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CA Amit Mahajan



Amit Mahajan

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Changes/Amendments in Rapider 2.0 and Questions will be updated here

CA Amit Mahajan

**Question 1**

Mr. X has a total income of Rs 16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 under the default tax regime under section 115BAC.

**Solution****Computation of Tax liability of Mr. X for A.Y. 2024-25**

Income Slab (₹)	Tax Rate	Taxable Income (₹)	Tax Calculation (₹)
Up to 3,00,000	Nil	3,00,000	0
3,00,001 to 7,00,000	5%	4,00,000	20,000
7,00,001 to 10,00,000	10%	3,00,000	30,000
10,00,001 to 12,00,000	15%	2,00,000	30,000
12,00,001 to 15,00,000	20%	3,00,000	60,000
Above 15,00,000	30%	1,00,000	30,000
Total Tax Before Cess			1,70,000
Health & Education Cess @ 4%			6,800
Total Tax Payable			176,800

Final Tax Liability:

- Total Tax payable by Mr. X for A.Y. 2025-26 = ₹176,800

**Question 2**

Mr. X has a total income of Rs 16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 assuming his age is –

- 45 years
- 63 years
- 82 years

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

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

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

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

Tax liability:		
First Rs 3,00,000	- Nil	
Next Rs 3,00,001 – Rs 5,00,000	- @5% of Rs 2,00,000	Rs 10,000
Next Rs 5,00,001 – Rs 10,00,000	- @20% of Rs 5,00,000	Rs 1,00,000
Balance i.e., Rs 16L minus Rs 10L	- @30% of Rs 6,00,000	<u>Rs 1,80,000</u>
		Rs 2,90,000

Add: Health and Education cess@4%		Rs 11,600
		Rs 3,01,600

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

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

**Question 3**

Compute the tax liability of Mr. A (aged 42), having total income of Rs 51 lakhs for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

**Solution****Computation of tax liability of Mr. A for the A.Y.2025-26**

(A)	Income-tax (including surcharge) computed on total income of Rs 51,00,000		
	Rs 2,50,000 – Rs 5,00,000 @5%	Rs 12,500	
	Rs 5,00,001 – Rs 10,00,000 @20%	Rs 1,00,000	
	Rs 10,00,001 – Rs 51,00,000 @30%	Rs 12,30,000	
	Total	Rs 13,42,500	

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

Alternative method -

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

**Question 4**

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of Rs 1,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

**Solution****Computation of tax liability of Mr. B for the A.Y. 2025-26**

(A)	Income-tax (including surcharge) computed on total income of ₹1,01,00,000	
	₹ 3,00,000 - ₹ 7,00,000@5%	₹ 20,000
	₹ 7,00,001 - ₹ 10,00,000@10%	₹ 30,000
	₹ 10,00,001 - ₹ 12,00,000@15%	₹ 30,000
	₹ 12,00,001 - ₹ 15,00,000@20%	₹ 60,000
	₹ 15,00,001 - ₹ 1,01,00,000@30%	₹ 25,80,000
	Total	₹ 27,20,000
	Add: Surcharge@15%	₹ 4,08,000
	Tax liability without marginal relief	₹ 31,28,000
(B)	Income-tax computed on total income of ₹ 1 crore (₹1,40,000 plus ₹25,50,000)	26,90,000
	Add: Surcharge@10%	₹ 2,69,000
		₹ 29,59,000
(C)	Total Income Less ₹ 1 crore	₹ 1,00,000
(D)	Income-tax computed on total income of 1 crore plus the excess of total income over 1 crore (B+C)	₹30,59,000
(E)	Tax liability: lower of (A) & (D)	₹ 30,59,0
	Add: Health and education cess @4%	₹1,22,3
	Tax liability (including cess)	₹ 31,81,3
(F)	Marginal relief (A-D)	₹ 69,0

Alternative method:

(A)	Income-tax (including surcharge) computed on total income ₹1,01,00,000	
	₹ 3,00,000 - ₹ 7,00,000@5%	₹ 20,000
	₹ 7,00,001 - ₹ 10,00,000@10%	₹ 30,000
	₹ 10,00,001 - ₹ 12,00,000@15%	₹ 30,000
	₹ 12,00,001 - ₹ 15,00,000@20%	₹ 60,000
	₹ 15,00,001 - ₹ 1,01,00,000@30%	₹ 25,80,000
	Total	₹ 27,20,000
	Add: Surcharge @ 15%	4,08,000
		₹ 31,28,000
(B)	Income-tax computed on total income of 1 crore [(1,40,000 plus 25,50,000) plus surcharge@10%]	₹ 29,59,000
(C)	Excess tax payable (A)-(B)	₹ 1,69,000
(D)	Marginal Relief (₹ 1,69,000 - ₹ 1,00,000, being the amount of income in excess of ₹ 1,00,00,000)	₹ 69,000
(E)	Tax liability (A) - (D)	₹ 30,59,000
	Add: Health and education cess @4%	₹ 1,22,360
	Tax liability (including cess)	₹ 31,81,360

**Question 5**

Compute the tax liability of Mr. C (aged 58), having total income of Rs 2,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

**Solution****Computation of tax liability of Mr. C for the A.Y. 2025-26**

(A)	Income-tax (including surcharge) computed on total income of Rs 2,01,00,000

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

Alternative method

(A)	Income-tax (including surcharge) computed on total income of Rs 2,01,00,000		
	Rs 2,50,000 – Rs 5,00,000 @ 5%	Rs 12,500	
	Rs 5,00,001 – Rs 10,00,000 @ 20%	Rs 1,00,000	
	Rs 10,00,001 – Rs 2,01,00,000@30%	Rs 57,30,000	
	Total	Rs 58,42,500	
	Add: Surcharge@25%	Rs 14,60,625	Rs 73,03,125

(B)	Income-tax computed on total income of Rs 2 crore [(Rs 12,500 plus Rs 1,00,000 plus Rs 57,00,000) plus surcharge@15%]	Rs 66,84,375
(C)	Excess tax payable (A)-(B)	Rs 6,18,750
(D)	Marginal Relief (Rs 6,18,750 – Rs 1,00,000, being the amount of income in excess of Rs 2,00,00,000)	Rs 5,18,750
(E)	Tax liability (A) - (D)	Rs 67,84,375
	Add: Health and education cess@4%	Rs 2,71,375
	Tax liability (including cess)	Rs 70,55,750

**Question 6**

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹5,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

**Solution****Computation of tax liability of Mr. D under default tax regime for the A.Y. 2025-26**

Income-tax (including surcharge) computed on total income of 5,01,00,000	
₹3,00,000 - ₹7,00,000@5%	₹ 20,000
₹7,00,001 - ₹10,00,000@10%	₹ 30,000
₹10,00,001 - ₹12,00,000@15%	₹ 30,000
₹12,00,001- ₹15,00,000@20%	₹ 60,000
₹15,00,001- ₹5,01,00,000@30%	<u>₹1,45,80,000</u>
Total	₹1,47,20,000
Add: Surcharge@25%	<u>₹36,80,000</u>
	₹1,84,00,000

Add: Health and education cess @4%	₹7,36,000
Tax liability	₹1,91,36,000

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

Alternative method

(A)	Income-tax (including surcharge) computed ₹ 5,01,00,000 on total income of		
	₹ 3,00,000 - ₹ 5,00,000@5%	₹ 10,000	
	₹ 5,00,001 - ₹ 10,00,000@20%	₹ 1,00,000	
	₹ 10,00,001 - ₹ 5,01,00,000@30%	₹ 1,47,30,000	
	Total	₹1,48,40,000	

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

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by 2,21,000 (₹1,93,57,000-1,91,36,000).

**Question 7**

Mr. Raghav aged 26 years and a resident in India, has a total income of Rs 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.

Computation of tax liability of Mr. Raghav for A.Y. 2025-26**Step 1: Calculation of Tax Before Rebate**

Income Slab (₹)	Income (₹)	Rate (%)	Tax (₹)
0-3,00,000	3,00,000	Nil	0
3,00,001-6,50,000	3,50,000	5%	17,500

Total Tax Before Rebate : ₹17,500

Step 2: Rebate Under Section 87A

- Eligibility** : Individuals with total income up to ₹7,00,000 are eligible for rebate under section 87A



- **Rebate Amount :** The rebate is the amount of tax payable or ₹ 25,000 whichever is less.

In this case, the tax before rebate is ₹ 17,500, so the entire amount will be eligible for a rebate under section 87A.

Step 3: Compute Final Tax Liability

- Tax Before Rebate: ₹ 17,500
- Rebate Under Section 87A: ₹ 17,500
- Net Tax Liability: 17,500 - 17,500 = ₹ 0

Final Tax Liability

Component	Amount (₹)
Total Income	6,50,000
Tax Calculation	
0-3,00,000 (Nil)	0
3,00,001 - 6,50,000 @ 5%	17,500
Total Tax Before Rebate	17,500
Rebate Under Section 87A	17,500
Final Tax Liability	₹ 0

Mr. Raghav's final tax liability for AY 2024-25 is ₹ 0 after applying the rebate under section 87A.



Question 8

Mr. Pawan aged 35 years and a resident in India, has a total income of Rs 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.



Solution

Computation of tax liability of Mr. Pawan for A.Y. 2025-26

Particulars	Rs	
Step 1: Total Income of Rs 7,15,000 - Rs 7,00,000	15,000	(A)
Step 2: Tax on total income of Rs 7,15,000 Tax@10% of Rs 1,15,000 + Rs 15,000	21,500	(B)
Step 3: Since B>A, rebate u/s 87A would be B-A [Rs 21,500 - Rs 15,000]	(6,500)	
	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	



Question 9

Mr. Piyush, aged 35 years and a resident in India, has a total income of Rs 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 if he exercises the option to shift out of the default tax regime.



Solution

Computation of tax liability of Mr. Piyush for A.Y. 2025-26

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



Question 10

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

- i. Income from salary (computed) - ₹ 10,80,000
- ii. Income from house property (computed) - ₹ 2,50,000
- iii. Agricultural income from a land in Jaipur - ₹ 4,80,000
- iv. Expenses incurred for earning agricultural income - ₹ 1,70,000

Compute his tax liability for A.Y. 2025-26 assuming his age is -

(a) 45 years

(b) 70 years



Solution

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

Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC

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

1. Net agricultural income exceeds ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000-₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		13,30,000

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000

Tax on ₹ 16,40,000 = ₹ 1,82,000

(i.e., 5% of ₹ 4,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 2,00,000 plus 20% of ₹ 3,00,000 plus 30% of ₹ 1,40,000)

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

Tax on ₹ 6,10,000 = 15,500

(i.e. 5% of ₹3,10,000)

Step 3 : ₹ 1,82,000 - ₹ 15,500 = ₹ 1,66,500

Step 4 & 5: Total tax payable = ₹ 1,66,500

= ₹ 1,66,500 + 4% of ₹ 1,66,500 = ₹ 1,73,160

Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act

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

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

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000-₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		13,30,000

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000

Tax on ₹ 16,40,000 = ₹ 3,04,500

(i.e., 5% of 2,50,000 plus 20% of 5,00,000 plus 30% of ₹6,40,000)

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

Tax on ₹ 5,60,000 = ₹ 24,500

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

Step 3 : ₹ 3,04,500 - ₹ 24,500 = ₹ 2,80,000

Step 4 & 5: Total tax payable = ₹ 2,80,000
 = ₹ 2,80,000 + 4% of ₹ 2,80,000 = ₹ 2,91,200.

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

Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., ₹ 1,73,160.

Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1 : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
 Tax on ₹ 16,40,000 = ₹ 3,02,000
 (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
 Tax on 6,10,000 = ₹ 32,000
 (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)

Step 3 : ₹ 3,02,000 - ₹ 32,000 = ₹ 2,70,000

Step 4 & 5: Total tax payable = ₹ 2,70,000
 = ₹ 2,70,000 + 4% of ₹ 2,70,000 = ₹ 2,80,800.

Additional Questions



Question 11

Who is an "Assessee"?



Solution

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

In addition, the term includes –

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



Question 12

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



Solution

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions

have been made to protect the interests of revenue. The exceptions are as follows:

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

Officer, be charged to tax in that assessment year.



Question 13

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



Solution

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

Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co- executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI. In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.



Question 14

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



Solution

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

Thus, the children do not acquire any right, share in the family property, as long

as his father is alive and only on death of the father, the children will acquire right/share in the property.

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



Question 15

Mr. Sharma aged 62 years and a resident in India, has a total income of 2,30,00,000, comprising long term capital gain taxable under section 112 of 52,00,000, short term capital gain taxable under section 111A of 64,00,000 and other income of 1,14,00,000. Compute his tax liability for AY 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes



Question 16

Explain the difference between Circulars and Notifications in the context to the Income-tax Act, 1961. (MTP 3 Marks, Aug'18)



Solution

Difference between Circulars and notifications

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

**Question 17**

Briefly explain the purpose for which the words “PROVISO” and “EXPLANATION” are incorporated under various sections of the Income-tax Act, 1961. (PYP 4 Marks, May’18)

**Solution**

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

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

**Question 18**

The assessee is found to be the owner of the gold (market value of which is ₹ 50,00,000) during the financial year ending 31-03-2025 but he recorded to have spent ₹ 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue. (PYP 2 Marks May’22)

**Solution**

As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2025 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the income of the assessee for A.Y.2024-25, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @78% (@60% plus surcharge @25% and cess @4%).

