education cess is also required to be deducted along with aforesaid rates.

Note: “Scrap” means waste and scrap from the manufacture or mechanical working of materials which is definitely not usable as such because of breakage, cutting up, wear and other reasons.

**Requirement to furnish PAN by collectee [Sec. 206CC]**

- ⊙ Any person paying any sum, on which tax is collectible at source shall furnish his PAN to the person responsible for collecting such tax, failing which tax shall be collected at the higher of the following rates:
  - i. at twice of the specified TCS rate; or
  - ii. at the rate of 5%.
- ⊙ Where the PAN provided is invalid or does not belong to the collectee, it shall be deemed that the collectee has not furnished his PAN to the collector.

**Exception**

- ⊙ The provisions of higher rate shall not be applicable to a non-resident who does not have permanent establishment in India.

# Filing of Return of Income

## 3.7

### 3.7.1 Filing of Return

As per provisions of sec. 139(1), following persons need to file a return of income in the prescribed form and within the prescribed time -

| Section   | Assessee                                                                            | Size of income                                                                                                                                                                                        |
|-----------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 139(1)(a) | A company or a firm                                                                 | Irrespective of size of income (even where there is a loss)                                                                                                                                           |
| 139(4A)   | Trust                                                                               | Discussed later in this chapter                                                                                                                                                                       |
| 139(4B)   | Political party                                                                     |                                                                                                                                                                                                       |
| 139(4C)   | Scientific research association; News agency; etc.                                  |                                                                                                                                                                                                       |
| 139(4D)   | Any University / College / other institution referred to on Sec. 35(1)(ii) or (iii) |                                                                                                                                                                                                       |
| 139(4E)   | Business Trust                                                                      | Irrespective of size of income (even where there is a loss)                                                                                                                                           |
| 139(4F)   | Investment Fund referred to in sec. 115UB                                           |                                                                                                                                                                                                       |
| 139(1)(b) | Any other person                                                                    | Where income before giving effect to sec. 54, 54B, 54D, 54EC, 54F, 54G, 54GA, 54GB and chapter VIA (i.e., deduction u/s 80C to 80U) exceeds the maximum amount which is not chargeable to income tax. |

However, the Central Government may exempt any class or classes of persons from the requirement of furnishing a return of income having regard to such conditions as may be specified in that notification – Sec.139(1C)

**Compulsory filing of return:** Any person, being resident other than not ordinarily resident, shall furnish, a return, within due date, in respect of his income or loss for the previous year irrespective of the fact that his total income does not exceed basic exemption limit or does not have any taxable income, if he:

(i) holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India **or** has signing authority in any account located outside India; or

(ii) is a beneficiary of any asset (including any financial interest in any entity) located outside India.

**Exception:** An individual, being a beneficiary of any asset (including any financial interest in any entity) located outside India where, income, if any, arising from such asset is includible in the income of the person referred above in accordance with the provisions of this Act.

- “Beneficial owner” in respect of an asset means an individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, direct or indirect, of himself or any other person.
- “Beneficiary” in respect of an asset means an individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person other than such beneficiary.

Mandatory furnishing of return in case of high value transactions [7<sup>th</sup> proviso to sec. 139(1)]

A person (other than firm and company), who is not required to furnish a return as per aforesaid provision, and who during the previous year:

- has deposited an aggregate amount exceeding ₹1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
- has incurred expenditure of an aggregate amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or
- has incurred expenditure of an aggregate amount exceeding ₹ 1 lakh towards consumption of electricity; or
- fulfils such other conditions as may be prescribed,

The following are prescribed [Rule 12AB]:

- If his total sales, turnover or gross receipts, as the case may be, in the business exceeds ₹60 lakhs during the previous year; or
- If his total gross receipts in profession exceeds ₹ 10 lakh during the previous year; or
- If the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more (in case of senior citizen ₹ 50,000); or
- The deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakh or more during the previous year

shall furnish a return of his income on or before the due date in such form and verified in such manner and setting forth such other particulars, as may be prescribed.

#### Illustration 44

Whether following assessee is compulsorily required to file return of income—

| Assessee | Taxable Income before deduction | Required to file return or not |
|----------|---------------------------------|--------------------------------|
| Mr. X    | 5,00,000                        | Yes                            |
| Mr. Y    | 30,000                          | No*                            |
| A Ltd.   | 10,000                          | Yes                            |
| B Ltd    | (-) 20,000                      | Yes                            |

\* Assessee can file a return of income voluntarily irrespective of its size of income.

### 3.7.2 Scheme for submission of return through Tax Return Preparers (TRP) [Sec. 139B]

As per TRP Scheme, 2006, an individual who has been issued a “Tax Return Preparer Certificate” and a “unique identification number” under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme.

A TRP has been authorized to prepare and furnish returns of income of any specified class(es) of person<sup>1</sup>. The scheme framed under the above provision shall specify:

- The manner in which and the period for which the TRP shall be authorised
- The educational and other qualifications to be possessed
  - An individual, who holds a bachelor degree from a recognised Indian University or institution, or has

passed the intermediate level examination conducted by the ICAI or the ICSI or the ICMAI, shall be eligible to act as Tax Return Preparer

- The training and other conditions required to be fulfilled, by a person to act as a TRP,
- The code of conduct for the TRP,
- Duties and obligation of the TRP
- The circumstances under which the authorisation given to a TRP may be withdrawn; &
- Any other matter.

Note: The TRP shall also affix his signature on such return.

<sup>1</sup> Any person (resident individual and resident HUF) other than a company or a person whose accounts are required to be audited u/s 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act. Further, an eligible person cannot furnish a revised return of income for any assessment year through a TRP unless he has furnished the original return of income for that assessment year through such or any other TRP

### Person not eligible to become TRP

- An accountant
- Any legal practitioner who is entitled to practice in any civil court in India.
- Any officer of a scheduled bank cannot be the TRP of the assessee who maintains a Current account or has other regular dealing with such bank.
- An employee of the specified class or classes of persons
  - Employees of companies and persons whose accounts are required to be audited u/s 44AB or any other law for the time being in force (since they are not falling in the category of specified class or classes of persons), are eligible to act as TRP

### 3.7.3 Forms – Return of Income

Rule 12 provides following Form for filing return of income for different assessee:

|                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ITR - 1<br/>(Sahaj)</b> | For ordinarily resident Individuals having Income from Salaries, one house property (does not have any brought forward loss), Long term capital gain u/s 112A (not more than ₹ 1,25,000), other sources [Interest (does not have any loss under the head) etc. but except winnings from lottery or income from race horses] and having total income upto ₹ 50 lakh<br><br>However, the form is not to be used for an individual who is either a Director in a company or has invested in unlisted equity shares or has any brought forward / carried forward loss under the head 'Income from House Property' or has to furnish return under seventh proviso to section 139(1) of the Income Tax Act |
| <b>ITR - 2</b>             | For Individuals and HUFs not carrying out business or profession under any proprietorship                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>ITR - 3</b>             | For individuals and HUFs having income from a proprietary business or profession                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>ITR - 4<br/>(Sugam)</b> | For presumptive income from Business & Profession                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

|                |                                                                                                                                                 |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>ITR - 5</b> | For person other than (i) Individual; (ii) HUF; (iii) Company; & (iv) Person filing Form ITR-7                                                  |
| <b>ITR - 6</b> | For Companies other than companies claiming exemption u/s 11                                                                                    |
| <b>ITR - 7</b> | For persons including companies required to furnish return u/s 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4F)                              |
| <b>ITR - V</b> | Income Tax Return Verification Form [Where the data of the aforesaid Return of Income has transmitted electronically without digital signature] |

### 3.7.4 Mode of furnishing Income-tax Return

- Paper Return
- Electronic Return with Digital Signature
- Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V
- Transmitting the data electronically in the return under electronic verification code

#### Notes

##### 1. Compulsory E-Return:

| Person            | Condition                                                                                                                                                                                                                                           | Mode                                                                                                                                                         |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Company           | -                                                                                                                                                                                                                                                   | Electronically with digital sign                                                                                                                             |
| Political Party   | -                                                                                                                                                                                                                                                   |                                                                                                                                                              |
| Firm or LLP       | Audit u/s 44AB required                                                                                                                                                                                                                             |                                                                                                                                                              |
| Individual or HUF | Audit u/s 44AB required                                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>- Electronically with digital sign</li> <li>- Transmitting the data electronically in the return under EVC</li> </ul> |
| Individual        | Where total income assessable during the previous year of a person, being an individual of the age of 80 years or more at any time during the previous year, and who furnishes the return in Form number SAHAJ (ITR-1) or Form number SUGAM (ITR-4) | Any of the given mode                                                                                                                                        |
| Any other person  |                                                                                                                                                                                                                                                     | Any mode other than paper mode                                                                                                                               |

- A resident Individual (other than not-ordinarily resident) or a resident HUF (other than not-ordinarily resident) must file the return of income electronically (with or without digital sign) if he/it has:
  - assets (including financial interest in any entity) located outside India; or
  - signing authority in any account located outside India.
- Further, any person who has claimed any relief u/s 90 or 90A or 91, is required to file return electronically.
- Where an assessee is required to furnish a report of audit specified u/s 10(23C)(iv), (v), (vi) or (via), sec. 10A, sec. 12A(1)(b), sec. 44AB, sec. 80-IA, sec. 80-IB, sec. 80-IC, sec. 80-ID, sec. 80JAA, sec. 80LA, sec. 92E or

sec. 115JB, he shall furnish the same electronically. Apart from said report, the return shall paper less.