**Question 19**

Examine with reasons whether the following statements are correct/incorrect

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

Cash credit of ₹ 1,50,000 were traced in the books of accounts of Mr. Yogesh for which no explanation about its source was provided. Such income is taxable @30% under section 115BB in the hands of Yogesh. (RTP Nov ‘23)

**Solution**

The statement is incorrect.

Unexplained cash credit is taxable @60% plus surcharge @25% plus cess @4% under section 115BBE.

**Question 20**

Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2023-24 consisting of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2024-25. (MTP 4 Marks, Oct’21)

**Solution**

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2024-25

Particulars	₹	₹
Income from salary (computed)	1,20,000	
Less: Set-off loss from house property	(30,000)	90,000
house property	30,000	
Less: Set-off against salary income	(30,000)	-
Income from business		40,000
Lottery winning		5,60,000
Total Income		6,90,000
Tax liability		
Tax @30% on lottery income		1,68,000

Tax on other income of ₹ 1,30,000 (Nil, since it does not exceed the basic exemption limit of ₹ 2,50,000)		-
		1,68,000
Add: Health and education cess@4%		6,720
Total tax liability		1,74,720
Less: TDS on lottery income under section 194B		1,68,000
Net tax payable		6,720
Since tax payable for the P.Y. 2023-24 is less than ₹ 10,000, Mr. Jay is not liable to pay advance tax.		

**Question 1**

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2023. From the following details for the FY 2024-25, determine the residential status of Mr. Anand for AY 2025-26, assuming that his stay in India in the last 4 previous years (preceding FY 2024-25) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2024
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December, 2024

**Solution****Self Practice - Ans: Non Resident****Question 2**

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

- Find out his residential status for the AY 2024-25.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including FY 2023-24?

**Solution**

- (a) Determination of Residential Status of Mr. Brett Lee for the AY 2024-25:-**

Period of stay during FY 2023-24 = 100 days

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

2020-21	100 days
2019-20	100 days

2018-19	100 days
2017-18	<u>100 days</u>
Total	400 days

Mr. Brett Lee has been in India for a period more than 60 days during FY 2023-24 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the AY 2024-25.

Computation of period of stay during 7 preceding previous years = $100 \times 7 = 700$ days

2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
2016-17	100 days
2015-16	100 days
2014-15	<u>100 days</u>
Total	700 days

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the AY 2024-25. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the FY 2023-24 relevant to the AY 2024-25.

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

- If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

- If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less. In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the AY 2024-25.

- If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.

- In this case, if Srinath's total income (excluding income from foreign sources) exceeds Rs.15 lakh, he would be treated as resident but not ordinarily resident in India for FY 2023-24, since his stay in India is 120 days in the FY 2023-24 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed Rs.15 lakh, he would be treated as non-resident in India for the FY 2023-24, since his stay in India is less than 182 days in the FY 2023-24.



Question 3

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2019-20. During the financial years 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the AY 2024-25.



Solution

During the FY 2023-24, Mr. B was in India for 70 days and during the 4 years preceding the FY 2023-24, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the FY 2023-24.

**Question 4**

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the FY 2024-25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. E and the HUF for AY 2025-26.

**Solution**

- (a) During the FY 2024-25, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident. Therefore, the residential status of Mr. E for the FY 2024-25 is resident but not ordinarily resident.
- (b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the FY 2024-25.

**Question 5**

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the AY 2025-26, if he is:

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

	Particulars	Rs.
(a)	Short term capital gains on sale of shares of an Indian Company received in Germany	15,000
(b)	Dividend from a Japanese Company received in Japan	10,000

(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian Company	6,000
(e)	Agricultural income from land in Gujarat	25,000

**Solution****Computation of total income of Mr. Anirudh for the AY 2025-26**

Particulars	Resident & ordinarily resident Rs.	Resident but not ordinarily resident Rs.	Non-Resident Rs.
1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
2) Dividend from a Japanese company, received in Japan	10,000	-	-
3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	83,500	21,000	21,000

Notes:

- (i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been

provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.

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

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



Question 6

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during the FY 2024-25. He has received the following income for the Financial Year 2024-25:

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

Compute his Gross Total Income for AY 2025-26.



Solution

As per section 6(1), Mr. David is a non-resident for the AY 2025-26, since he was not present in India at any time during the FY 2024-25.

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

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or deemed to accrue or arise in India.

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

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

Gross Total Income of Mr. David for AY 2025-26

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



Question 7

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



Solution

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

him in India.

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

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

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



Question 8

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the AY 2025-26 –

Particulars	Amount (Rs.)
Salaries (computed)	10,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (Rs.40,000 is received in India)	70,000

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



Solution

Self Practice

Additional Questions

Question 9

Mr. Ram, an Indian citizen, left India on 22.09.2024 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the AY 2025-26.



Solution

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

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

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

During the FY 2024-25, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the AY 2025-26.



Question 10

Mr. Dey, a non-resident, residing in US since 1990, came back to India on 1.4.2024 for permanent settlement. What will be his residential status for AY 2025-26?

**Solution**

Mr. Dey is a resident in AY 2025-26 since he has stayed in India for a period of 365 days (more than 182 days) during the FY 2024-25.

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

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

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

For the FY 2024-25 (AY 2025-26), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the FY 2023-24. He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the FY 2024-25.

**Question 11**

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the AY 2025-26 assuming that both have exercised the option of shifting out of default tax regime provided under section 115BAC (1A).

Sr. No.	Particulars	Mr. Ramesh (Rs.)	Mr. Suresh (Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000

2.	Dividend from British company received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

**Solution**

Self Practice - Total Income of

Ramesh - 4,27,500 | Suresh - 3,74,000

**Question 12**

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

**Solution**

This statement is correct.

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

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

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

**Question 13**

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

- (i) Salary paid by Central Government to Mr. John, a citizen of India Rs.7,00,000 for the services rendered outside India considering that he pays tax under sec 115 BAC.
- (ii) Interest on moneys borrowed from outside India Rs.5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
- (iii) Post office savings bank interest of Rs.19,000 received by a resident

assessee, Mr. Ram, aged 46 years if he exercises option of shifting out under sec 115 BAC(1A).

- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- (v) Legal charges of Rs.5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.



Solution

	Taxable / Not Taxable	Amount liable to tax (Rs.)	Reason
(i)	Taxable	6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of Rs.50,000 under section 16(ia).

(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post Office Savings Bank a/c, would be exempt u/s 10(15)(i), only to the extent of Rs.3,500 in case of an individual a/c. Further, interest upto Rs.10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance Rs.5,500 i.e., Rs.19,000 - Rs.3,500 - Rs.10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provided the same is not received in India. This has been provided as an exception to deemed accrual mentioned in section 9(1)(vi)(b).

(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

**Solution****Self Practice****Question 14****May 2018 RTP**

Mr. Kavin, a NR, entered into the following transactions during FY 2023-24:

- Received Rs. 20 Lacs from a NR for use of patent for a business in India.
- Received foreign currency equivalent to Rs. 15 Lacs from a NR Indian for use of know-how for a business in Sri Lanka & this amount was received in Korea.
- Received Rs. 7 Lacs from RR Ltd., an Indian company as fees for providing technical services in India.
- Received Rs. 5 Lacs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal & the payment was made in Nepal.
- Received Rs. 8 Lacs towards interest on moneys borrowed by a NR for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India.

Ans: (a) - Taxable | (b) - Not Taxable | (c) - Taxable | (d) - Not Taxable | (e) - Taxable

**Question 15****RTP May 2021**

Mr. Dhruv, a person of Indian origin & citizen of Country X, got married to Ms. Deepa, an Indian citizen residing in Country X, on 4th February, 2021 & came to India for the first time on 20-02-2021. He left for Country X on 12th August, 2021. He returned to India again on 20-01-2022 with his wife to spend some time with his parents-in law for 30 days & thereafter returned to Country X on 18.02.2022. He received the following gifts from his relatives & friends of her wife during 01-04-2021 to 31-03-2022 in India:

From parents of wife	Rs. 1,01,000
From married sister of wife	Rs. 11,000
From very close friends of his wife	Rs. 2,82,000

Determine his residential status & compute the total income chargeable to tax along with the amount of tax payable on such income for the FY 2021-22.

Will your answer change if he has received Rs. 16,00,000 instead of Rs. 2,82,000 from very close friends of his wife during the FY 2021-22 & he stayed in India for 400 days during the 4 years preceding the FY 2021-22?

**Solution****Self Practice****Answers****Case I - Mr Dhruv is NR and Case II - Mr Dhruv is RNOR**

**Question 16****Nov 16**

R, a citizen of India, serving in the Ministry of Finance in India was transferred to High Commission of Australia on 15.3.2023. He did not come to India during FY 2024-25. His income during FY 2024-25 is given hereunder:

Salary from Government of India	7,20,000
Foreign Allowances from Government of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2024-25.	45,000

Compute Gross Total Income of R for AY 2025-26. Assume R:

- (a) does not opt to be taxed u/s 115BAC
(b) opts to be taxed u/s 115BAC

**Solution****Computation of Gross Total Income of R, a non-resident for AY 2025-26**

		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from Salaries			
Salary from Government of India	7,20,000		
(Salary payable by the Government to a citizen of India for services rendered outside India is deemed to accrue/arise in India u/s 9(l)(iii).			
Foreign Allowance from Government of India exempt u/s 10(7)	Nil	7,20,000	7,20,000
Less: Standard deduction u/s 16(ia)		(50,000)	(75,000)

		6,70,000	6,45,000
Income from HP			
Rent from a house situated at London, received in London	Nil	Nil	Nil
(Not taxable as it neither accrues/arises in India nor deemed to accrue /arise in India)			
Income from Other Sources			
Interest accrued on National Savings Certificate		45,000	45,000
Gross Total Income		7,15,000	6,90,000

**Question 17****May 2017**

A Korean Company D Ltd, entered in to following transactions during FY 2023-24:

- (A) Received 20 Lakhs from a NR for use of Patent for a business in India.
(B) Received 15 Lakhs from a NR Indian for use of know-how for a business in Sri Lanka & this amount was received in Japan. [Assume that above amount is converted/stated in Indian Rupees].
(C) Received 7 Lakhs from RR Co. Ltd, an Indian Company, for providing Technical know-how in India.
(D) Received 5 Lakhs from R & Co. Mumbai for conducting Feasibility Study for a new project in Nepal & the payment was made in Nepal.

Explain briefly whether, these receipts are chargeable to tax in India.

**Solution**

- (A) Chargeable to tax in India. In this case as the payer is a NR, income received for patent used for business in India, shall be deemed to accrue or arise in India.
(B) Not chargeable to tax in India. In this case as the payer is a NR, income

received for use of know-how for a business outside India, shall not be deemed to accrue or arise in India.

- (C) Chargeable to tax in India. In this case as the payer is an Indian Company, i.e., resident in India, & further technical know-how is used for business in India, the income shall be deemed to accrue or arise in India.
- (D) Not chargeable to tax in India. In this case as the payer, being an Indian company is a resident in India. However, as the fee is for feasibility study conducted for business outside India, it shall not be deemed to accrue or arise in India.



Question 18

Miss Kaira, an American national, got married to Mr. Ramesh of India in USA on 1.03.2023 and came to India for the first time on 20.03.2023. She left for USA on 20.9.2023. She returned to India again on 27.03.2024. She has earned the following income during the financial year 2023-24.

Sr. No.	Particulars	Amount (Rs.)
1.	Dividend from American company, received in America	20,000
2.	Profits from a profession in Delhi, but managed directly from America	50,000
3.	Long term capital gain on sale of shares of an Indian company, received in India	60,000
4.	Interest on savings bank deposit in SBI, Delhi	17,000
5.	Agricultural income from a land situated in Tamilnadu	55,000
6.	Rent (computed) from property in America deposit in a Bank there, later on remitted to India	1,00,000
7.	Cash gift received from a friend on her birthday on 16.8.2023	51,000
8.	Past foreign untaxed income brought to India	70,000

Determiner her residential status and compute the total income chargeable

to tax for the Assessment Year 2024-25. (MTP 10 Marks, Aug'18)



Solution

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

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

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

Therefore, the residential status of Miss Kaira, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e. P.Y.2023-24 and in the preceding four assessment years.

Her stay in India during the previous year 2023-24 and in the preceding four years are as under: P.Y. 2023-24

01.04.2023 to 20.09.2023	-	173 days
27.03.2024 to 31.03.2024	-	5 days
Total		178 days

Four preceding previous years

P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	12 days
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y.2019-20 [1.4.2019- to 31.3.2020]	-	Nil
Total		12 days

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 12 days.

Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2024-25.

Computation of total income of Mrs. Kaira for the A.Y. 2024-25

S. No.	Particulars	(Non-Resident) (Rs.)
1.	Dividend from American company, received in America (Note 1)	-
2.	Profit from profession in Delhi, but managed directly from America (Note 2)	50,000
3.	Long-term capital gain on sale of shares of an Indian company (Note 2)	60,000
4.	Interest on savings account with SBI (Note 2)	17,000
5.	Agricultural income from land in Tamilnadu [Exempt under section 10(1)]	-
6.	Rent (computed) from property in America deposited in a Bank at America, later on remitted to India (Note 1)	-
7.	Cash gift received from a friend on Mrs. Kaira birthday on 16.8.2023 Note: As per section 56(2) (x), cash gifts received from a non-relative would be taxable, if the amount exceeds Rs. 50,000 in aggregate during the previous year.	51,000
8.	Past foreign untaxed income brought to India [Not taxable, since it does not represent income of the P.Y.2023-24].	-
Gross Total Income		1,78,000
(-) Deduction u/s 80 TTA		(10,000)
Net Total In come		1 , 68, 000

Notes:

- As per section 5(1), global income is taxable, in case of a resident. However, as per section 5(2), only the following incomes are chargeable to tax, in case of a non-resident:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Therefore, dividend from American company received in America, rent from property in America by Mrs. Kaira, a non-resident, would not be taxable in India, since both the accrual and receipt are outside India.
- Profits from profession in Delhi, long term capital gains and interest on saving account with SBI are taxable in the hands of Mrs. Kaira, since such incomes are deemed to accrue or arise in India during the P.Y. 2023-24.



Question 19

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2006 and never came to India for a single day since then, earned the following incomes during previous year 2023-24:

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

- Determine the residential status of Mr. Sarthak and taxable income for the previous year 2023- 24 (assuming no other income arise during the previous year).
- What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India? (MTP 6 Marks April '23, PYP 6 Marks Nov '22)

**Solution**

- I. Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2023-24 on the basis of number of days of his stay in India as per section 6(1).

However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- not liable to tax in Dubai, he would be deemed resident in India for the P.Y. 2023-24 by virtue of section 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Computation of Total Income for A.Y.2024-25

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

- II. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident. Accordingly, he would be non-resident in India for the P.Y. 2023-24 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

- III. If Mr. Sarthak is not an Indian citizen and his parents were born in India, he would be person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him.

Accordingly, he would be non-resident in India during the P.Y. 2023-24 and his total income would be ₹ 13 lakhs.

**Question 20**

Determine the residential status of Ms. Nicole Kidman, an Australian actress, for the A.Y. 2024-25, from the following information about her stay in India contained in her passport.

F.Y.	From	To	F.Y.	From	To
2023-24	May 3rd	August 12th	2018-19	May 3rd	August 12th
2022-23	July 23rd	August 11th	2017-18	May 3rd	August 12th
2021-22	February 9th	March 26th	2016-17	May 3rd	August 12th
2020-21	September 8th	March 26th	2015-16	May 3rd	August 12th
2019-20	May 17th	September 30th	-	-	-

(RTP May 19)

**Solution**

The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner -

Previous Year	2023-24	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
No. of days of stay in India	102	20	46	201	137	102	102	102	102

Ms. Nicole Kidman is said to be resident if she satisfies any one of the following basic conditions:

- (i) Has been in India during the previous year for a total period of 182 days or more (or)
- (ii) Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year. Ms. Nicole Kidman's stay in India during the P.Y.2023-24 is less than 182 days. However, her stay in India during the P.Y.2023-24 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y.2023-24 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y.2023-24.

Further, Ms. Nicole Kidman would be "Resident but not ordinarily resident" in India in during the previous year 2023-24, if she:

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days. If she does not satisfy both of these conditions, she would be a resident and ordinarily resident. In the present case, her stay in India in the last seven previous years prior to P.Y.2023- 24 is 710 days [20 +46 +201+137 +102 +102 +102], which is less than 730 days. Therefore, she is resident but not ordinarily resident for the P.Y.2023-24 even if she is resident in the two assessment years i.e., A.Y.2021-22 and A.Y.2020-21 as per the information given in the question.



Question 21

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2024, compute the total income for the A.Y. 2024-25, if he is

- (a) Resident and ordinarily resident

(b) Non-resident (RTP May '22, PYP 10 Marks May '18)

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



Solution

Computation of total income of Mr. Ashutosh for the A.Y. 2024-25

Particulars	Resident and ordinarily resident (₹)	Non- resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non- resident, outside India and received outside India	1,50,000	1,50,000

Rent from property in Delhi, received outside India [₹ 1,20,000 – 30% of ₹ 1,20,000 under section 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-
Past foreign taxed income brought to India (Not taxable)	-	-
Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	3,79,000	2,87,000
Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes –

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

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

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



Question 22

Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2023 as stamped in the passport and returned on 27th April 2024. He has been in India for less than 365 days during the 4 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2024-25 from the following information:

- Short term capital gain on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to ₹ 58,000. The sale proceeds were credited to his bank account in Singapore.
- Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2023. Interest on the borrowed money for the previous year 2023-24 amounted to ₹ 5,800.
- Interest on fixed deposit with Punjab National Bank, Delhi amounting to ₹ 9,500 was credited to his saving bank account. (RTP May '20)

**Solution****Determination of residential status**

An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

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

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident. Mr. Rajesh Sharma, an Indian citizen, has not satisfied either of the basic conditions for being a resident, since he was in India for only 59 days during the previous year 2023-24. Hence, he is non-resident in India for A.Y.2024-25.

Computation of total income of Mr. Rajesh Sharma for A.Y.2024-25

	Particulars	Amount (₹)
(1)	Short-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Rajesh Sharma, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in Singapore.	58,000
(2)	Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the non-resident since the income has neither accrued or arisen in India nor has it been received in India. Since dividend is not taxable in India, interest paid for investment is not allowable as deduction.	Nil

(3)	Interest on fixed deposit with Punjab National Bank, Delhi credited to his savings bank account is taxable in the hands of Mr. Rajesh Sharma as Income from other sources, since it has accrued and arisen in India and is also received in India. He would not be eligible for deduction under section 80TTB, since he is a non-resident.	9,500
Total Income		67,500

**Question 23**

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2020 with the name "New way associates". In May 2022, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2021 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2022. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2023 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2023-24.

	Particulars	₹
1	Salary from company in Dubai (not liable to tax in Dubai)	13,00,000
2	Long term capital gain on sale of shares of an Indian company	2,50,000
3	Income from house property in Delhi (computed)	4,60,000
4	Dividend from shares of an Indian company	65,000

	Income of Mrs. Asha	₹
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Profit from consultancy profession in India	3,00,000
3	Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
4	Short term capital loss on sale of listed shares of an Indian company	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2024-25 ignoring the provisions of section 115BAC. (RTP Nov '23)



Solution

Determination of residential status of Mr. Ram

Mr. Ram is an American citizen who comes on a visit to India during the P.Y. 2023-24 for 3 months. He has been in India from 1st May 2021 to 1st October 2022. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y. 2023-24 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2024-25.

Since his period of stay in India during the preceding 7 previous years is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the A.Y. 2024-25.

Since Mr. Ram is a resident but not-ordinarily resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India, deemed to be received in India and income derived from business controlled in or a profession set up in India is chargeable to tax in India in his hands.

Computation of total Income of Mr. Ram for the A.Y. 2024-25

	Income of Mrs. Asha	₹
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Long term capital gain on sale of shares of an Indian company [Taxable, since it accrues and arises in India]	2,50,000
3	Income from house property in Delhi [Taxable, since it accrues and arises in India]	4,60,000
4	Dividend from shares of an Indian company [Taxable, since it accrues and arises in India]	65,000
		7,75,000

Determination of residential status of Mrs. Asha

Mrs. Asha is an Indian citizen who comes on a visit to India during the P.Y. 2023-24 for 3 months i.e., 92 days. Since she does not satisfy any of the basic conditions of staying in India for 182 days or 120 days during the P.Y. 2023-24, she is not a resident in India as per section 6(1).

Mrs. Asha would be a deemed resident under section 6(1A) if her total income other than the income from foreign sources exceeds ₹ 15 lakhs during the P.Y. 2023-24 as she is an Indian citizen and is not liable to tax in Dubai.

Computation of total Income other than the income from foreign sources of Mrs. Asha

	Particulars of income	(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Includible]	12,00,000
2	Profit from consultancy profession in India [Includible]	3,00,000
3	Long term capital gain on sale of shares of British company [Not includible, since it is a foreign source income]	-

4	Short term capital loss on sale of listed shares of an Indian company [It accrues and arises in India. However, short term capital loss is not allowed to be set off from business or profession income, hence, not includible]	-
		15,00,000

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed ₹ 15 lakhs, she would not be a deemed resident. Hence, Mrs. Asha is a non- resident during the A.Y. 2024-25.

Since Mrs. Asha is a non-resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India and deemed to be received in India is chargeable to tax in India in her hands.

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
2	Profit from consultancy profession in India [Taxable, since it accrues and arises in India]	3,00,000
3	Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
4	Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2025-26]	-
		3,00,000



Question 24

Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of

which is used as his residence and half is given on rent (such rent received, converted in INR is ₹ 6,00,000). The annual value of the house in Thailand is ₹ 50,00,000 i.e. converted value in INR purchased a flat in Pune during F.Y. 2019-20, which has been given on monthly rent of ₹ 27,500 since 01.07.2022. The annual property tax of Pune flat is ₹ 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2022. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to ₹ 15,00,000. The interest on such loan for the F.Y. 2023-24 was ₹ 84,000. However, interest for March 2024 quarter has not yet been paid by Mr. Jagdish. He had a house in Jaipur which was sold in May 2019. In respect of this house he received arrears of rent of ₹ 96,000 in Feb. 2024 (not taxed earlier). He also derived some other incomes during F.Y. 2023-24 which are as follows: Profit from business in Thailand ₹ 2,75,000, Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India. Income from Apple Orchid in Nepal given on contract and the yearly contract fee of ₹ 5,00,000, for F.Y. 2023-24 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch. Compute the total income of Mr. Jagdish for Assessment Year 2024- 25 chargeable to income tax in India. (PYP 7 Marks, Nov'19)



Solution

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y. 2023 - 24, he would be a non- resident for that year.

Computation of Total Income of Mr. Jagdish, a non-resident, for the A.Y. 2024-25

	Particulars		₹	₹
(I)	Income from house property			
	Income from house property at Bangkok [Income from house property at Bangkok neither accrues or arises in India, nor is it deemed to accrue or arise in India; and it is also not stated to be received in India. Hence, it is not taxable in India, since he is a non-resident]			NIL
	Income from house property in Pune (taxable in India since it accrues and arises in India)			
	Gross Annual Value of Pune flat4 (₹ 27,500 x 12)		3,30,000	
	Less: Municipal taxes (Deduction is not allowable, since no amount has been paid during the previous year 2023-24)		Nil	
	Net Annual Value (NAV)		3,30,000	
	Less: Deductions u/s 24			
	(a) 30% of NAV	99,000		
	(b) Interest due on housing loan (allowable even if not paid)	84,000	1,83,000	

	Arrears of rent received in respect of Jaipur house (taxable u/s 25A, even if he is not the owner of the house property in the P.Y.2023-24)	96,000	1,47,000	
	Less: Deduction@30%	28,800	67,200	2,14,200
(ii)	Profits and gains of business or profession			
	Profit from business in Thailand (not taxable in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India; and it is also not stated to be received in India)			Nil
(iii)	Income from Other Sources			
	Interest on bonds of a Japanese company [Only ₹ 22,500, being 50% of ₹ 45,000 is taxable in India, since it is stated to be received in India]		22,500	
	Income from Apple Orchid in Nepal [Contract fee directly credited to bank account in India is taxable in India, since it is received in India]		5,00,000	5,22,500
Total Income				7,36,700

Note: Contract fee for Apple Orchid has been stated to have been deposited directly by the contractor in the Kathmandu branch of UBI in Mr. Jagdish's bank account maintained with UBI's Pune Branch. Since the deposit is stated to have been made by 4 Rent received is taken as the gross annual value in

the absence of information related to expected rent the contractor directly in UBI's Pune branch, the income is received in India and hence, would be taxable in the hands of Mr. Jagdish. The above solution has been worked out accordingly. However, due to the use of the word "in the Kathmandu branch", a view is taken that such receipt is actually received in Kathmandu and subsequently it is remitted to Indian branch, the amount of ₹ 5 lakh would not be taxable in India and hence, the total income would be ₹ 2,36,700.



Question 25

Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2023-24, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2023-24, he has the following incomes:

- (A) Income from business in Australia controlled form Australia - ₹ 20,00,000
- (B) Income from business in Sri Lanka controlled form Chennai - ₹ 16,00,000
- (C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.
- (D) Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000 Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2024-25. (PYP 4 Marks May '23)



Solution

Determination of Residential Status of Mr. Prashant¹

Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2022-23,

he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2023-24, he would be resident in India for the A.Y. 2024-25.

An individual is said to be "Resident and ordinarily resident [ROR]" in India in any previous year, if he satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more [Refer Note 1 below for alternate presentation]

First condition

Residential status for P.Y.2022-23 (A.Y.2023-24) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding P.Ys.

Residential status for P.Y.2021-22 (A.Y.2022-23) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding P.Ys.