6. In respect of any electronic transmission of return data, the return should be verified through e-verification or submission of ITR-V. Such verification should be done within 30 days from the date of transmitting/uploading the data of return of income electronically.

Further, where ITR data is electronically transmitted and e-verified/ITR-V submitted within 30 days of transmission of data - in such cases the date of transmitting the data electronically shall be considered as the date of furnishing the return of income. However, where ITR data is electronically transmitted but e-verified or ITR-V submitted beyond the time-limit of 30 days of transmission of data - in such cases the date of e-verification/ITR-V submission shall be treated as the date of furnishing the return of income and all consequences of late filing of return under the Act shall follow.

### 3.7.5 Time limit for filing return of income [Explanation 2 to Sec. 139(1)]

A return should be filed on or before the following due date (of respective assessment year):

| Assessee                                                                                                                                                     | Due date                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| • Where the assessee (including the partners of the firm) is required to furnish a report in Form 3CEB u/s 92E pertaining to international transaction(s)    | 30 <sup>th</sup> November |
| • Where the assessee is a partner* in a firm and the said firm is required to furnish report in Form 3CEB u/s 92E pertaining to international transaction(s) | 30 <sup>th</sup> November |
| • Where the assessee is a company not having international transaction(s)                                                                                    | 31 <sup>st</sup> October  |
| • Any other assessee                                                                                                                                         |                           |
| – Where accounts of the assessee are required to be audited under any law                                                                                    | 31 <sup>st</sup> October  |
| – Where the assessee is a partner <sup>1</sup> in a firm and the accounts of the firm are required to be audited under any law                               | 31 <sup>st</sup> October  |
| – In any other case                                                                                                                                          | 31 <sup>st</sup> July     |

### 3.7.6 Fee for default in furnishing return of income [Sec. 234F]

Where a person required to furnish a return of income u/s 139, fails to do so within the due date, he shall pay fee of:

| Case                                  | Fee     |
|---------------------------------------|---------|
| Total income does not exceed ₹ 5 lakh | ₹ 1,000 |
| Total income exceeds ₹ 5 lakh         | ₹ 5,000 |

### 3.7.7 When a return of loss should be filed [Sec. 139(3)]

An assessee, other than few, is not compulsorily required to furnish return of loss. However, the following losses cannot be carried forward if the return of loss is not submitted within the time allowed u/s 139(1) -

- a. Business loss (speculative or otherwise);
- b. Capital loss;
- c. Loss from the activity of owning and maintaining race horses
- d. Loss from business specified u/s 35AD

\* Also spouse of such partner if the provisions of section 5A applies to such spouse

### Notes

- a. Loss declared in belated return cannot be carried forward. However, set-off of losses of current year is not prohibited while computing the total income, even if the return of loss is filed after the due date.
- b. Delay in filing the return of loss may be condoned in certain cases
- c. Unabsorbed depreciation u/s 32 and loss under the head “Income from house property” can be carried forward even if the loss return is filed after the due date u/s 139(1).
- d. Although the loss of the current year cannot be carried forward unless the return of loss is submitted before the due date but the loss of earlier years can be carried forward if the return of loss of that year was submitted within the due date.

### 3.7.8 Belated Return [Sec. 139(4)]

If an assessee fails to file return within the time limit allowed u/s 139(1) or within the time allowed under a notice issued u/s 142(1), he can file a belated return.

Time limit: Assessee may file such return -

- On or before 31<sup>st</sup> December of the relevant assessment year; or
  - before the completion of assessment (u/s 144),
- whichever is earlier.

However, if an assessee files a belated return, he would be liable to fee u/s 234F and interest u/s 234A.

Further, certain profit-based deductions are not available and current year losses are not allowed to be carried forward.

### 3.7.9 Return of income of Charitable Trust [Sec. 139(4A)]

Every person who is in receipt of –

- income from property held under the trust or other legal obligation wholly or partly for charitable or religious purpose; or
- income by way of voluntary contribution on behalf of such trust or institution,

and if such income before allowing exemption u/s 11 or 12 exceeds the maximum amount which is not chargeable to tax, must file a return before the due date as per sec.139(1).

**Penalty:** Where an assessee fails to file return of income under this section, within the time limit, it shall be liable to pay a penalty of ₹ 100 per day during which such failure continues [Sec. 272A(2)].

### 3.7.10 Return of income of Political Party [Sec. 139(4B)]

The chief executive officer (whether such chief executive officer is known as Secretary or by any other designation) of any political party is required to furnish a return in respect of income of such political party, if the amount of gross total income before allowing exemption u/s 13A exceeds the maximum amount not chargeable to tax.

### 3.7.11 Return of income of scientific research association, etc. [Sec. 139(4C)]

Every -

- Research Association referred to in sec. 10(21);
- News agency referred to in sec. 10(22B);
- Association or institution referred to in sec. 10(23A) or sec. 10(23B);
- Specified Employee Welfare Fund referred to in sec. 10(23AAA);

- Any university or other educational institution referred to in sec. 10(23C)(iiiad) or (iiiab);
- Any hospital or other medical institution referred to in sec. 10(23C)(iiiie) or (iiia);
- Fund or institution referred to in sec. 10(23C)(iv);
- Trust or institution referred to in sec. 10(23C)(v);
- Any university or other educational institution referred to in sec. 10(23C)(vi);
- Any hospital or other medical institution referred to in sec. 10(23C)(via);
- Mutual Fund referred to in sec. 10(23D);
- Securitisation trust referred to in sec. 10(23DA);
- Investor Protection Fund referred to in sec. 10(23EC) or sec. 10(23ED);
- Core Settlement Guarantee Fund referred to in sec. 10(23EE);
- Venture Capital Company or Venture Capital Fund referred to in sec. 10(23FB);
- Trade union or an association of such union referred to in sec. 10(24);
- Body or authority or Board or Trust or Commission referred to in sec. 10(46) or 10(29A);
- Infrastructure debt fund referred to in sec. 10(47),

must file a return, if the total income without giving effect to the provisions of sec. 10, exceeds the maximum amount which is not chargeable to income-tax.

**Penalty:** Where an assessee fails to file return of income under this section, within the time limit, it shall be liable to pay a penalty of ₹ 100 per day during which such failure continues [Sec. 272A(2)].

### 3.7.12 Return of income by a University/ College etc. [Sec. 139(4D)]

Every University, college or other institutions referred to in sec. 35(1)(ii) or (iii) is required to furnish a return in respect of income or loss irrespective of size of income or loss.

### 3.7.13 Return of income of a Business Trust [Sec. 139(4E)]

Every business trust, which is not required to furnish return of income or loss under any other provisions of this section, shall furnish the return of its income in respect of its income or loss in every previous year and all the provisions of this Act shall, so far as may be, apply if it were a return required to be furnished u/s 139(1).

### 3.7.14 Return of income of Investment Fund [Sec. 139(4F)]

Every investment fund referred to in sec. 115UB, which is not required to furnish return of income or loss under any other provisions of this section, shall furnish the return of income in respect of its income or loss in every previous year and all the provisions of this Act shall, so far as may be, apply as if it were a return required to be furnished u/s 139(1).

### 3.7.15 Revised Return [Sec. 139(5)]

If an assessee discovers any omission or wrong statement (bonafide in nature) in the return filed, he can revise his return u/s 139(5).

**Time limit:** Assessee may file the revised return -

- On or before 31<sup>st</sup> December of the relevant assessment year; or
  - before completion of regular assessment,
- whichever is earlier.

## Notes

- Replacement of original return:** Once a revised return is filed, it replaces the earlier return. This signifies that the revised return should be complete in itself and not merely an accessory to the original return.
- Revision of revised return:** A revised return can again be revised i.e. a second revised return can be filed u/s 139(5) for correcting any omission or wrong statement made in the first revised return within specified time.
- Revision of belated return:** A belated return u/s 139(4) can be revised.
- Revision of loss return:** A loss return can be revised
- Return filed pursuant to notice u/s 142(1) cannot be revised.