Therefore, he satisfies the first condition of being resident in India in at least 2 out of 10 previous years preceding the relevant P.Y.3

Second condition

Stay in India in 7 immediately preceding P.Ys = $7 \times 125 \text{ days} = 875 \text{ days} > 730 \text{ days}$ Since both the conditions are satisfied, he is Resident and Ordinarily Resident (ROR).

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2024-25 would as follows:

Computation of Total Income of Mr. Prashant for A.Y.2024-25

	Particulars	₹
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000
(iv)	Income from agricultural land in Australia [would not be exempt, since it is not from an agricultural land in India]	2,00,000
	Total income	38,50,000

Notes - (1) Alternative manner of determination of whether Mr. Prashant is ROR/ RNOR – “An individual is said to be “Resident but not ordinarily resident [RNOR]” in India in any previous year, if he satisfies any one of the following conditions:

- He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
- His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.
- Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2023-24. Hence, he is a Resident and Ordinarily Resident in the P.Y.2023-24.
- (2) In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above solution has been worked out assuming that Mr. Prashant is not a person of Indian origin.
- However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident

in P.Y.2021-22 and P.Y.2022-23, information relating to his total income (excluding income from foreign sources) for the said P.Y.s is required for ascertaining whether the condition of 120 days in the relevant P.Y. + 365 days in the 4 immediately preceding P.Ys would be attracted in his case. This information is not given in the question. Accordingly, assumptions would have to be made relating to the applicability of this condition.

- It may be noted that the condition of 120 days in the P.Y. + 365 days in the four immediately preceding P.Ys for a PIO whose total income (other than income from foreign sources) exceed ₹ 15 lakhs for determination of residential status came into effect only from A.Y.2022-23. Therefore, in the previous years prior to that, he would be non-resident irrespective of his total income since the number of days of his stay < 182 days each year.
- In case if it is assumed that his total income (other than income from foreign sources) for the P.Y.2021-22 and P.Y.2022-23 > ₹ 15 lakhs, he would be ROR since he would be resident in 2 out of 10 years immediately preceding the current P.Y. and he stayed for 730 days or more in 7 previous years immediately preceding current P.Y.. In such case, his total income would be same as determined in the above solution.
- In case if it assumed that he is a PIO whose total income (other than income from foreign sources) for the P.Y.2021-22 and P.Y.2022-23 ≤ ₹ 15 lakhs, he would be non-resident for P.Y.2021-22 and P.Y.2022-23, since his stay in India is for less than 182 days in those years. In such a case, for P.Y.2023-24, he would be RNOR, since he would be non-resident in all the 10 years immediately preceding the current P.Y.
- In such case, the computation of total income for A.Y.2024-25 would be as follows –

Computation of Total Income of Mr. Prashant for A.Y.2024-25

	Particulars	₹
(i)	Income from business in Australia controlled from Australia (not taxable in case of RNOR, since it accrues and arises outside India)	-
(ii)	Income from business in Sri Lanka (taxable since it is controlled from India)	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company (taxable, irrespective of residential status)	50,000
(iv)	Income from agricultural land in Australia [would not be taxable in case of RNOR since it accrues and arises outside India]	-
Total Income		16,50,000



Question 1

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



Solution

Computation of Business Income and Agriculture Income of Mr. B

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



Question 2

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



Solution

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

Total profits from the sale of latex = Rs.30 lacs – Rs.10 lacs – Rs.8 lacs = Rs.12 lacs.

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

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



Question 3

Mr. A, a member of a HUF, received Rs.10,000 as his share from the income of the HUF. Is such income includible in his chargeable income? Examine with reference to the provisions of the Income-tax Act, 1961.



Solution

No. Such income is not includible in Mr. A's chargeable income since section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family.



Question 4

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

**Solution**

The statement is **not** correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

**Question 5**

“Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim”. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961.

**Solution**

The statement is **not** correct. Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.

**Question 6**

Y Ltd. furnishes you the following information for the year ended 31.3.2024:

Particulars	Rs. (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 10AA for the A.Y. 2024-25, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2019-20 and Mr Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since FY 2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\%$$

$$= \text{Rs.30 lakhs} \times \frac{50}{100} \times 100\% = \text{Rs.15 lakhs}$$

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

Additional Questions**Question 7**

Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax:

- Arvind received Rs.20,000 as his share from the income of the HUF.
- Mr. Xavier, a ‘Param Vir Chakra’ awardee, who was formerly in the service of the Central Government, received a pension of Rs.2,20,000 during the financial year 2022-23.

(iii) Agricultural income of Rs.1,27,000 earned by a resident of India from a land situated in Malaysia.

(iv) Rent of Rs.72,000 received for letting out agricultural land for a movie shooting.

**Solution**

Sr. No.	Taxable / Not Taxable	Amount liable to tax (Rs.)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government employee who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).
(iii)	Taxable	1,27,000	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "Income from other sources". Exemption under section 10(1) is not available in respect of such income.

(iv)	Taxable	72,000	Agricultural income is exempt from tax as per section 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, Rs.72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt under section 10(1). The same is chargeable to tax under the head "Income from other sources".

**Question 8**

Examine the taxability of agricultural income under the Income-tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income?

**Solution**

Agricultural income is exempt from tax as per section 10(1). However, aggregation of agricultural and non-agricultural income is to be done to determine the rate at which the non-agricultural income shall be chargeable to tax. In case the agricultural income is not more than Rs.5,000 or the taxpayer has non-agricultural income not more than the basic exemption limit, then no such aggregation needs to be done.

Further, such aggregation has to be done only if the tax-payer is an individual, HUF, AOP, BOI or an artificial juridical person, since the Finance Act prescribes slab rates of income-tax for these assessees.

In the case of other assessees such as partnership firms, companies etc., whose income is chargeable to tax at a flat rate, aggregation of agricultural income would have no effect.

Since the second part of the question requires the manner of computation of income where an individual derives agricultural and non-agricultural income, the same can be answered on the basis of Rules 7A, 7B and 8 of the Income-tax Rules, 1962 dealing with composite income.

Rule	Particulars	Business Income	Agricultural Income
Rule 7A	Income from sale of rubber products derived from rubber plants grown by the seller in India.	35%	65%
Rule 7B	Income from sale of coffee		
	- grown and cured by the seller in India	25%	75%
	- grown, cured, roasted and grounded by the seller in India	40%	60%
Rule 8	Income from sale of tea grown and manufactured by the seller in India	40%	60%

Thereafter, income-tax shall be computed by aggregating the agricultural income and the non-agricultural income in the manner described below:

- (1) Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.
- (2) Aggregate the agricultural income with the basic exemption limit of the assessee i.e., Rs.2,50,000 / Rs.3,00,000 / Rs.5,00,000, as the case may be, and determine tax on such amount.
- (3) Compute the difference between the tax computed in Step (1) and Step

- (2), which shall be the tax payable in respect of non-agricultural income.
- (4) The tax payable so computed in step (3) shall be increased by surcharge, if applicable or reduced by rebate under section 87A, if the total income does not exceed Rs.5 lakh. Thereafter, health and education cess @ 4% has to be added to compute the total tax liability.



Question 9

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



Solution

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



Question 10

Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

- Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
- Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax.
- Mr. A, a member of a HUF, received Rs.10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.



Solution

- False: Exemption under section 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- True: Section 10(18) exempts any income by way of pension received by

individual who has been in service of Central Government and has been awarded “ParamVir Chakra” or “MahaVir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

- (iii) False: Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, Rs.10,000 should not be included in Mr. A's chargeable income.



Question 11

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the FY 2022-23.

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

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2023-24, in the following situations:

- (i) If both the units were set up and start manufacturing from 22-05-2015.
(ii) If both the units were set up and start manufacturing from 14-05-2019.



Solution

Computation of deduction under section 10AA of the Income-tax Act, 1961

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

period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Computation of eligible deduction under section 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2015:

Since A.Y. 2023-24 is the 8th assessment year from A.Y. 2016-17, relevant to the previous year 2014-15, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total Turnover of Unit A}} \times 50\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = \text{Rs.22.50 lakhs}
 \end{aligned}$$

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2019:

Since A.Y. 2023-24 is the 4th assessment year from A.Y. 2020-21, relevant to the FY 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total Turnover of Unit A}} \times 100\% \\
 &= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 100\% = \text{Rs.45 lakhs}
 \end{aligned}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction under section 10AA in respect of its export profits, in both the

situations.

Working Note:

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

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



Question 12

Mr. Charan grows paddy & uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for PY 2022-23:

- ❖ Cost of cultivation of 40% of paddy produce is Rs. 9,00,000 which is sold for Rs. 18,50,000.
- ❖ Cost of cultivation of balance 60% of paddy is Rs. 14,40,000 & market value of paddy is Rs. 28,60,000.
- ❖ Incurred Rs. 3,60,000 in the manufacturing process of rice on the balance (60%) paddy.
- ❖ The rice was sold for Rs. 38,00,000.

Compute the Business income & Agricultural Income of Mr. Charan for AY 2023-24.



Solution

Particulars	Business Income	Agricultural Income
1 Sale of Rice		
Business income		
Sale Proceeds of Rice	38,00,000	
Less: Market Value of paddy (60%)	28,60,000	

	Less: Manufacturing expenses	3,60,000		
		5,80,000		
	Agricultural Income			
	Market value of paddy (60%)		28,60,000	
	Less: Cost of cultivation		14,40,000	14,20,000
2 Sale of Paddy				
	Agricultural Income			
	Sale proceeds of paddy produce (40%)		18,50,000	
	Less: Cost of cultivation		9,00,000	
	Total Income			23,70,000



Question 13

Based on various exemption State whether the following are chargeable to tax and the amount liable to tax:

- 1) Arvind received ₹20,000 as his share from the income of HUF. 2) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in service of Central Govt, received pension of ₹. 2,20,000 during FY 2024-25.
- 3) A political party registered u/s 29 A of the Representation of People Act, 1951 earned rental income of ₹. 6,00,000 by letting out premises.
- 4) Agricultural income to a resident of India from a land situated in Malaysia.
- 5) Allowance received by an employee working in a transport system at ₹. 10,000 per month to meet his personal expenditure while on duty. He is not receiving any daily allowance.
- 6) Rent of ₹72,000 received for letting out agricultural land for a movie shooting.

**Solution**

Sr. No	Taxable/Not Taxable	Amount liable to tax (2)	Reason
1	Not Taxable	-	Share received by member out of the income of the HUF is exempt u/s 10(2).
2	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government employee who is a, "Param Vir Chakra" awardee, is exempt under section 10(18).
3)	Not Taxable	-	Any income of a political party registered u/s 29A of the Representation of the People Act, 1951 which is chargeable, inter alia, under the head "Income from house property" is exempt u/s 13A provided the political party maintains such books of account as would enable the AO to properly deduce its income therefrom and the accounts are audited by a chartered accountant.
4)	Taxable	-	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "IFOS". Exemption u/s 10(1) is not available in respect of such income.

5)	Partly Taxable	36,000	U/s 10(14), any allowance granted to employee working in a transport system to meet his personal expenditure during his duty is exempt, provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., ₹ 7,000 p.m., being 70% of ₹. 10,000) or ₹. 10,000 p.m., whichever is less. Hence, ₹. 84,000 (i.e., ₹ 7,000 x 12) is allowable as deduction u/s 10(14). Balance. 36,000 (₹1,20,000 - ₹84,000) shall be taxable.
6)	Taxable	72,000	Agricultural income is exempt from tax as per sec 10(1). Agricultural income means, inter alia, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹. 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt u/s 10(1). The same is chargeable to tax under the head "IFOS".

**Question 14**

State with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961: (i) Exemption is

available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.

- (ii) Pension received by a recipient of gallantry award is exempt from tax.
- (iii) Mr. A, a member of a HUF, received ₹ 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income
- (iv) Voluntary contributions received by charitable trusts, universities and educational institutions are not taxable as the definition of income in section 2(24) does not cover the same.
- (v) Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable.



Solution

- (i) **False:** Exemption u/s 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- (ii) **True:** Section 10(18) exempts any income by way of pension received by individual who has been awarded "Param Vir Chakra" or "Maha Vir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.
- (iii) **False:** Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, ₹ 10,000 should not be included in Mr. A's chargeable income. (iv) **False:** Section 2(24) defining the term "income" includes voluntary contributions received by any trust, university or educational institution. Hence, the statement is not correct.
- (v) **False:** As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a

deduction under this Act on account of such loss or damage caused by such disaster.



Question 15

ABC LLP, a LLP in India is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ) in Chennai. The particulars relating to AY 2024-25 furnished by the assessee are as follows: (Assuming unit started on 31-01-2022) Total Turnover: SEZ unit 120 lakhs and the other unit ₹100 lakhs Export Turnover: SEZ unit ₹100 lakhs and the other unit 60 lakhs Profit: SEZ unit 50 lakhs and the other unit 40 lakhs. The assessee has no other income during the year.

- i. Compute tax payable by ABC LLP for the AY 2024-25.
- ii. Will the amount of tax payable change, if ABC LLP is an overseas entity



Solution

(i) **Computation of total income and tax liability of ABC LLP as per the normal provisions of the Act for AY 2024-25:**

Particulars	(In Lakhs)
Business income (before deduction u/s 10AA) (₹50 lacs + ₹40 lacs)	90.00
Less: Deduction under section 10AA Profit of unit in SEZ x Export turnover of unit in SEZ/Total turnover of (In Lakhs) 90.00 unit in SEZ ₹50 lacs x ₹100 lacs/₹120 lacs	41.67
Total Income	48.33
Tax on total income @ 30%	14.50
Add: Health & Education cess @ 4%	0.58
Tax liability (as per normal provisions)	15.08

Computation of ATI and AMT of ABC LLP as per the provisions of section 115JC for AY 2024-25

Particulars	(In Lakhs)
Total income as per the normal provisions	48.33
Add: Deduction under section 10AA	41.67
Adjusted total income	90.00
Tax @18.5% of Adjusted total income	16.6500
Add: Health & Education cess @ 4%	0.6660
Alternate minimum tax as per section 115JC	17.3160

Since the tax payable as per the normal provisions of the Act is less than the AMT, the ATI shall be deemed to be the TI of ABC LLP and the tax payable for A.Y. 2024-25 shall be ₹ 17.3160 lakh

(ii) In case ABC LLP is an overseas entity, the amount of tax payable shall remain the same.

Note:

While computing the deduction u/s 10AA, it has been assumed that AY 2024-25 falls within first five-year period commencing from the year of provision of services by the Unit in SEZ of ABC LLP and therefore, deduction 100% of the profit derived from export of such services has been provided.

**Question 1**

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

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

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

**Solution**

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

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

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

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

**Question 2**

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

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

Compute his taxable allowances

**Solution**

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

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

Children Education Allowance:

Elder son $[(₹ 150 - ₹ 100) \text{ p.m.} \times 12 \text{ months}]$	= ₹ 600	
Younger son $[(₹ 70 - ₹ 70) \text{ p.m.} \times 12 \text{ months}]$	= Nil	₹ 600
Transport allowance $(₹ 1,800 \text{ p.m.} \times 12 \text{ months})$		₹ 21,600
Tribal area allowance $[(₹ 500 - ₹ 200) \text{ p.m.} \times 12 \text{ months}]$		<u>₹ 3,600</u>
Taxable allowances		<u>₹ 25,800</u>

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

Children Education Allowance $[(₹ 150 + ₹ 70) \text{ p.m.} \times 12 \text{ months}]$	₹ 2,640
Transport allowance $(₹ 1,800 \text{ p.m.} \times 12 \text{ months})$	₹ 21,600
Tribal area allowance $(₹ 500 \text{ p.m.} \times 12 \text{ months})$	<u>₹ 6,000</u>
Taxable allowances	<u>₹ 30,240</u>

**Question 3**

Mr. Sagar who retired on 1.10.2024 is receiving ₹ 5,000 p.m. as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

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

**Solution****(a) He is a government employee**

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

(b) He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement

Uncommuted pension received (October – March)	₹ 24,000	
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\left[\frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \times 100 \right]$	<u>₹ 1,66,667</u>	<u>₹ 1,33,333</u>
Taxable pension		<u>₹ 1,57,333</u>

(c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March)	₹ 24,000	
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\left[\frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100 \right]$	<u>₹ 2,50,000</u>	<u>₹ 50,000</u>
Taxable pension		<u>₹ 74,000</u>

**Question 4**

Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

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

Compute his taxable gratuity assuming:

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

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

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

Least of the following:

i. Gratuity received	₹ 15,00,000
ii. Statutory limit	₹ 20,00,000
iii. 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months	

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

$\frac{15}{26} \times (50,000 + 10,000) \times 27 = \quad \underline{\text{₹ 9,34,615}} \quad \underline{\text{₹ 9,34,615}}$

Taxable Gratuity **₹ 5,65,385**

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

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

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

Taxable Gratuity **₹ 6,42,000**

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

(i) Gratuity received ₹ 15,00,000

(ii) Statutory limit ₹ 20,00,000

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

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

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

= ₹ 8,58,000

(c) He is a government employee

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

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

Taxable gratuity Nil



Question 5

Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of

₹ 5,00,000. Other details of his salary income are:

Basic Salary : ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2024)

Dearness Allowance : ₹ 3,000 p.m. (60% of which is for retirement benefits)

Commission : ₹ 500 p.m.

Bonus : ₹ 1,000 p.m.

Leave availed during service : 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non-government employee.



Solution

(a) He is a government employee

Leave Salary received at the time of retirement ₹ 5,00,000

Less: Exemption under section 10(10AA) ₹ 5,00,000

Taxable Leave salary Nil

(b) He is a non-government employee

Leave Salary received at the time of retirement ₹ 5,00,000

Less: Exempt under section 10(10AA) [See Note below] ₹ 26,400

Taxable Leave Salary ₹ 4,73,600

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

(i) Leave salary received ₹ 5,00,000

(ii) Statutory limit ₹ 25,00,000

(iii) 10 months' salary based on average salary of last 10 months

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

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

$$= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days}$$

$$\text{ie. } \left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p.m.} \right]$$

$$= \left[\frac{120 \text{ days}}{30 \text{ days}} \times 10 \times \frac{66,000}{30 \text{ days}} \right] \quad ₹ 26,400$$

**Question 6**

Mr. A retires from service on December 31, 2024, after 25 years of service. Following are the particulars of his income/investments for the previous year 2024-25:

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

**Solution**

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

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000

Amount taxable under the head "Income from Other Sources":

Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

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

**Question 7**

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

**Solution**

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

**Question 8**

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2024-25. You are required to compute his gross salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	₹ 50,00,000
Bonus	₹ 40,000

Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	₹ 13,000

**Solution****Computation of Gross Salary of Mr. B for the A.Y.2025-26**

Particulars	₹	₹
Basic Salary [₹ 10,000 × 12]		1,20,000
Dearness Allowance [₹ 8,000 × 12]		96,000
Commission on turnover [0.1% × ₹ 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employer's contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less: Exempt [Note 2]	20,760	3,240
Interest accrued in the RPF@13% p.a.	13,000	
Less: Exempt@9.5% p.a.	9,500	3,500
Gross Salary		2,92,740

Notes:

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

**Question 9**

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

**Solution**

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

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

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

**Question 10**

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2022. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2023, 31.3.2024 and 31.3.2025 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viiia) for the A.Y. 2024-25 and A.Y. 2025-26. Prior to 1.9.2022, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

**Solution**
Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2024-25

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.111 + 0$
 $= ₹ 1,532$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600

PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2022-23 and there is no employer's contribution in P.Y. 2020-21 and P.Y. 2021-22.

TP1 Nil

R $I/Favg = 2,06,711/18,62,093 = 0.111$

I RPF balance as on 31.3.2024 employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during

A.Y. 2024-25 –

- ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y.

2022-23]

- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2025-26

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
 $= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2024-25 = ₹ 27,600

PC1 Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21, P.Y. 2021-22 and P.Y. 2022-23 = ₹ 27,600

TP1 Taxable perquisite under section 17(2)(viii) for the P.Y. 2023-24 = ₹ 1,532

R $I/Favg = 3,50,307/36,95,802 = 0.09479$

I RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

Note – Interest on the aggregate of following will also be chargeable to tax during

A.Y. 2025-26 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]
- (iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23
- (v) interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2023-24

Exemption in respect of payment from superannuation funds [Section 10(13)]

Any payment received by any employee from an approved superannuation fund shall be entirely excluded from his total income if the payment is made

- (a) on the death of a beneficiary;
- (b) to an employee in lieu or in commutation of an annuity on his retirement at or after a specified age or on his becoming incapacitated prior to such retirement; or
- (c) by way of refund of contribution on the death of a beneficiary; or
- (d) by way of contribution to an employee on his leaving the service in connection with which the fund is established otherwise than by retirement at or after a specified age or his becoming incapacitated prior to such retirement, to the extent the payment made does not exceed the contribution made prior to 1-4-1962 and the interest thereon.
- (e) by way of transfer to the account of the employee under a pension scheme referred to in section 80CCD, which is notified by the Central Government.



Question 11

Mr. D went on a holiday on 25.12.2024 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

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



Question 12

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



Solution

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

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

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

**Question 13**

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2024-25:

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

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

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

Treatment of Mr. G's mother (dependent) by family doctor	8,000
Treatment of Mr. G's sister (dependent) in a nursing home	3,000
Treatment of Mr. G's grandfather in a private clinic	12,000
Treatment of Mr. G's brother (independent)	6,000
Taxable value of perquisite	39,000

**Question 14**

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

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

Even though the company allotted the house to him on 1.4.2024, he occupied the same only from 1.11.2024. Calculate the taxable value of the perquisite for A.Y.2025-26.

**Solution**

Value of the rent free unfurnished accommodation
 = 10% of salary for the relevant period
 = 10% of [(₹ 8,500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] [See Note below]
 = 10% of ₹ 53,000 = ₹ 5,300.

Note: Since, Mr. C occupies the house only from 1.11.2024, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2024 to 31.03.2025) will be considered.

**Question 15**

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

**Solution**

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

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

Value of the accommodation	= ₹ 5,300
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000

Perquisite value of accommodation given at a concessional rent = ₹ 300

**Question 16**

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

**Solution**

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

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

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

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

Note: Value of the accommodation is lower of

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

**Question 17**

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

**Solution**

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

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

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

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



Question 18

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



Solution

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

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

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

Perquisite value of furnished accommodation given at concessional rent

= ₹ 3,125



Question 19

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

- For Mr. X, who engaged a domestic servant for ₹ 500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. ₹ 500 per month.
- For Mr. Y, he was provided with a domestic servant @ ₹ 500 per month as part of remuneration package.

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



Solution

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

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



Question 20

Mr. X retired from the services of M/s Y Ltd. on 31.01.2025, after completing service of 30 years and one month. He had joined the company on 1.1.1995 at the age of 30 years and received the following on his retirement:

- Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.

- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2022 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2024 to 31.01.2025.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2025 to 31.03.2025 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

Computation of Gross Total Income of Mr. X for A.Y. 2025-26

Particulars	₹
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted pension (₹ 5000 x 2)	10,000

Commutated pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary /Gross Total Income	6,82,769

Notes:

- (1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

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

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

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

Particulars	₹
Purchase price (30.1.2022)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2023	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2024	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2025	2,56,000

Less: Amount recovered	2,00,000
Value of perquisite	56,000

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable gratuity

Particulars	₹
Gratuity received	6,00,000
Less : Exempt under section 10(10) - Least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity = ₹ 6,00,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$	
$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	
Taxable Gratuity	80,769

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

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less : Exempt under section 10(10AA) - Least of the following:	
(i) Notified limit	₹ 25,00,000
(ii) Actual leave salary	₹ 3,30,000

(iii) 10 months x ₹ 20,000	₹ 2,00,000	
(iv) Cash equivalent of leave to his credit	₹ 2,20,000	
$\left[\frac{330}{30} \times 20,000 \right]$		2,00,000
Taxable Leave encashment		1,30,000

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

(5) Commuted Pension

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

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

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

**Question 21**

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2024-25:

- (i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?
- (ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- (iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- (iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- (vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2025-26.

The lending rate of State Bank of India as on 1.4.2024 for housing loan may be taken as 10%.

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

- (i) Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.
Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.
If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.
- (ii) Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.
Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.
However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).
Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.
- (iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and

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

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

- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

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

- (v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.
- (vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

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

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920
June, 2024	5,64,000	1,880
July, 2024	5,52,000	1,840
August, 2024	5,40,000	1,800
September, 2024	5,28,000	1,760
October, 2024	5,16,000	1,720
November, 2024	5,04,000	1,680
December, 2024	4,92,000	1,640
January, 2025	4,80,000	1,600
February, 2025	4,68,000	1,560
March, 2025	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].



Question 22

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- (i) What is the perquisite value of sweat equity shares allotted to Sri Chand?

- (ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?

**Solution**

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	₹
Fair market value of 1000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ ₹ 200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)
- Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be ₹ 3,00,000.

**Question 23**

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2024-25 –

- (1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.

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

Compute the value of perquisites chargeable to tax for the A.Y.2025-26, assuming his salary for perquisite valuation to be ₹ 10 lakh.

**Solution**

Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2025-26

	Particulars	Amount in ₹		
(1)	Value of accommodation at concessional rate			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of ₹ 10,00,000	1,00,000		
	Lower of the above		1,00,000	
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		60,000	
			40,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000	76,000

(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]	32,400
(3)	Value of gift voucher*	10,000
	Value of perquisites chargeable to tax	1,18,400

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



Question 24

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2025.

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

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2025-26, if Mr. Goyal is a State Government employee.