### 3.7.16 Defective Return [Sec. 139(9)]

Under this section, the AO has the power to call upon the assessee to rectify a defective return.

Where the Assessing Officer considers that the return of income furnished by the taxpayer is defective, he may intimate the defect to the taxpayer and give him an opportunity to rectify the defect(s).

**Time limit for rectification:** The assessee must rectify the error within a period of 15 days from the date of intimation (served on the assessee) or within such extended time as allowed by the AO on application being made to him. Where the taxpayer rectifies the defect after the expiry of the period of 15 days or such extended period but before the assessment is completed, the AO can condone such delay.

**Consequence when defect is not rectified:** If defect is not rectified within the time limit (or extended time), the AO shall treat the return as an invalid return and provisions of the Act will apply as if the taxpayer had failed to furnish the return at all. Where, however, the assessee rectifies the defect after the expiry of 15 days or the further extended period, but before the assessment is made, the AO may condone the delay and treat the return as a valid return.

#### Taxpoint

- A return of income would be regarded as defective unless the annexures, statements and columns therein relating to computation of income chargeable under each head of income, gross total income and total income have been duly filled in.
- A return of income u/s 139 would also be regarded as defective if it is not accompanied by proof of payment of taxes, whether by way of advance tax or self-assessment tax.

### 3.7.17 Verification of Return [Sec. 140]

The return of income is required to be verified:

| Assessee   | Case                                                                                                                                                                                             | Verified by                                                                    |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Individual | In general                                                                                                                                                                                       | Individual himself                                                             |
|            | Where the individual concerned is absent from India                                                                                                                                              | Individual himself or by the duly authorized person of such individual         |
|            | Where the individual is mentally incapacitated                                                                                                                                                   | Guardian of such individual or any other person competent to act on his behalf |
|            | Where by any other reason it is not possible for the individual to verify the return.                                                                                                            | Any person duly authorised by him                                              |
|            | <b>Note:</b> When the return is verified by any authorised person in that case the return should be accompanied by power of attorney (Now a days, it is not required to be accompany the return) |                                                                                |

| Assessee                      | Case                                                                                                                                                        | Verified by                                                                                                     |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| HUF                           | In general                                                                                                                                                  | Karta                                                                                                           |
|                               | Where the 'karta' is absent from India or is mentally incapacitated                                                                                         | Any adult member of the family.                                                                                 |
| Firm                          | In general                                                                                                                                                  | Managing partner                                                                                                |
|                               | If due to any reason it is not possible for managing partner to verify or where there is no managing partner                                                | Any adult partner                                                                                               |
| Limited liability partnership | In general                                                                                                                                                  | Designated partner                                                                                              |
|                               | If due to any unavoidable reason such designated partner is not able to verify the return, or where there is no designated partner as such                  | Any partner or any other prescribed person                                                                      |
| Local authority               | Principal Officer                                                                                                                                           |                                                                                                                 |
| Political party               | Chief Executive Officer                                                                                                                                     |                                                                                                                 |
| Company                       | In general                                                                                                                                                  | Managing Director (MD)                                                                                          |
|                               | If due to any reason it is not possible for MD to verify or where there is no MD                                                                            | Any director or any other prescribed person                                                                     |
|                               | Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under Insolvency and Bankruptcy Code, 2016 | Insolvency professional appointed by such Adjudicating Authority                                                |
|                               | Non-resident company                                                                                                                                        | A person holding a valid power of attorney.<br>Copy of such power of attorney must be attached with the return. |
|                               | Company in process of winding up                                                                                                                            | Liquidator of the company                                                                                       |
|                               | Where the management of the company has been taken over by the Central or State Government.                                                                 | Principal officer                                                                                               |
| Any other association         | Any member or principal officer                                                                                                                             |                                                                                                                 |
| Any other person              | Such person or any other person competent to act on its behalf.                                                                                             |                                                                                                                 |

The CBDT has, vide Notification No. 93/2021 dated 18.8.2021, specified that “any other person” referred to in section 140(c) and 140(cd) for company and LLP, respectively, shall be the person, appointed by the Adjudicating Authority (i.e., National Company Law Tribunal constituted under section 408 of the Companies Act, 2013) for discharging the duties and functions of an interim resolution professional, a resolution professional, or a liquidator, as the case may be, under the Insolvency and Bankruptcy Code, 2016 and the rules and regulations made thereunder.

### 3.7.18 Updated Return [Sec. 139(8A)]

**Who can file updated return:** Any person, whether or not he has furnished a return u/s 139(1) or (4) or (5), for an assessment year, may furnish an updated return of his income, for the previous year relevant to such assessment year, in the prescribed form, verified in such manner and setting forth such particulars as may be prescribed.

#### Taxpoint

- An updated return cannot be filed, if the updated return:
  - a. is a return of a loss; or
  - b. has the effect of decreasing the total tax liability determined on the basis of return already furnished u/s 139(1) or (4) or (5) [in nutshell, a person cannot reduce his tax liability by filing updated return]; or
  - c. results in refund or increases the refund due on the basis of return furnished u/s 139(1) or (4) or (5), of such person for the relevant assessment year.
- No updated return shall be furnished by any person for the relevant assessment year, where:
  - a. an updated return has already been furnished by him for the relevant assessment year; or
  - b. any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case; or
  - c. he is such person or belongs to such class of persons, as may be notified by the Board in this regard.

There are other circumstances also in which updated return cannot be furnished for the relevant assessment year. For example, where prosecution proceedings are initiated under the relevant provisions of the Income-tax Act, 1961. Those circumstances will be dealt with at Final level

- If any person has sustained a loss in any previous year and has furnished a return of loss in the prescribed form within the time allowed u/s 139(1) and verified in the prescribed manner and containing such other particulars as may be prescribed, he shall be allowed to furnish an updated return where such updated return is a return of income.
- If the loss or any part thereof carried forward or unabsorbed depreciation carried forward or tax credit carried forward u/s 115JAA or u/s 115JD is to be reduced for any subsequent previous year as a result of furnishing of updated return for a previous year, an updated return shall be furnished for each such subsequent previous year.

**Time limit for filing updated return:** At any time within 48 months from the end of the relevant assessment year.

Updated return shall not be furnished where any notice to show-cause u/s 148A has been issued after 36 months from the end of the relevant assessment year. However, where an order is passed u/s 148A(3) determining that it is not a fit case to issue notice u/s 148, the assessee can file updated return.

**Taxpoint:** The updated return is accompanied by the proof of payment of tax as required u/s 140B

### 3.7.19 Tax on updated return [Sec. 140B]

#### A. Where assessee has not furnished return earlier

Where no return of income u/s 139(1) or (4) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee, after taking into account:

- i. the amount of tax, if any, already paid as advance tax;
- ii. TDS or TCS;
- iii. any relief u/s 89;

- iv. any relief u/s 90 or 91 on account of tax paid in a country outside India;
- v. any relief u/s 90A on account of tax paid in any specified territory outside India; and
- vi. any tax credit claimed to be set off in accordance with the provisions of sec. 115JAA or 115JD,

the assessee shall be liable to pay such tax together with interest and fee payable for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional income-tax, before furnishing the return and the return shall be accompanied by proof of payment of such tax, additional income-tax, interest and fee.

**Taxpoint:** In a case, where no earlier return has been furnished, the interest payable u/s 234A has to be computed on the amount of the tax on the total income as declared in the updated return, in accordance with the provisions of sec. 140A.

#### B. Where assessee has furnished return earlier

Where, return of income u/s 139(1) or (4) or (5) (referred to as earlier return) has been furnished by an assessee and tax is payable on the basis of updated return to be furnished by such assessee

a) after taking into account:

- i. the amount of relief or tax referred to in sec. 140A(1), the credit for which has been taken in the earlier return;
- ii. TDS or TCS on any income which is taken into account in computing total income and which has not been included in the earlier return;
- iii. any relief claimed u/s 90 or 91 on account of tax paid in a country outside India on such income which has not been included in the earlier return;
- iv. any relief claimed u/s 90A on account of tax paid in any specified territory outside India on such income which has not been included in the earlier return;
- v. any tax credit claimed, to be set off in accordance with the provisions of sec. 115JAA or 115JD, which has not been claimed in the earlier return; and

b) as increased by the amount of refund, if any, issued in respect of such earlier return,

the assessee shall be liable to pay such tax together with interest for any default or delay in payment of advance tax along with the payment of additional income-tax as reduced by the amount of interest paid in the earlier return, before furnishing the return and the return shall be accompanied by proof of payment of such tax, additional income-tax, interest and fee.