Solution

Computation of salary of Mr. Goyal for the A.Y.2025-26 under default tax regime under section 115BAC

Particulars	₹
Basic Salary	4,00,000

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

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

Computation of salary of Mr. Goyal for the A.Y.2025-26 under the optional tax regime (normal provisions of the Act)

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

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

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



Question 25

In the case of Mr. Hari, who turned 72 years on 28.3.2025, you are informed that the salary (computed) for the previous year 2024-25 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary (₹)	Arrears now received (₹)
2010 – 2011	7,10,000	1,03,000
2011 – 2012	8,25,000	1,17,000
2012 – 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate
2011-12	Upto ₹ 2,40,000 ₹ 2,40,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 8,00,000 Above ₹ 8,00,000	Nil 10% 20% 30%	Upto ₹ 1,60,000 ₹ 1,60,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 8,00,000 Above ₹ 8,00,000	Nil 10% 20% 30%
2012-13	Upto ₹ 2,50,000 ₹ 2,50,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 8,00,000 Above ₹ 8,00,000	Nil 10% 20% 30%	Upto ₹ 1,80,000 ₹ 1,80,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 8,00,000 Above ₹ 8,00,000	Nil 10% 20% 30%
2013-14	Upto ₹ 2,50,000 ₹ 2,50,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 10,00,000 Above ₹ 10,00,000	Nil 10% 20% 30%	Upto ₹ 2,00,000 ₹ 2,00,001 - ₹ 5,00,000 ₹ 5,00,001 - ₹ 10,00,000 Above ₹ 10,00,000	Nil 10% 20% 30%

Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.



Solution

Computation of tax payable by Mr. Hari for the A.Y.2025-26

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹
Current year salary (computed)	10,20,000	10,20,000

Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: Health and education cess @4%	8,780	4,640
Total payable	2,28,280	1,20,640

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

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable salary	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: Cess@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

	Particulars	₹	₹
i	Tax payable in A.Y.2025-26 on arrears: Tax on income including arrears Less : Tax on income excluding arrears	2,28,280 1,20,640	1,07,640
ii	Tax payable in respective years on arrears : Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	

Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
Relief under section 89 - difference between tax on arrears in A.Y. 2025-26 and tax on arrears in the respective years		15,455

Tax payable for A.Y.2025-26 after relief under section 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less : Relief under section 89 as computed above	15,455
Tax payable after claiming relief	2,12,825



Question 26

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2025. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the P.Y.2024-25 is as under:

April and May, 2024- Nil, as he stayed with his parents

June to October, 2024 - ₹ 6,000 p.m. for an accommodation in Ghaziabad
November, 2024 to March, 2025 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2025-26, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

Particulars	₹
Basic salary [(₹ 10,000 × 10) + (₹ 11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (See Note below)	21,300
Gross Salary	2,65,300

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2

Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance(HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40 % of salary	-	30,000	15,000	7,500	16,500
(Residence at Ghaziabad – June to Oct, 2024)	-	(40% × ₹ 75,000)	(50% × ₹ 30,000)	(50% × ₹ 15,000)	(50% × ₹ 33,000)

50% of salary (Residence at Delhi– Nov, 24 - March, 25)					
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

**Question 27**

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2024-25:

	Particulars	₹
i	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000

6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment Note - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	1,20,000

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

**Solution**

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2025-26

	Particulars
1.	Reimbursement of medical expenses incurred by Ms. Rakhi (A) The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite. (B) The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite. (C) The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.

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

**Question 28**

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

- A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2024.
- A personal loan of ₹ 5,00,000 on 1.7.2024 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2024 was 12.75% p.a.)
- His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2021. The motor cycle was finally sold to him on 1.8.2024 for ₹ 30,000.
- Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2025-26 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution****Computation of Income from Salary of Mr. X for the A.Y. 2025-26**

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add : Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,08,900

Less : Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,56,900

Notes:

- Value of rent-free unfurnished accommodation**
= 10% of salary for the relevant period
= 10% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400
- Value of perquisite for interest on personal loan**
= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500
- Depreciated value of the motor cycle**
= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.
Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

**Question 29**

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2025:

- (i) Basic salary upto 31.10.2024 ₹ 50,000 p.m.
Basic salary from 01.11.2024 ₹ 60,000 p.m.

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

- (ii) Dearness allowance @ 40% of basic salary.
(iii) Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.
(iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
(v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2024.

(vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven by the employee.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the

A.Y. 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution****Computation of Taxable Salary of Mr. Balaji for A.Y. 2025-26**

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia)	₹ 50,000
Professional tax u/s 16(iii) (See Note 6)	₹ 2,500
Taxable Salary	9,67,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.11.2024, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.
It is assumed that the Leave Travel Concession was availed for journey within India.
He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

**Question 30**

From the following details, find out the salary chargeable to tax for the A.Y.2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

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

- (i) Facility of laptop costing ₹ 50,000.
- (ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.
- (iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
- (iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
- (v) Conveyance allowance of ₹ 1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
- (vi) He is provided personal accident policy for which premium of ₹ 5,000 is paid by the company.
- (vii) He is getting telephone allowance @ ₹ 500 per month.

**Solution****Computation of taxable salary of Mr. X for A.Y. 2025-26**

Particulars	₹
Basic pay [(₹ 20,000×9) + (₹ 21,000×3)] = ₹ 1,80,000 + ₹ 63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of ₹ 2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	29,430
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,78,749
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,28,749

Notes:

- Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
- Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 10% of

salary, whichever is lower.

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

- Basic salary i.e., ₹ 2,43,000
 - Dearness allowance i.e. ₹ 24,300
 - Bonus i.e., ₹ 21,000
 - Telephone allowance i.e., ₹ 6,000 Therefore, salary works out to ₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.
10% of salary = ₹ 2,94,300 × 10/100 = ₹ 29,430
Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430). Therefore, the perquisite value is ₹ 44,145.
- Facility of use of laptop is not a taxable perquisite.
 - Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
 - The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.
Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.
Note - An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.
 - Premium of ₹ 5,000 paid by the company for personal accident policy is not liable to tax.

**Question 31**

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2025:

- He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of

₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.

- (iii) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- (iv) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- (v) He is receiving ₹ 5,000 as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.



Solution

Computation of income under the head "Salaries" of Mr. Raja for the A.Y.2025-26 under default tax regime

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	

Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times ₹ 25,000 = ₹ 3,12,500$ [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year x 25 years) – 375 days (15 days x 25) = 375 days] Uncommuted Pension received $[₹ 5,000 \times 1] +$ $(₹ 5,000 \times 2 \times 40\%)$ Commutated Pension received		9,000
Less: Exempt under section 10(10A) $1/3 \times ₹ 3,00,000/60\% \times 100\%$	3,00,000	
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]	1,66,667	1,33,333
		Nil

Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)	Nil
Gross Salary	4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less] [Allowable under default tax regime]	75,000
Net Salary	4,11,333

Question 32

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	

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

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime.



Solution

Computation of income chargeable under the head "Salaries" of Ms. Akansha for A.Y.2025-26 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000

Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$\text{₹ } (2,400 + 900) \times 12$] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	
Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	75,000
Income chargeable under the head "Salaries"	11,51,600

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

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

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

salary would be ₹ 12,21,600 and ₹ 11,46,600, respectively.



Question 33

Miss Riya has started working in a reputed company. This is her first job. She earned total income of Rs. 8 Lakhs in FY 2024-24. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of Rs. 1600 p.m. i.r.o said allowance can be claimed. According to you, what is the correct treatment for the same?

- Transport allowance upto a maximum Rs. 1600 per month can be claimed.
- Transport allowance upto a maximum Rs. 800 per month can be claimed.
- No separate deduction for transport allowance is allowed. However, standard deduction of Rs. 50,000 is allowed to salaried assesseees.
- Deduction of transport allowance is allowed without any monetary limit.



Question 34

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

Basic Salary Rs. 70,000 p.m.

Dearness Allowance (30% forms part of retirement benefits) Rs. 24,000 p.m.

Bonus Rs. 21,000 p.m

- Her employer has provided her with an accommodation on 1st April 2021 at a concessional rent. House was taken on lease by Shipra Ltd. for Rs. 12,000 p.m. Ms. Aarohi occupied the house from 1st November 2021. Rs. 4,800 p.m. is recovered from the salary of Ms. Aarohi.
- Employer gave her a gift voucher of Rs. 10,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards RPF & company contributes the same amount.
- Company pays medical insurance premium to effect insurance on health

of Ms. Aarohi Rs. 20,000.

- Motor car owned by the employer (Cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aarohi from 1st Nov 2022 which is used for both official & personal purposes. Repair & running expenses of Rs. 70,000 were fully met by the company. Motor car was self-driven by the employee.

Compute income taxable u/h "Salaries" in the hands of Ms. Aarohi for AY 2024-24. (The assessee has opted out of the default regime)



Solution

Computation of 'Salaries' in the hands of Ms. Aarohi for AY 2024-24

Particulars	Rs.
Basic Salary [Rs. 70,000 x 12]	8,40,000
Dearness allowance [Rs. 24,000 x 12]	2,88,000
Bonus [Rs. 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent [See Working Note below]	25,100
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value > Rs. 5,000) [See Note]	10,000
Employer's contribution to RPF in excess of 12% of salary = 18% x [(70,000 + 24,000) x 12] – 12% x [(Rs. 70,000 + Rs. 7,200 (being 30% of Rs. 24,000)) x 12] = 2,03,040 – 1,11,168	
[Salary = BS + DA (forming part of RB)]	91,872
Medical insurance premium of Rs. 20,000 paid by the employer	Nil
Provision of motor car = Rs.2400 p.m. [Rs.2,400 x 5 months]	12,000
Gross salary	15,18,972
Less: Standard deduction under section 16(ia)	50,000
Salary chargeable to tax	14,79,872

Working Note:

- Value of perquisite = Lower of (a) Lease rent or (b) 10% of salary i.r.o. period during which the house is occupied by the employee, reduced by

the rent recoverable from the employee.

- Actual rent paid by the employer from 1.11.2019 to 31.3.2020 = Rs. 60,000 [Rs. 12,000 x 5 months]
- 10% of salary = Rs. 49,100 [10% x (Rs. 70,000 + Rs. 7,200 + Rs. 21,000) x 5 months]
- Salary = BS + DA to the extent it forms part of pay for retirement benefits + Bonus
- Lower of the above is Rs. 49,100 which is to be reduced by the rent recovered from the employee.

Hence, perquisite value of concessional rent = 49,100 – 24,000 [Rs. 4,800 x 5 months] = Rs. 25,100



Question 35

Mr. Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the under- mentioned information for year ended 31.3.2024:

- Basic salary up to 30.11.2024 70,000 p.m.
Basic salary from 1.12.2024 80,000 p.m.
- Note: Salary is due & paid on the last day of every month.
- Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
- Bonus equal to one-month salary. This was paid in November, 2024 on basic salary plus dearness allowance applicable for that month.
- Contribution of employer to RPF A/c of the employee @ 18% of basic salary, employee also contribute an equivalent amount.
- Profession tax paid 6,000 of which 3,000 was paid by the employer.
- Facility of laptop was provided to Janakaraj for both official & personal use. Cost of laptop 65,000 & was purchased by the company on 11.10.2022.
- Leave travel concession given to Janakaraj, his wife & three children (one daughter aged 6 & twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer 20,000 for adults & lump sum of 25,000 for

three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under Income-tax Act, 1961.

Compute the taxable salary of Mr. Janakaraj. If he:

(a) does not opt to be taxed u/s 115BAC (b) opts to be taxed u/s 115BAC



Solution

Particulars		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Basic Salary (70,000 x 8) + (80,000 x 4)		8,80,000	8,80,000
Dearness Allowance (50% x 8,80,000)		4,40,000	4,40,000
Bonus (770,000 + 35,000)		1,05,000	1,05,000
Employer's Contribution to RPF (78,80,000 x 6%) (In excess of 12% shall be taxable)		52,800	52,800
Professional Tax paid by the employer section 17(2)(iv)		3,000	3,000
Facility of Laptop/computer		Nil	Nil
Leave Travel Concession		Nil	45,000
Gross Salary		14,80,800	15,25,800
Less: Deduction u/s 16(ia)		(50,000)	(75,000)
Less: Deduction of professional tax u/s 16(iii)		(₹6,000)	Nil
Income u/h Salary		14,24,800	14,50,800



Question 36

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under

the head salary for assessment year 2025-26. Assume he has shifted out of default taxation regime u/s 115BAC

- Basic salary is 70,000 per month.
- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which 20,000 incurred by Smile Ltd.
- Received 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
- Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was 700 per share.
- He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- Received 10,000 towards entertainment allowance.
- Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%. (ix) Facility of laptop costing 50,000



Solution

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2025-26

Particulars	₹	₹
Basic Salary [70,000 x 12 months]		8,40,000

Dearness allowance [40% of ₹8,40,000]		3.36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds 20,000, For computation, the lending rate of SBI on 1.4.2023 98% has to be considered. Thus, perquisite value would be determined 3.5% (8% - 4.5%) [See Working Note] Health insurance premium paid by the employer [tax free perquisite]		40,291 Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable) (See note below)		10,000
Allotment of sweat equity shares Fair market value of 800 sweat equity shares 700 each Less: Amount recovered ₹ 450 each	5.60,000 3,60,000	2,00,000
Use of furniture by employee 10% p.a. of the actual cost of 1,10,000 Use of Laptop Facility of use of laptop is not a taxable perquisite		11,000 Nil
Transfer of asset to employee Value of furniture transferred to Mr. Samaksh	1,10,000	

Less: Normal wear and tear 10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2020 to September 2024)]	44,000	66,000
Gross Salary		15.22.291
Less: Standard deduction u/s 16 [Actual salary or 50,000, whichever is less]		50,000
Net Salary		14,72.291

Working Note:**Computation of perquisite value of loan given at concessional rate**

For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% -4.5%)

Month	Maximum outstanding balance as on last date of month(₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229
August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	13,00,000	3,792
Total value of this perquisite		49.290.50

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is

taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.



Question 37

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2025:

- (i) Basic salary upto 31.10.2024 Rs.50,000 p.m. Basic salary from 01.11.2024 Rs. 60,000 p.m.
Note: Salary is due and paid on the last day of every month.
- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @16% of basic salary.
- (v) Professional tax paid Rs. 2,500 of which Rs. 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs. 45,000 and computer Rs. 35,000 were acquired by the company on 01.12.2024.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of Rs. 45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class)
 - (i) reimbursed by the employer Rs. 30,000 for adults and Rs. 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law. Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2025-26 assuming

he has not opted for the provisions of section 115BAC. MTP 7 Marks Oct'19, PYP 6 Marks, Nov '18)



Solution

Computation of Taxable Salary of Mr. Balaji for A.Y. 2025-26

Particulars		Rs.
Basic salary [(₹50,000 × 7) + (₹60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (₹ 50,000 + 40% of Rs. 50,000) (See Note 1)		70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs.6,50,000 (See Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)		12,000
Gross Salary		10,20,000
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	Rs. 50,000	
Professional tax u/s 16(iii) (See Note 6)	Rs.2,500	52,500
Taxable Salary		9,67,500

Notes:

- Since bonus was paid in the month of October, the basic salary of Rs. 50,000 for the month of October is considered for its calculation.
- It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
- As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.

4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs. 2,400 per month. The car was provided to the employee from 01.11.2024, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs. 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child. It is assumed that the Leave Travel Concession was availed for journey within India.
He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
6. As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of Rs. 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment
i.e. professional tax paid during the year.
Therefore, in the present case, the professional tax paid by the employer on behalf of the employee Rs. 2,000 is first included in the salary and deduction of the entire professional tax of Rs.2,500 is provided from salary.

**Question 38**

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

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

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime. (New SM, MTP 6 Marks Sep'22, RTP Nov '20)

**Solution**

Computation of income chargeable under the head “Salaries” of Ms. Akansha for A.Y.2025-26 under default tax regime

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$₹ (2,400 + 900) \times 12$] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000

Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	75,000
- Entertainment allowance (deduction not allowable since Ms. Akansha is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4000
Income chargeable under the head “Salaries”	11,47,600

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

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

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2002 dated 12.12.2002, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

**Question 39**

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a

rent free accommodation which is owned by the company. The HRA amount payable was ₹ 8,000 per month. The rent for the hired accommodation was ₹ 6,500 per month at New Delhi. Advise Mr. Kashyap whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kashyap does not opt for the provisions of section 115BAC. (MTP 7 Marks, Nov'21)

**Solution****Computation of tax liability of Kashyap under both the options**

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 40,000 x 12 Months)	4,80,000	4,80,000
Perquisite value of rent-free accommodation (It is 10% of salary in cities having population > 40 lakhs as per 2011 census)	N.A.	72,000 48,000
House rent Allowance (₹ 8,000 x 12 Months) ₹ 96,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary ₹ 2,40,000		
- Actual HRA received ₹ 96,000		
- Rent paid less 10% of salary ₹ 30,000	66,000	
₹30,000		
Gross Salary	5,46,000	5,28,000
Less: Standard deduction u/s 16(IA)	50,000	50,000
Net Salary	4,96,000	4,78,000
Less: Deduction under Chapter VI-A	-	-
Total Income	4,96,000	4,78,000
Tax on total income	12,300	11,400

Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,300, since total income does not exceed ₹ 5,00,000	12,300	11,400
	Nil	Nil
Add: Health and Education cess@4%	Nil	Nil
Total tax payable	Nil	Nil
Tax Payable (Rounded off)	Nil	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,80,000
Less: Outflow: Rent paid	(78,000)	-
Tax on total income	Nil	Nil
Net Inflow	4,98,000	4,80,000

Since the net cash inflow under Option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance

**Question 40**

Mrs. Anjali is a Finance Manager of Anand Construction Ltd. in Mumbai, furnishes the following particulars for the financial year 2024-25:

- She was appointed on 01-03-2024 in the scale of ₹ 20,000 - ₹ 2,500 - ₹ 35,000.
- She is paid dearness allowance (which forms part of salary for retirement benefits) @30% of basic pay and bonus equivalent to two month's basic pay as at the end of the year.
- She receives ₹ 2,000 per month as transport allowance (for commuting between place of residence and office) and ₹ 4,000 each as hostel allowance for three children.
- She contributes 15% of his salary (basic pay plus dearness allowance)

towards recognized provident fund and the Company contributes the same amount.

- (v) Lunch provided by the company during office hours Cost to the employer ₹ 10,000
- (vi) Rent free unfurnished accommodation provided by the company for which the company pays ₹ 60,000 per annum.
- (vii) The Company reimbursed the medical treatment bill of ₹ 35,000 of her son, who is dependent on her.
- (viii) A gift voucher of ₹ 6,000 was given on the occasion of her marriage anniversary. It is given by the company to all employees above certain grade.
- (ix) Facility of laptop and computer was provided to Mrs. Anjali for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2023.
- (x) Professional tax paid by the company ₹ 2,000 Compute the amount of salary chargeable to tax in the hands of Mrs Anjali for A.Y. 2025-26. Assume that she has not opted for 115BAC. (MTP 10 Marks, March'18)



Solution

Computation of taxable salary of Mrs. Anjali for A.Y. 2025-26

Particulars		₹
Basic pay $[(\text{₹}20,000 \times 11) + (\text{₹}22,500 \times 1)] = \text{₹}2,20,000 + \text{₹}22,500$		2,42,500
Dearness allowance [30% of basic pay]		72,750
Bonus $[\text{₹}22,500 \times 2]$		45,000
Employer's contribution to Recognized Provident Fund in excess of 12% $(15\% - 12\% = 3\% \text{ of } \text{₹}3,15,250)$		9,458
Taxable allowances		
Transport allowance $(\text{₹}2,000 \times 12)$	24,000	

Less: Exemption under section 10(14) read with Rule 2BB) @ ₹1,600 p.m. (no transport allowance allowed)	19,200	4,800 24,000
Hostel allowance $(\text{₹}4,000 \times 3)$	12,000	
Less: Exemption under section 10(14) read with Rule 2BB) @ ₹300 p.m.	7,200	
per child maximum for two children		4,800
Taxable perquisites		
Rent-free accommodation [See Note 1 below]		55,478 58,358 38,905
Medical reimbursement $(\text{₹}35,000 - \text{₹}15,000)$ [See Note 2 below] (No ₹15,000 deduction withdrawn)		20,000 35,000
Gift voucher [See Note 3 below]		6,000
Value of free lunch facility [See Note 4 below]		-
Professional tax paid by the company [See Note 6 below]		2,000
Gross Salary		4,80,413
Less- Standard Deduction (Actual salary or Rs 50,000 whichever is lower) Less: Professional tax paid by the company [Section 16(iii)]		50,000 2,000
Salary chargeable to tax		4,28,213

Notes:

- Where the accommodation is taken on lease or rent by the employer, the value of rent -free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15%

10% of salary, whichever is lower.

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

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

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

15% of salary = ₹3,89,050 × 10/100 = ₹ 38,905 Value of rent-free house will be

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

Therefore, the perquisite value is ₹ 38,905.

2. Any sum paid by the employer in respect of any expenditure actually incurred by the employee on his medical treatment or treatment of any member of his family is exempt to the extent of ₹ 15,000. Therefore, in this case, the balance of ₹ 20,000 (i.e., ₹ 35,000 – ₹ 15,000) is a taxable perquisite.
The ₹ 15,000 allowance is withdrawn. Hence full ₹ 35,000 will be added.
3. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household is below ₹ 5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000. Therefore, entire amount of ₹ 6,000 is liable to tax as perquisite.

Alternative View: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.

15/2002 dated 12.12.2012 that such gifts up to ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹1,000.

4. Free lunch provided by the employer during office hours is not a perquisite, assuming that the value does not exceed ₹50 per meal.
5. As per Rule 3(7)(vii), facility of use of laptop and computer is an exempt perquisite, whether used for official or personal purpose or both.
6. Professional tax paid by employer on behalf of employee is a taxable perquisite, hence, included in gross salary as a perquisite.



Question 41

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2025-26.

- (i) Basic salary is ₹ 70,000 per month.
- (ii) Dearness allowance @ 40% of basic salary
- (iii) He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- (iv) Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
- (v) Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (vi) He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every

quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.

(ix) Facility of laptop costing ₹ 50,000 (MTP Mar'21, 7 Marks)



Solution

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2025-26

Particulars	₹	₹
Basic Salary [₹ 70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹ 8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	

Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee 10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2020 to September 2024)]	44,000	66,000
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229

August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	13,00,000	3,792
Total value of this perquisite		49,290.50

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.



Question 42

Ms. Aashima is a Finance manager in ABC limited. She has given the details of her income for the P.Y. 2024-25. You are required to compute the income chargeable to tax under the head “Salaries” in the hands of Ms. Aashima from the details given below:

Basic Salary ₹ 60,000 p.m.

Dearness Allowance ₹ 24,000 p.m. (40% of which forms part of retirement benefits) Bonus ₹ 21,000 p.m.

Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aashima from 1st October, 2024 which is used for both official and personal purposes. Repair and running expenses of ₹ 60,000 were fully met by the company. The motor car was self-driven by the employee.

Professional tax paid ₹ 2,500 out of which ₹ 2,000 was paid by the employer. Her employer has provided her with an accommodation on 1st April 2024 at a concessional rent. The house was taken on lease by ABC Ltd. for ₹ 12,000 p.m. Ms. Aashima occupied the house from 1st December, 2024, ₹ 4,800 p.m. is recovered from the salary of Ms. Aashima. The employer gave her

a gift voucher of ₹ 8,000 on her birthday. Ms. Aashima contributes 15% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance on the health of Ms. Aashima ₹ 20,000. Assume that she does not opt for 115BAC. (MTP 7 Marks March 22)



Solution

Computation of income chargeable to tax under the head “Salaries” in the hands of Ms. Aashima for A.Y.2024-25

Particulars		₹
Basic Salary [₹ 60,000 x 12]		7,20,000
Dearness allowance [₹ 24,000 x 12]		2,88,000
Bonus [₹ 21,000 x 12]		2,52,000
Perquisite of Motor car (₹2,400 × 6 months) [See Note 1]		14,400
Professional tax paid by employer [See Note 2]		2,000
Perquisite value in respect of concessional rent [See Note 3]		17,040
Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]		8,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 15% x [(₹ 60,000 + ₹ 24,000) x 12] – 12% x { [₹ 60,000 + ₹ 9,600 (being 40% of ₹ 24,000)] x 12 } = 1,51,200 – 1,00,224 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		50,976

Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite		-
Gross salary		13,52,416
Less: Deduction under section 16		
Standard deduction under section 16(ia)	50,000	
Professional tax u/s 16(iii) [See Note 2]	2,500	52,500
Salary chargeable to tax		12,99,916

Notes:

1. In case a motor car (engine cubic capacity more than 1.6 litres) owned by employer is provided to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer, the value of perquisite would be ₹ 2,400 p.m. The car was provided to Ms. Aashima on 1.10.2024, therefore, the perquisite value has been calculated for 6 months.
2. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Ms. Aashima. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.
3. Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or **15% (10%)** of salary, whichever is lower, in respect of the period during which the house is occupied by the employee, as reduced by the rent recoverable from the employee, is the value of the perquisite. Actual

rent paid by the employer from 1.12.2024 to 31.3.2025 = ₹ 48,000 [₹ 12,000 x 4 months] 10% of salary = ₹ **36,240** [10% x (₹ 60,000 + ₹ 9,600 + ₹ 21,000) x 4 months] Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus Lower of the above is ₹ 48,000 ₹ 36,240 which is to be reduced by the rent recovered from the employee. Hence, the perquisite value of concessional rent = ₹ 48,000 ₹ **36,240** – ₹ 19,200 [₹ 4,800 x 4 months] = ₹ **17,040**

(It is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)

4. As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 8,000 was received by Ms. Aashima from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly. Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.

**Question 43**

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his

recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2024 and 31.3.2025 is ₹ 50,35,000, ₹ 71,46,700 and ₹ 94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viii) for the A.Y. 2024-25 and A.Y. 2025-26. (RTP May '22)

**Solution**

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2024-25

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii)

$$= (PC/2)*R + (PC1 + TP1)*R$$

$$= (27,600/2) \times 0.0914 + 0$$

$$= ₹ 1,261$$

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600
PC1	Nil
TP1	Nil
R	$I/\text{Favg} = 5,56,500/60,90,850 = 0.0914$
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2023)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viii) for A.Y. 2025-26

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii)

$$= (PC/2)*R + (PC1 + TP1)*R$$

$$= (27,600/2) \times 0.0910 + (27,600 + 1,261) \times 0.0910$$

$$= ₹ 1,256 + ₹ 2,626$$

$$= ₹ 3,882$$

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2023-24 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viii) for the P.Y. 2023-24 = ₹ 1,261
R	$I/\text{Favg} = 7,55,800/83,02,200 = 0.0910$
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700)
Favg	Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200

Note – Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2024-25, interest on ₹ 5,27,600 (i.e., ₹ 7,77,600 – ₹ 2,50,000) will also be chargeable to tax.