#### Taxpoint

- Interest payable u/s 234C, where an earlier return has been furnished, has to be computed after taking into account the total income furnished in the updated return as returned income
- In a case where an earlier return has been furnished, interest payable u/s 234B has to be computed on the assessed tax.

“Assessed tax” means the tax on the total income as declared in the updated return to be furnished u/s 139(8A), after taking into account the following:

- i. the amount of relief or tax referred to in section 140A(1), the credit for which has been taken in the earlier return, if any;

- ii. the tax deducted or collected at source, in accordance with the provisions of Chapter XVII-B, on any income which is subject to such deduction or collection and which is taken into account in computing total income and which has not been included in the earlier return;
- iii. any tax credit claimed, to set-off in accordance with the provisions of sec. 115JD, which has not been claimed in the earlier return,; and

the aforesaid tax would be increased by the amount of refund, if any, issued in respect of such earlier return.

### Computation of Additional Income Tax

The additional income-tax payable at the time of furnishing the updated return shall be:

| if such return is furnished after expiry of                                                                                                            | Additional income tax payable at the time of furnishing updated return being aggregate of tax (+ surcharge + cess) and interest payable (as reduced by interest paid in earlier return) on tax calculated above |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| - the time available u/s 139(4) or (5) and before completion of the period of 12 months from the end of the relevant assessment year                   | 25%                                                                                                                                                                                                             |
| - 12 months from the end of the relevant assessment year but before completion of the period of 24 months from the end of the relevant assessment year | 50%                                                                                                                                                                                                             |
| - 24 months from the end of the relevant assessment year but before completion of the period of 36 months from the end of the relevant assessment year | 60%                                                                                                                                                                                                             |
| - 36 months from the end of the relevant assessment year but before completion of the period of 48 months from the end of the relevant assessment year | 70%                                                                                                                                                                                                             |

Permanent Account Number (PAN) is an alpha-numeric (ten characters) code given to a person by income tax department for the purpose of identification of the assessee. A person can have only one PAN.

### 3.8.1 Allotment of PAN

#### A. On Application

##### Compulsory application for allotment of PAN

As per sec. 139A & rule 114, following persons are under statutory obligation to apply for PAN within the time limit stated as under:

| Who is to apply for PAN                                                                                                                                                                                                                                                                                          | When to apply for PAN                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Any person whose total income exceeds maximum exempted limit.                                                                                                                                                                                                                                                    | On or before 31 <sup>st</sup> May of the relevant assessment year. |
| Any resident person other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a financial year                                                                                                                                                       |                                                                    |
| Any person who is the managing director, director, partner, trustee, author, founder, karta, chief executive officer, principal officer or office bearer of the person referred above or any person competent to act on behalf of the person referred above or who intends to enter into prescribed transactions |                                                                    |
| Any person whose sales or turnover or gross receipts are likely to exceed ₹ 5,00,000 in any previous year                                                                                                                                                                                                        | On or before the end of the relevant financial year                |
| Any person who is required to furnish return u/s 139(4A) i.e. trust and charitable institution                                                                                                                                                                                                                   |                                                                    |
| Any person who is entitled to receive any sum or income, on which tax is deductible under in any financial year                                                                                                                                                                                                  |                                                                    |
| Any person who requires export-import code                                                                                                                                                                                                                                                                       | Before making any export or import.                                |
| Assessee under the GST                                                                                                                                                                                                                                                                                           | Before making application for registration under GST.              |
| Any person intends to enter into specified transactions*                                                                                                                                                                                                                                                         | 7 days before entering into such transactions                      |
| Any other class or classes of person as notified by the CG                                                                                                                                                                                                                                                       | Within such time as may be prescribed                              |

\* Following are specified transactions (further PAN or Aadhar number is required to be quote on any document pertaining to such transactions)

1. Cash deposit or deposits aggregating to ₹ 20 lakh or more in a financial year, in his one or more account with a banking company or a co-operative bank or a Post Office;
  2. Cash withdrawal or withdrawals aggregating to ₹ 20 lakh or more in a financial year, from his one or more account with a banking company or a co-operative bank or a Post Office;
  3. Opening of a current account or cash credit account with a banking company or a co-operative bank or a Post Office
- However, the rule is not applicable in case of the Central Government, the State Government or the Consular Office

**Penalty [Sec. 272B]**

Penalty provisions are as under:

| Default                                                                             | Penalty                       |
|-------------------------------------------------------------------------------------|-------------------------------|
| Failure to apply for PAN                                                            | ₹10,000                       |
| Failure to quote PAN/Aadhar Number on prescribed documents or authentic such number | ₹10,000 for each such default |
| Failure to ensure that PAN/Aadhar Number are duly authenticated                     |                               |
| Knowingly quoting or intimating a number which is false                             |                               |

**Voluntary application for allotment of PAN [Sec. 139A(3)]**

The section empowers a person to apply for a PAN, even though, the person does not fall under any of the categories as mentioned above. However, a person, who has been already allotted a PAN under new series, shall not apply for another PAN.

**Interchangeability of PAN and Aadhar [Sec. 139A(5E)]**

Every person who is required to furnish or intimate or quote his PAN, and who,—

- has not been allotted PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar number in lieu of the PAN, and such person shall be allotted a PAN in such manner as may be prescribed;
- has been allotted a PAN, and who has intimated his Aadhaar number in accordance with provisions of sec. 139AA, may furnish or intimate or quote his Aadhaar number in lieu of the PAN.

Accordingly, the CBDT has, vide Notification No. 59/2019, dated 30.8.2019, provide that any person, who has not been allotted a PAN but possesses the Aadhaar number and has furnished or intimated or quoted his Aadhaar number in lieu of the PAN, shall be deemed to have applied for allotment of PAN and he shall not be required to apply or submit any documents.

Further, any person, who has not been allotted a PAN but possesses the Aadhaar number may apply for allotment of the PAN under section 139A(1)/(1A)/(3) by intimating his Aadhaar number and he shall not be required to apply or submit any documents.

**Whom to apply (either compulsory or voluntary)**

The application is to be made to the Assessing Officer or any other person who has been assigned the function of allotment of PAN. However, where no such Assessing Officer or other person has been assigned such function then application shall be made to the Assessing Officer having jurisdiction over the person.

Form of application\* – The prescribed forms are as under:

| Case                                                                                                           | Form |
|----------------------------------------------------------------------------------------------------------------|------|
| For Indian Citizen / Indian Company / Entities incorporated in India / Unincorporated entities formed in India | 49A  |
| In other cases                                                                                                 | 49AA |

**b. Suo-moto allotment of PAN**

- As per sec 139A(1B) for the purpose of collecting any information which may be useful for the purposes of the Act, the Central Government may, by way of notification, specify any class of person to apply within prescribed time to the AO for allotment of PAN.
- Section 139A(2) empowers the Assessing Officer to allot a PAN to any person other than the person falling under the categories mentioned above.

**3.8.2 Importance of PAN****A. PAN or Aadhar Number must be quoted in all documents and challans [Sec. 139A(5)]**

- A person to whom a PAN or Aadhar is allotted, is required to quote that number in -

\* Specified applicant may apply for allotment of PAN through a common application form notified by the Central Government [At the time of incorporation of the Company: SPICe+ and At the time of incorporation of the LLP: FiLLiP]

- All his returns to; or
- Any correspondence with; or
- Any other documents to,
  - Income-tax authority.

b. A person to whom a PAN or Aadhar is allotted, is required to quote that number in challans for payment of any sum due under this Act.

**B. PAN or Aadhar Number must be quoted in documents pertaining to certain prescribed transactions [Sec. 139A(5)(c) & Rule 114B]**

Every person shall quote its PAN or Aadhar in all documents pertaining to following transactions entered into by him –

1. \*Transactions relating to sale or purchase of a motor vehicle (other than two wheeled vehicles), which requires registration.
2. \*Opening an account [other than a time-deposit and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank
3. Making application for issue of a credit card or debit card.
4. \*Opening of a demat account
5. Payment in cash exceeding ₹ 50,000 to a hotel or restaurant against a bill or bills at any one time
6. Payment in cash exceeding ₹ 50,000 in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time
  - Payment in connection with travel included payment towards fare, or to a travel agent or a tour operator, or to an authorized person as defined in sec. 2(c) of the FEMA, 1999
  - Travel agent or tour operator a person who makes arrangements for air, surface or maritime travel or provides services relating to accommodation, tours, entertainment, passport, visa, foreign exchange, travel related insurance or other travel related services either severally or in
7. \*Payment exceeding ₹ 50,000 to any mutual fund for purchase of its units.
8. \*Payment exceeding ₹ 50,000 to a company or an institution for acquiring debentures or bonds issued by it
9. Payment exceeding ₹ 50,000 to RBI for acquiring bonds issued by it.
10. \*Deposit in cash exceeding ₹ 50,000 during any one day with a banking company or a co-operative bank
  - As per Rule 114BB, PAN or aadhar is required to quote in case of cash withdrawal or withdrawals aggregating to ₹ 20 lakh or more in a financial year, in one or more account of a person with a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies or a Post Office
11. Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank in cash for an amount exceeding ₹ 50,000 during any one day
12. \*A time deposit of an amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year with: (i) a banking company or a co-operative bank; or (ii) a Post Office; or (iii) a Nidhi referred to in section 406 of the Companies Act, 2013; or (iv) a non-banking financial company
  - Time deposit means any deposit which is repayable on the expiry of a fixed period.
13. Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than ₹ 50,000 in a financial year for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India u/s 18 of the Payment and Settlement Systems Act, 2007, to a banking company or a co-operative bank

14. \*Payment aggregating to more than ₹ 50,000 in a financial year as life insurance premium to an insurer
15. \*A contract for sale or purchase of securities (other than shares) where transaction value exceeds ₹ 1 lakh
16. \*Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange where transaction value exceeds ₹ 1 lakh
17. \*Sale or purchase of any immovable property where amount exceeds ₹ 10 lakh or stamp value exceeds ₹ 10 lakh
18. Sale or purchase, by any person, of goods or services of any nature other than those specified above where transaction value exceeds ₹ 2 lakh

**Note**

- i. Where a person, entering into any of the aforesaid transaction, is a minor and who does not have any income chargeable to tax, he shall quote the PAN of his father or mother or guardian, as the case may be, in the document pertaining to the said transaction
- ii. Any person (other than company and firm) who does not have a PAN and who enters into any of the aforesaid transaction, he shall make a declaration in Form No.60 giving therein the particulars of such transaction.
- iii. The provisions of this rule shall not apply to the following class or classes of persons, namely:
  - the Central Government, the State Governments and the Consular Offices;
  - the non-residents in respect of the transactions other than a transaction referred above with \*.

**C. PAN or Aadhar Number on TDS & TCS Certificate**

- a. **On TDS:** Every person is required to intimate his PAN to the person who has deducted the tax at source [Sec. 139A(5A)].

**Exceptions**

This provision is not applicable to an assessee who furnishes to the payer a declaration in writing in the prescribed form (Form 15G or 15H) and manner to the effect that the tax on his estimated total income is nil or he is not required to obtain PAN.

The person deducting tax at source is required to quote –

- PAN of the payee;
  - PAN of himself;
  - Tax Deduction Account Number (TAN) of himself,
    - in all statements, certificates furnished u/s 200(3) or 203 or 206 [Sec. 139A(5B)].
- b. **On TCS:** Every person responsible for collecting tax in accordance with the provisions of sec.206C shall quote PAN of every buyer or licensee or lessee in all certificates furnished in accordance with the provisions of sec. 206C(3) or 206C(5) and in all returns prepared u/s 206C(5A)/(5B) to the Income-tax authority [Sec. 139A(5D)]

Every buyer or licensee or lessee is required to intimate his PAN to the seller who has collected the tax at source [Sec. 139A(5C)]

**Other Point**

- Every person entering into such transaction shall quote his PAN or Aadhaar number in the documents pertaining to such transactions and also authenticate such PAN or Aadhaar number [Sec. 139(6A)]

- ⊙ Every person receiving any document relating to such transactions shall ensure that PAN or Aadhaar number has been duly quoted in such document and also ensure that such PAN or Aadhaar number is so authenticated [Sec. 139(6B)]
  - Authentication means the process by which the PAN or Aadhaar number alongwith demographic information or biometric information of an individual is submitted to the income-tax authority or such other authority or agency as may be prescribed for its verification and such authority or agency verifies the correctness, or the lack thereof, on the basis of information available with it.

### 3.8.3 Intimation for any change

Every person shall intimate the Assessing Officer, in the prescribed manner, any change in his address or in the name & nature of his business on the basis of which PAN was allotted to him [Sec. 139A(5)(d)]

### 3.8.4 Quoting of Aadhaar number [Sec. 139AA]

Every person who is eligible to obtain Aadhaar number shall quote Aadhaar number:

- a. in the application form for allotment of permanent account number;
- b. in the return of income:

#### Note:

- ⊙ Every person who has been allotted PAN before 01-07-2017 and who is eligible to obtain Aadhaar number, shall intimate his Aadhaar number to such authority by 31-03-2022. W.e.f., 01-04-2019, it is mandatory to quote and link Aadhaar number while filing the return of income, either manually or electronically, unless specifically exempted. In case of failure to intimate the Aadhaar number or link, the PAN allotted to the person shall be made inoperative from 01-07-2023.
- ⊙ **Consequence if PAN became inoperative [w.e.f. 01-07-2023]:** A person, whose PAN has become inoperative, would be liable for the following further consequences from 01-07-2023 till the date it becomes operative –
  - a. no refund of any amount of tax or part thereof, due under the provisions of the Act;
  - b. interest would not be payable on such refund for a period beginning from 01-07-2023 and ending with the date on which it becomes operative;
  - c. where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of sec. 206AA;
  - d. where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of sec. 206CC
- ⊙ **Fee for default relating to intimation of Aadhaar number [Sec. 234H]:** Where a person fails to intimate his aadhaar number on or before prescribed date, he shall be liable to pay such fee, as may be prescribed, not exceeding ₹ 1,000, at the time of making intimation after the said date. And after this, his PAN would become operative within 30 days from the date of intimation of Aadhaar number.
- ⊙ The provisions of this section shall not apply to notified persons or State
  - Accordingly, the Central Government has, vide Notification No. 37/2017 dated 11.05.2017 effective from 01.07.2017, notified that the provisions of sec. 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:
    - a. residing in Assam, Jammu & Kashmir and Meghalaya;
    - b. a non-resident as per Income-tax Act, 1961;
    - c. of the age of 80 years or more at any time during the previous year;
    - d. not a citizen of India

# Self-Assessment & Intimation

## 3.9

**A**ssessment means to assess the income of the assessee i.e. to decide the income and tax liability of the assessee on the basis of return filed, information gathered or to the best of judgment of income tax department. It begins with self-assessment i.e. assessment by the assessee himself.

### 3.9.1 Self-Assessment [Sec. 140A]

In self-assessment, assessee itself is responsible to determine its taxable income, tax liability and to pay tax accordingly. Provision of sec. 140A is as follows -

- a. Where any tax is payable (after deducting relief, rebate, advance payment of tax or tax deducted or collected at source or MAT or AMT credit, if any, or any tax or interest payable u/s 191(2)) on the basis of return furnished the assessee is required to pay such tax before filing the return.

Taxpoint: A return furnished without paying self-assessment tax & interest, if any, shall be treated as defective return.

- b. If any interest is payable for delayed filing of return (u/s 234A) or default in payment of advance tax (u/s 234B) or for deferment of advance tax (u/s 234C) or fee (u/s 234F) is payable for filing return after due date, then such interest or fee should be paid along with self-assessment tax.

Note: While calculating above interest for the purpose of self-assessment, tax on the total income declared in the return shall be considered.

- c. Where the amount paid by the assessee falls short of the aggregate of tax, interest and fee, the amount so paid shall first be adjusted towards fee and thereafter towards interest payable and the balance, if any, shall be adjusted towards tax payable.
- d. After assessment, any amount paid under this section shall be deemed to have been paid towards such assessment.
- e. If an assessee fails to pay whole or any part of such tax or interest or both in accordance with the provisions of sec. 140A, he shall be deemed to be an assessee in default.

#### Illustration 46:

Mr. Gambhir Mitra paid ₹ 42,000 together with return. Show the treatment u/s 140A from following data:

|                                                    |          |
|----------------------------------------------------|----------|
| Tax liability                                      | ₹ 82,000 |
| Interest payable u/s 234A (as per returned income) | ₹ 750    |
| Interest payable u/s 234B (as per returned income) | ₹ 3,730  |
| Interest payable u/s 234C                          | ₹ 1,660  |
| Fee u/s 234F                                       | ₹ 5,000  |
| Advance tax paid                                   | ₹ 1,500  |
| TDS                                                | ₹ 6,000  |

**Solution :**

Amount payable together with filing return for the A.Y.2026-27

| Particulars                                                                                                                                                                                                                                                                                              | Amount | Amount |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Tax liability                                                                                                                                                                                                                                                                                            |        | 82,000 |
| Add: Fee payable u/s 234F                                                                                                                                                                                                                                                                                | 5,000  |        |
| Interest payable u/s 234A                                                                                                                                                                                                                                                                                | 750    |        |
| Interest payable u/s 234B                                                                                                                                                                                                                                                                                | 3,730  |        |
| Interest payable u/s 234C                                                                                                                                                                                                                                                                                | 1,660  | 11,140 |
| <b>Total</b>                                                                                                                                                                                                                                                                                             |        | 93,140 |
| Less: Advance tax paid                                                                                                                                                                                                                                                                                   | 1,500  |        |
| TDS                                                                                                                                                                                                                                                                                                      | 6,000  | 7,500  |
| <b>Amount payable</b>                                                                                                                                                                                                                                                                                    |        | 85,640 |
| Treatment of amount paid: Amount paid i.e. ₹ 42,000 shall be first adjusted with fee payable i.e., ₹ 5,000 and then with interest payable i.e. ₹ 6,140 and the balance amount i.e. ₹ 30,860 shall be adjusted towards tax liability. Finally, tax yet to be paid is ₹ 43,640 (i.e. ₹ 85,640 – ₹ 42,000). |        |        |

**3.9.2 Intimation or Assessment by Income tax department**

After submission of return or on non-submission of return by the assessee, assessment is made by the Income tax department. The Assessing Officer can assess the income of the assessee in any of the following manner:

1. Intimation u/s 143(1);
2. Scrutiny Assessment u/s 143(3);
3. Best Judgment Assessment u/s 144;
4. Income Escaping Assessment u/s 147

For making assessment, the Assessing Officer can make an inquiry. Provision relating to inquiry before assessment are as under:

**3.9.3 Inquiry before assessment**

1. Issue of notice to the assessee [Sec. 142(1)]
  - to submit a return [Sec. 142(1)(i)]
  - to produce accounts, documents etc. [Sec. 142(1)(ii) & (iii)]
2. Making inquiry [Sec. 142(2)]
3. Giving direction to get books of account audited / valuation of inventory [Sec. 142(2A) to (2D)]
4. Opportunity of being heard [Sec. 142(3)]
5. Estimate by Valuation Officer in certain cases [Sec. 142A]

**Issue of notice to the assessee [Sec. 142(1)]**

For the purpose of making assessment, the Assessing Officer (or any prescribed income-tax authority) may serve a notice on any person -

- who has submitted a return u/s 139; or
- in whose case the time allowed u/s 139(1) for furnishing the return has expired.

Such notice may relate to any of the following matter -

1. **Notice to submit a return [Sec. 142(1)(i)]:** If the assessee has not submitted a return of income within specified time, the Assessing Officer (or prescribed income tax authority) may require him to submit a return in the prescribed form on or before the date specified in the notice.

Taxpoint: In case assessee has not furnished the return of income, it is not mandatory for the Assessing Officer to issue notice u/s 142(1)(i) if he wishes to make best judgment assessment.

2. **Notice to produce accounts, documents etc. [Sec. 142(1)(ii)]:** The Assessing Officer may ask the assessee to produce such documents or accounts as he may require.

Exception: Assessing Officer shall not require the production of any accounts pertaining to a period more than 3 years prior to the previous year.

3. **Notice to furnish information [Sec. 142(1)(iii)]:** Assessing Officer may require the assessee to furnish in writing information in such form and on such points or matters as he may require (including a statement of all assets and liabilities of the assessee, whether included in the accounts or not). However, prior approval of the Joint Commissioner shall be obtained before requiring the assessee to furnish a statement of all assets and liabilities not included in the accounts.

Taxpoint: Notice u/s 142(1)(i) can be served only if return has not been submitted where as notice u/s 142(1)(ii) & (iii) can be served whether return has been furnished or not.

### **Making inquiry [Sec. 142(2)]**

For the purpose of obtaining full information in respect of the income (or loss) of any person, the Assessing Officer may make such inquiry, as he considers necessary.

Taxpoint: U/s 142(1) Assessing Officer collects information from the assessee, however u/s 142(2) Assessing Officer has the power to collect information from any source.

### **Giving direction to get books of account audited / valuation of inventory [Sec. 142(2A) to (2D)]**

The Assessing Officer (after giving reasonable opportunity to the assessee) having regard to the -

- nature and complexity of the accounts, volume of the accounts, doubts about the correctness of the accounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee; and
- interest of revenue.

may direct the assessee if he is of the opinion that it is necessary to do so

- to get his accounts audited by an accountant; or
- to get the inventory valued by a cost accountant

Notes

- a. Direction can be issued to get audit or get inventory valued or both
- b. Such direction can be issued even if the accounts of the assessee have already been audited u/s 44AB or any other law for the time being in force

- c. Such direction can be issued only with the prior approval of the Principle Chief Commissioner / Principle Commissioner / Chief Commissioner / Commissioner.
- d. The Principle Chief Commissioner / Principle Commissioner / Chief Commissioner / Commissioner nominates such accountant / cost accountant.
- e. Such order can be issued at any stage of the proceedings before the Assessing Officer. However, no such order shall be issued after the completion of assessment/reassessment.

**Time Limit for report:** The report shall be furnished by the assessee within the period specified by the Assessing Officer. The Assessing Officer has power to extend such period on an application made by the assessee or suo motu. However, the aggregate period (fixed originally and extended) shall not exceed 180 days from the date on which such direction is received by the assessee.

**Form of report:** The nominated accountant or cost accountant shall submit the report in Form 6B to the assessee. Thereafter such report is to be submitted by the assessee to the Assessing Officer within such period as allowed by the Assessing Officer.

**Fees:** The remuneration or fees and incidental expenditure shall be determined by the Principle Chief Commissioner / Principle Commissioner / Chief Commissioner / Commissioner (which shall be final) and paid by the Central Government.

Consequences of failure: In case assessee fails to follow the direction, it -

- will be liable to Best Judgment Assessment u/s 144; and
- attracts penalty and prosecution.

Note: Penalty etc. are attracted only if there is a default by the assessee. If the nominated accountant refuses to audit the accounts, the assessee cannot be held responsible

### Opportunity of being heard [Sec. 142(3)]

The assessee must be given an opportunity of being heard in respect of any material gathered on the basis of any inquiry u/s 142(2) or any audit u/s 142(2A) and is proposed to be utilised for the purpose of the assessment.

Note: Sec. 142(3) shall not be applicable in case of assessment u/s 144.

### Estimation by Valuation Officer in certain cases [Sec. 142A]

- ⊙ The Assessing Officer may, for the purposes of assessment or reassessment, make a reference to a Valuation Officer to estimate the value, including fair market value, of any asset, property or investment and submit a copy of report to him.
  - “Valuation Officer” has the same meaning as in clause (r) of section 2 of the Wealth-tax Act, 1957
- ⊙ The Assessing Officer may make a reference to the Valuation Officer whether or not he is satisfied about the correctness or completeness of the accounts of the assessee.
- ⊙ The Valuation Officer, on a reference made, shall, for the purpose of estimating the value of the asset, property or investment, have all the powers that he has under section 38A of the Wealth-tax Act, 1957.
- ⊙ The Valuation Officer shall, estimate the value of the asset, property or investment after taking into account such evidence as the assessee may produce and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.

- ⦿ The Valuation Officer may estimate the value of the asset, property or investment to the best of his judgment, if the assessee does not co-operate or comply with his directions.
- ⦿ The Valuation Officer shall send a copy of the report of the estimate made to the Assessing Officer and the assessee, within a period of 6 months from the end of the month in which a reference is made.
- ⦿ The Assessing Officer may, on receipt of the report from the Valuation Officer, and after giving the assessee an opportunity of being heard, take into account such report in making the assessment or reassessment.

### 3.9.4 Faceless inquiry or Valuation [Sec. 142B]

- ⦿ The Central Government may notify a scheme for the purposes of issuing notice u/s 142(1) or making inquiry before assessment u/s 142(2), or directing the assessee to get his accounts audited u/s 142(2A) or estimating the value of any asset, property or investment by a Valuation Officer u/s 142A, so as to impart greater efficiency, transparency and accountability by:
  - a. eliminating the interface between the income-tax authority or Valuation Officer and the assessee or any person to the extent technologically feasible;
  - b. optimising utilisation of the resources through economies of scale and functional specialisation;
  - c. introducing a team-based issuance of notice or making of enquiries or issuance of directions or valuation with dynamic jurisdiction.

### 3.9.5 Intimation / Assessment by Assessing Officer

The Assessing Officer makes the following order:

#### Intimation [Sec. 143(1)]

On the basis of return filed; or

#### Regular assessment

- ⦿ On the basis of further evidence gathered by him [Scrutiny Assessment u/s 143(3)]
- ⦿ On the basis of best of his judgement [Best Judgement Assessment u/s 144]

### 3.9.6 Intimation [Sec. 143(1)]

Where a return has been made u/s 139 or in response to a notice u/s 142(1), such return shall be processed in the following manner, namely:—

- a. the total income or loss shall be computed after making the following adjustment:
  - i. any arithmetical error in the return;
  - ii. an incorrect claim, if such incorrect claim is apparent from any information in the return;
  - iii. any such inconsistency in the return, with respect to the information in the return of any preceding previous year, as may be prescribed
  - iv. disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished after the due date;
  - v. disallowance of expenditure or increase in income indicated in the audit report but not taken into account in computing the total income in the return;
  - vi. disallowance of deduction claimed u/s 10AA or under any of the provisions of Chapter VI-A under the heading “C.—Deductions in respect of certain incomes”, if the return is furnished after the due date;

- b. the tax, interest and fee, if any, shall be computed on the total income computed above;
- c. the sum payable by (or the amount of refund due to), the assessee shall be determined after adjustment of the tax, interest and fee, if any, by any TDS, TCS, advance tax paid, any relief, tax paid on self-assessment and any amount paid otherwise by way of tax, interest or fee;
- d. an intimation shall be prepared or generated and sent to the assessee specifying the sum determined to be payable by, or the amount of refund due to, the assessee; and
- e. the amount of refund due to the assessee in pursuance of the determination shall be granted to the assessee.
- f. An intimation shall also be sent to the assessee in a case where the loss declared in the return by the assessee is adjusted but no tax or interest or fee is payable by, or no refund is due to, him.

**Time limit for intimation:** No intimation shall be sent after the expiry of 9 months from the end of the financial year in which the return is made. The period of limitation will run from the date of filing of latest revised return.

#### Notes

- ⊙ An incorrect claim apparent from any information in the return shall mean a claim, on the basis of an entry, in the return,—
  - a. of an item, which is inconsistent with another entry of the same or some other item in such return;
  - b. in respect of which the information required to be furnished under this Act to substantiate such entry has not been so furnished; or
  - c. in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction;
- ⊙ The acknowledgment of the return shall be deemed to be intimation where either no sum is payable by the assessee or no refund is due to him.
- ⊙ In case, where refund becomes due to the assessee u/s 143(1) and the Assessing Officer is of the opinion, having regard to the fact that a notice has been issued u/s 143(2) in respect of such return, that the grant of the refund is likely to adversely affect the revenue, he may, for reasons to be recorded in writing and with the previous approval of the Principal Commissioner or Commissioner, as the case may be, withhold the refund up to the date on which the assessment is made [Sec. 241A]

## Exercise

### Multiple Choice Questions:

#### Choose the correct alternative

1. A person is deemed to have a substantial interest in a company if he is
  - a. The owner of at least 20% of the equity capital of the company
  - b. The owner of at least 25% of the equity capital of the company
  - c. Entitled to 10% of profits of the concern
  - d. An employee director
2. Income of minor is clubbed however the clubbing provision is not applicable if
  - a. Minor is a married daughter
  - b. Minor is handicapped as specified u/s 80U
  - c. Parents are separated
  - d. None of the above
3. As per sec.60, income is clubbed if
  - a. Asset yielding income is transferred as revocable transfer
  - b. Income is transferred without transferring asset yielding income
  - c. Asset yielding income is transferred as irrevocable transfer
  - d. None of the above
4. Any income from an asset transferred to spouse without adequate consideration is clubbed in the hands of the transferor if:
  - a. Such asset is hold by the spouse as on the last day of the previous year
  - b. Relationship between them exist as on the date of accrual of income
  - c. Transferee is not a senior citizen
  - d. None of the above
5. For the purpose of sec. 64, an individual have a substantial interest in a company if he holds 20% of voting right alongwith his relative. Here, relative do not include:
  - a. Spouse
  - b. Father
  - c. Father-in-law
  - d. None of the above
6. When income of a minor is clubbed, assessee, under old regim, will get deduction u/s 10(32) of :
  - a. ₹ 1,500 per child
  - b. Income clubbed subject to maximum of ₹ 1,500 per child
  - c. Such deduction is not available u/s 10(32) but u/s 10(33)
  - d. ₹ 2,000 per child

7. Unabsorbed business losses cannot be carried for more than
  - a. 7 assessment years
  - b. 8 assessment years
  - c. 10 assessment years
  - d. 12 assessment years
8. Long term capital loss can be adjusted against
  - a. Any income excluding winning from lottery
  - b. Any capital gain
  - c. Any long term capital gain
  - d. Any speculative business income
9. Loss from Derivative trading is
  - a. Short-term Capital Loss
  - b. Speculative business loss
  - c. Non-speculative business loss
  - d. Loss u/h 'Income from Other Sources'
10. Loss from specified business covered u/s 35AD can be adjusted against
  - a. Any other business income
  - b. Any income other than salary
  - c. Income from other specified business
  - d. Cannot be adjusted
11. Unabsorbed depreciation can be carried forward for
  - a. Any number of years
  - b. 8 years
  - c. 4 years
  - d. 7 years
12. Deduction u/s 80CCC allowed to an individual for the amount paid by him in an annuity plan of LIC is restricted to
  - a. ₹ 5,000
  - b. ₹ 7,500
  - c. ₹ 1,50,000
  - d. ₹ 12,500
13. Deduction under the section 80E is allowed in respect of
  - a. Donations to charitable institutions
  - b. Medical treatment of handicapped person
  - c. Interest on loan taken for education
  - d. Profits earned from exports

14. 80GGA available for donations made to
  - a. Charitable Institutions
  - b. Educational Institutions
  - c. Research Associations
  - d. Religion organizations
15. Deduction u/s. 80JJA is available if the assessee
  - a. Is engaged in scientific research
  - b. Sets up an industrial unit in a backward area
  - c. Is engaged in agriculture business
  - d. Is engaged in the business of collecting and processing biodegradable waste.
16. On donation to whom of the following a 50% deduction is allowable u/s 80G?
  - a. National Defence Fund
  - b. Prime Ministers National Relief Fund
  - c. Draught Relief Fund
  - d. National Foundation for Communal Harmony
17. Section 80QQB of the Income Tax Act, 1961, deals with
  - a. Interest on debentures of a govt. company
  - b. Royalty Income of authors
  - c. Royalties from textbooks
  - d. Profits from export of computer software
18. Third due date for payment of advance tax in case of an individual is ..... of the previous year
  - a. 15-Dec
  - b. 15-June
  - c. 15-Sept
  - d. 15-Mar
19. Advance tax is required to be paid by all assessee only if estimated advance tax liability is
  - a. ₹ 5,000 or more
  - b. ₹ 10,000 or more
  - c. More than zero
  - d. ₹ 50,000 or more
20. While computing advance tax, the following income shall not be considered:
  - a. Agricultural income
  - b. Long term capital gain
  - c. Speculative profit
  - d. None of these

21. Tax is required to be deducted at ..... from payment made to a resident on winning from lottery
- 30%
  - 30% + Surcharge + HEC
  - 30% + HEC
  - 31%
22. Tax is required to be deducted at ..... from payment made to a road transport operator who declares that he does not own more than 10 goods carriage.
- Nil
  - Nil if he furnished the PAN
  - 1%
  - 2%
23. Tax is required to be deducted at ..... from rent payable on plant and machinery to a resident (Assuming PAN details are available)
- Nil
  - 15%
  - 1%
  - 2%
24. Tax is required to be deducted at ..... from interest payable to a resident. (Assuming PAN details are available)
- 10%
  - 20% if payee is domestic company else 10%
  - 10% + Surcharge (if any) + HEC
  - 20%
25. Tax is required to be collected on sale of:
- Scrap
  - Tendu Leaves
  - Alcoholic Liquor
  - All of the above
26. TDS is not required to be deducted u/s 194A if the amount of interest on loan does not exceed:
- ₹ 10,000
  - ₹ 2,500
  - ₹ 7,500
  - ₹ 20,000
27. On salary, tax is required to be deducted at the time of:
- Payment or crediting the employee, whichever is earlier
  - Crediting the employee
  - Payment
  - Retirement of employee

28. Where the karta of a HUF is absent from India, the return of income can be signed by:
- any member of the family
  - any male member of the family
  - any other adult member of the family
  - any member holding power of attorney
29. Where assessment has not been completed, belated income tax return for assessment year 2026-27 can be filed upto:
- 31.12.2026
  - 31.01.2027
  - 31.03.2027
  - 31.12.2027
30. Following form number is to be used for filing the return of income by an individual having business income?
- Form No. 1
  - Form No. 2
  - Form No. 5
  - Form No. 3
31. Quoting 'Permanent Account Number' (PAN) is compulsory in the following transaction –
- Payment to LIP exceeding ₹ 50,000 in a financial year
  - Sale or purchase of any immovable property valued at ₹ 4,00,000
  - Time deposit upto ₹ 35,000 with a bank
  - None of the above
32. When assessment has not been completed, revised return can be filed within \_\_\_\_\_ from the end of the relevant previous year.
- 9 months
  - 6 months
  - 12 months
  - 2 years

**Answer:**

|    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| a  | b  | b  | b  | c  | b  | b  | c  | c  | c  | a  | c  | c  | c  | d  | c  | b  |
| 18 | 18 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 |    |    |
| a  | b  | d  | a  | b  | d  | a  | d  | a  | c  | c  | a  | d  | a  | a  |    |    |

**Fill in the blanks:**

- The maximum amount deductible u/s 80TTA in respect of interest on savings bank account is ₹ \_\_\_\_\_.
- Medical expenditure of ₹ 40,000 was incurred by Mr. A on his mother (being a senior citizen). The amount eligible for deduction under section 80D would be ₹ \_\_\_\_\_.

3. Assessee's own contribution to the National Pension Scheme is eligible for a maximum deduction of ₹ \_\_\_\_\_.
4. In the case of a payee not having PAN for whom tax is to be deducted at source u/s 194A, the rate applicable is \_\_\_\_\_.
5. Chapter VI-A deduction \_\_\_\_\_ (shall/shall not) be allowed in respect of income from long term capital gain.
6. Z awarded three contracts for repair work of ₹ 21,000, ₹ 23,000 and ₹ 30,000 respectively to L. Ltd. Z. is \_\_\_\_\_ (required/ not required) to deduct tax at source u/s 194C
7. Loss from non-speculation business \_\_\_\_\_ be set off against profits derived from speculation business.
8. There are two schools of Hindu Law ,one is Mitakshara and the other is \_\_\_\_\_.
9. The Alternate Minimum Rate u/s 115JC shall be \_\_\_\_\_ % of adjusted total income [Basic rate excluding surcharge, cess, etc.]
10. Unabsorbed loss under the head 'Capital gains' shall be carried forward for a period of \_\_\_\_\_ assessment years immediately following the assessment year in which such loss was incurred.

**Answer:**

|   |           |    |              |
|---|-----------|----|--------------|
| 1 | ₹ 10,000  | 2  | ₹ 40,000     |
| 3 | ₹ 50,000  | 4  | 20%          |
| 5 | Shall not | 6  | Not required |
| 7 | Can       | 8  | Dayabhaga    |
| 9 | 18.5%     | 10 | 8            |

**State whether the following statements are true or false:**

1. A return of income filed without payment of self-assessment tax is a defective return.
2. Tax is required to be deducted at source from salary at the time of payment and not at the time of crediting salary to the account of the employee.
3. Loss in speculation as well as non-speculation business can be carried forward to a maximum of four consecutive assessment years immediately succeeding the assessment year for which loss was first computed.
4. A partnership firm incurring loss need not to file return of income.
5. For adjusting brought forward business loss with current year business income, one of the conditions is that such business must be continued during the current year.
6. Loss on account of owning and maintaining race horses can be carried forward upto 8 assessment years.
7. Income arising from the accretion of transferred property shall not be clubbed.
8. No tax is required to be deducted from winning from race-horse, if such winning does not exceed ₹ 10,000
9. The income of minor child will always be included in the income of his/her parents.

**Answer:**

|      |      |       |       |       |       |      |      |       |
|------|------|-------|-------|-------|-------|------|------|-------|
| 1    | 2    | 3     | 4     | 5     | 6     | 7    | 8    | 9     |
| True | True | False | False | False | False | True | True | False |

**Short Essay Type:**

1. Discuss the provisions under IT Act in respect of clubbing of remuneration of spouse
2. Discuss whether long term capital loss can be adjusted against STCG
3. State the provision relating to deduction u/s 80D
4. Who is liable to pay advance tax?
5. Who is liable to file return of income mandatorily?

⊙ **Comprehensive Numerical Problems**

**Unsolved:****Problem 1:**

From the following incomes and losses for the Previous Year 2025-26, compute Gross Total Incomes of Mr. Sen:

| Particulars                                              | Amount (₹) |
|----------------------------------------------------------|------------|
| Income from Business A                                   | 2,00,000   |
| Loss from Business B                                     | 1,20,000   |
| Long term Capital Gain                                   | 50,000     |
| Short term Capital Loss                                  | 35,000     |
| Bank Interest on fixed deposit                           | 10,000     |
| Brought forward loss of the year 2023-24 are as follows: |            |
| Loss from Business B                                     | 40,000     |
| Long term Capital Loss                                   | 20,000     |

[Hints: ₹ 50,000]

**Problem 2:**

Mrs. R Mukherjee furnished the following information for the previous year 2025-26:

| Particulars                                                                                              | Amount (₹) |
|----------------------------------------------------------------------------------------------------------|------------|
| Donation to Prime Minister's National Relief Fund                                                        | 15,000     |
| Donation to Jawaharlal Nehru Draught Memorial Relief Fund                                                | 10,000     |
| Donation to a notified temple                                                                            | 30,000     |
| Donation of cloth worth ₹ 10,000 to Bharat Sevashram Sangha to be distributed among Ayla typhoon victims |            |
| Donation to an approved University                                                                       | 2,000      |
| Gross Total Income                                                                                       | 3,00,000   |
| Payment of life insurance premium on the life of her daughter ₹ 20,000 (Policy value ₹ 2,00,000)         |            |

Compute total income if she has opted for old tax regime

[Hints: ₹ 2,44,000]

**Case Let - Solved**

For the Assessment year 2026-27, the Gross Total Income of Mr. Chaturvedi was ₹ 1,68,240 which includes long-term capital gain of ₹ 45,000 and Short-term capital gain of ₹ 8,000. The Gross Total Income also includes interest income from fixed deposits with banks of ₹ 12,000. Mr. Chaturvedi has invested in PPF ₹ 60,000 and also paid a medical insurance premium ₹ 11,000. Mr. Chaturvedi also contributed ₹ 15,000 to Public Charitable Trust eligible for deduction under section 80G.

**State**

- What will be the amount of deduction available u/s 80C?
- What will be the amount of deduction available u/s 80D?
- What will be the amount of deduction available u/s 80G?
- What will be his total income, if he has opted for the old tax regime?

**Solution:**

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

| Particulars                                          | Details | Amount        |
|------------------------------------------------------|---------|---------------|
| Gross total income                                   |         | 1,68,240      |
| Less: Deduction u/s                                  |         |               |
| 80C (for contribution to PPF)                        | 60,000  |               |
| 80D (for payment of Medical insurance premium)       | 11,000  |               |
| 80G (for Donation to Public Charitable Trust) [Note] | 2,612   | 73,612        |
| <b>Total Income (Rounded off u/s 288A)</b>           |         | <b>94,630</b> |

Note: Computation of deduction u/s 80G

**Computation of Adjusted GTI:**

Adj. GTI = GTI – Long-term capital gain - Deduction u/s 80C to 80U other than 80G

$$= ₹ 1,68,240 - ₹ 45,000 - ₹ 11,000 - ₹ 60,000 = ₹ 52,240$$

Qualifying amount for donation = 10% of Adjusted GTI = 10% of ₹ 52,240 = ₹ 5,224

Deduction: In case of donation to public charitable trust, rate of deduction is 50% of qualifying amount. Hence, deduction u/s 80G shall be ₹ 2,612 (being 50% of ₹ 5,224).

### Case Let - Unsolved

Shri Mayur has two minor children named Lakshmi (age 10) and Sarath (age 14). Following details pertain to the minor children for the year ended 31.03.2026:

- i. Minor Lakshmi won Carnatic music competition in TV channel and was awarded cash prize of ₹ 2,00,000.
- ii. Minor Lakshmi received cash gifts from friends of Mayur ₹ 43,000. No single gift exceeded ₹ 10,000.
- iii. Minor Sarath received gift of gold chain whose fair market value was ₹ 80,000 from his maternal uncle on the occasion of his 14th birthday. He also received cash gift of ₹ 12,000 from friends of Mayur on his birthday.
- iv. Out of accumulated savings of daughter Lakshmi, one vacant land was acquired. The stamp duty value of the land ₹ 3,60,000. The documented value of the land ₹ 3,20,000.

On the basis of aforesaid information, you are requested to answer the following assuming he has opted for old tax regime:

- a. What will be the income liable to be clubbed in hands of Shri Mayur on account of Lakshmi?
- b. What will be the income liable to be clubbed in hands of Shri Mayur on account of Sarath?
- c. What will be the income liable to be taxed in the hands of Lakshmi?

[Hints: (a) ₹ 41,500; (b) ₹ 10,500; (c) ₹ 2,00,000]

### References:

<https://www.incometaxindia.gov.in/>

<https://www.incometax.gov.in/>

<https://www.indiabudget.gov.in/>

## This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting or typing. There are no margins, text, or other markings on the page.

### Notes:

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.