**Question 43**

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months) ₹ 50,000 P.M Salary received in India (For 6 months) ₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹ 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period, he is given free lunch facility. During the previous year, company incurred an expenditure of ₹ 48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office and private purposes. The actual cost of the car is ₹ 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹ 5,000. His elder son is studying in India for which his employer spends ₹ 12,000 per year whereas his younger son is studying in U.S.A. and stays in a hostel for which Mr. Honey gets ₹ 3,000 per month as combined allowance.

The company has taken an accident insurance policy and a life insurance policy. During the previous year, the company paid premium of ₹ 5,000 and ₹ 10,000, respectively. Compute Mr. Honey's taxable income from salary for the Assessment Year 2025-26. Assume that he does not opt for 115BAC. (PYP 10 Marks, May'18)

**Solution**

Since Mr. Honey stays in India for at least 184 days every year, he is resident and ordinarily resident in India, every year. Therefore, his global income would be taxable in India. The salary received by him in India and outside

India would be taxable in India as per the provisions of the Income-tax Act, 1961.

Computation of total income from salary of Mr. Honey for the A.Y. 2025-26

Particulars		₹	₹
Basic Salary			
Salary received outside India for 6 months (₹ 50,000 x 6)		3,00,000	
Salary received in India for 6 months (₹ 50,000 x 6)		3,00,000	6,00,000
Children Education and Hostel Allowance			
Amount received from employer (₹ 3,000 x 12)		36,000	
[No exemption is available in respect of allowance received for any education or hostel facility of children outside India]		Nil	36,000
Perquisites:			
Value of rent-free accommodation in USA			63,600
Lower of:			
- 15% 10% of ₹ 6,36,000 (Basic Salary + Children Education and Hostel Allowance) (It is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)		63,600	
- Rent paid by employer = ₹ 15,000 x 12		1,80,000	

Value of guest house in India			
Motor car provided by employer [₹14,400 + ₹ 70,000] [See Note 2 below]			84,400
Used for both official and personal purposes for 6 months when he is in US. Hence, the perquisite value is ₹14,400 [₹ 2,400 x 6], since cubic capacity exceeds 1.6 liters, assuming that expenses are fully met by employer		14,400	
Used for personal purposes by his family members for 6 months when he is in India			
Actual running and maintenance expenditure3 [₹ 5,000 x 6]	30,000		
Normal wear and tear [10% of actual cost of motor car for 6 months] = ₹ 8,00,000 x 10% x 6/12	40,000	70,000	
Education expenditure of elder son in India met by employer [Fully taxable perquisite]			12,000
Life insurance premium paid by the employer – any sum payable by the employer to effect an assurance on the life of the employee is a taxable perquisite			10,000

Accident insurance premium paid by employer – exempt perquisite, since such policy is taken by the employer in business interest so as to indemnify the company from payment of compensation.			-
Gross Salary			8,85,800
Less: Deductions under section 16			Nil
Standard deduction (lower of actual salary or Rs. 50,000)			

Notes:

(1) Lunch facility provided to Mr. Honey is a taxable perquisite as per Rule 3(7)(iii). The benefit under the proviso to this Rule would be available only if the value does not exceed ₹ 50 per meal. In this case since the value far exceeds ₹ 50 per meal, the benefit under the proviso to Rule 3(7)(iii) is not available. The above solution has been worked out accordingly. However, in page 17 of the CBDT Circular No. 29/2017 dated 5.12.2017, the method of valuation of perquisite of free lunch facility has been explained. As per the said circular, a fixed sum of ₹ 50 per meal has to be reduced to arrive at the value of perquisite of free food provided by the employer. If the beneficial view given in the circular is considered for answering this question, an assumption as to the number of working days per month has to be made and thereafter, calculation for 6 months has to be made to arrive at the value of taxable and exempt perquisite of provision of lunch facility.

3 It is assumed that the same is fully met by the employer above solution, the perquisite value of motor car provided by employer has been worked out assuming that the employer fully meets the running and maintenance expenses. However, if expenses of running and maintenance of motor car are fully met by Mr. Honey himself, then, the value of perquisite of motor car would be as follows:

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

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

**Question 1**

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

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

**Solution**

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

Computation of GAV of each house owned by Jayashree

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

(vi)	Actual rent received / receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000

**Question 2**

Rajesh, a British national, is a resident and ordinarily resident in India during the FY 2024-25. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the FY 2024-25. The value of one £ in Indian rupee to be taken at Rs.95. Compute Rajesh's Net Annual Value of the property for the AY 2025-26.

**Solution**

For the FY 2024-25, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

**Computation of Net Annual Value of the property of Mr. Rajesh for AY
2025-26**

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

**Question 3**

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of Rs.30 lakh@10% p.a. on 1.4.2023. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of Rs.5 lakh@11% p.a. on 1.10.2023 towards repairs. Compute the deduction which would be available to him under section 24(b) for AY 2025-26 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

Computation of deduction u/s 24(b) for AY 2025-26

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

**Question 4**

Anirudh has a property whose municipal valuation is Rs.1,30,000 p.a. The fair rent is Rs.1,10,000 p.a. and the standard rent fixed by the Rent Control Act is Rs.1,20,000 p.a. The property was let out for a rent of Rs.11,000 p.m. throughout the previous year.

Unrealised rent was Rs.11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was Rs.40,000 for the year. Compute his income from house property for AY 2025-26.

**Solution**

Computation of Income from house property of Mr. Anirudh for AY 2025-26

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

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

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



Question 5

Ganesh has a property whose municipal valuation is Rs.2,50,000 p.a. The fair rent is Rs.2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs.2,10,000 p.a. The property was let out for a rent of Rs.20,000 p.m. However, the tenant vacated the property on 31.1.2025. Unrealised rent was Rs.20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was Rs.65,000 for the year. Compute the income from house property of Ganesh for AY 2025-26.



Solution

Computation of income from house property of Ganesh for AY 2025-26

Particulars	Amount in Rs.
Computation of GAV	
Step 1 Compute ER	

	Higher of MV of Rs.2,50,000 p.a. & FR of Rs.2,00,000 p.a., but restricted to SR of Rs.2,10,000 p.a.	2,10,000	
Step 2	Compute Actual rent received / receivable		
	Actual rent received / receivable for let out period less unrealized rent as per Rule 4 = Rs.2,00,000 – Rs.20,000	1,80,000	
Step 3	Compare ER & Actual rent received / receivable		
Step 4	In this case the actual rent of Rs.1,80,000 is lower than ER of Rs.2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs.2,20,000 (Rs.1,80,000 + Rs.40,000, being notional rent for February and March 2020). Therefore, actual rent is the GAV.	1,80,000	
	Gross Annual Value (GAV)		1,80,000
Less:	Municipal taxes (paid by the owner during the previous year) = 8% of Rs.2,50,000		20,000
	Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24			
(a) 30% of NAV = 30% of Rs.1,60,000		48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)		65,000	1,13,000
Income from house property			47,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs.2,00,000, being the actual rent, since the actual rent is lower than the expected rent of Rs.2,10,000 owing to

vacancy. Thereafter, unrealized rent of Rs.20,000 and municipal taxes of Rs.20,000 would be deducted from GAV of Rs.2,00,000 to arrive at the NAV of Rs.1,60,000.

**Question 6**

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The house construction began in April 2018 with a loan of Rs.20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2018. The construction was completed on 30.11.2020. The accumulated interest up to 31.3.2020 is Rs.3,60,000. On 31.3.2025, Poorna paid Rs.2,40,000 which included Rs.1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for AY 2025-26.

**Solution**

Computation of income from house property of Smt. Poorna for AY 2025-26

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

**Question 7**

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal

value of the property is Rs.5,00,000, fair rent is Rs.4,20,000 and standard rent is Rs.4,80,000. The property was let-out for Rs.50,000 p.m. up to December 2024. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2024 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs.25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the AY 2025-26.

**Solution**

Computation of income from house property of Smt. Rajalakshmi for AY 2025-26

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

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

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



Question 8

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

Particulars	House I	House II	House III
Municipal valuation p.a.	Rs.3,00,000	Rs.3,60,000	Rs.3,30,000
Fair rent p.a.	Rs.3,75,000	Rs.2,75,000	Rs.3,80,000
Standard rent p.a.	Rs.3,50,000	Rs.3,70,000	Rs.3,75,000
Date of completion/purchase	31.3.2000	31.3.2003	01.4.2016

Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	
Interest for current year on money borrowed in April, 2017 for purchase of property			1,75,000

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



Solution

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

Computation of income from house property of Ganesh for the AY 2025-26

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

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

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

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

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

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

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

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

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

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

Particulars	Amount in Rs.
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (interest deduction restricted to Rs.30,000)	(30,000)

House III (Self-occupied)	(1,75,000)	
(Total interest deduction restricted to Rs.2,00,000)		(2,00,000)
Income from house property		19,800

Since Option 2 is most beneficial, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be Rs.1,840 for the AY 2025-26 under the optional tax regime i.e., the normal provisions of the Act.

**Question 9**

Prem owns a house in Madras. During the previous year 2024-25, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of Rs 8,000 p.m. Municipal value of the property is Rs.3,00,000 p.a., fair rent is Rs.2,70,000 p.a. and standard rent is Rs.3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of Rs.25,00,000 was taken by him during the year 2020 for acquiring the property. Interest on loan paid during the previous year 2024-25 was Rs.1,20,000. Compute Prem's income from house property for the AY 2025-26.

**Solution**

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

Computation of income from house property of Mr. Prem for AY 2025-26

Particulars		Amount in Rs.	
Unit I (2/3rd area – self-occupied)			
Annual Value			
Less:	Deduction under section 24(b) 2/3rd of Rs.1,20,000		80,000
Income from Unit I (self-occupied)			(80,000)
Unit II (1/3rd area – let out)			
Computation of GAV			
Step I	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of Rs.1,10,000 (1/3rd of Rs.3,30,000) is more than the higher of MV of Rs.1,00,000 (1/3rd of Rs.3,00,000) and FR of Rs.90,000 (1/3rd of Rs.2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2	Compute actual rent received/ receivable Rs.8,000 x 12 = Rs.96,000	96,000	
Step 3	Compare ER and Actual rent received / receivable		
Step 4	GAV is the higher of ER and actual rent received/ receivable i.e. higher of Rs.1,00,000 and Rs.96,000	1,00,000	
Gross Annual Value(GAV)			1,00,000
Less:	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of Rs.3,00,000) = Rs.30,000/3 = Rs.10,000		10,000

Net Annual Value(NAV)

Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of Rs.90,000	27,000	
	(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of Rs.1,20,000	40,000	67,000
Income from Unit II (let-out)			23,000
Loss under the head “Income from house property” = (Rs.80,000) + Rs.23,000 = (Rs.57,000)			

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

**Question 10**

Mr. Anand sold his residential house property in March, 2024.

In June, 2024, he recovered rent of Rs 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2018 to March 2020. He could not realise two months rent of Rs.20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2020-21.

Further, he had let out his property from April, 2020 to February, 2024 to Mr. Satish. In April, 2022, he had increased the rent from Rs.12,000 to Rs.15,000 per month and the same was a subject matter of dispute. In September, 2024, the matter was finally settled and Mr. Anand received Rs.69,000 as arrears of rent for the period April 2021 to February, 2024.

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

**Solution**

Since the unrealised rent was recovered in the FY 2024-25, the same would be taxable in the AY 2025-26 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the FY 2024-25, and hence the same would be taxable in the

AY 2025-26 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for AY 2025-26.

Computation of income from house property of Mr. Anand for AY 2025-26

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

**Question 11**

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of Rs.50,00,000@10% taken on 1.4.2023 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of Rs.3,00,000@12% on 1.10.2023 for repairs of this flat.

**Solution**

Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for AY 2025-26, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

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

Computation of deduction u/s 24(b) available to Ms. Dimple for AY 2025-26

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

Additional Questions



Question 12

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

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

The loan for the construction of this property is jointly taken and the interest charged by the bank is Rs.25,000, out of which Rs.21,000 has been paid. Interest on the unpaid interest is Rs.450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs.5,000. The municipal taxes of Rs.5,100 have been paid by the tenant. Compute the income from this property chargeable in the hands of Mr. Raman for the AY 2025-26.



Solution

Computation of income from house property of Mr. Raman for AY 2025-26

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	

(ii) Interest on housing loan (See Note 2 below)

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

Notes:

1. Computation of Gross Annual Value (GAV)

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

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

- Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
- Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share

of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

**Question 13**

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for Rs.8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2024-25 are as under:

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

Compute income from house property of Mr. X for the AY 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) .

**Solution****Computation of Income from house property for AY 2025-26**

Particulars	Rs.	Rs.
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		

Municipal valuation (Rs.1,90,000 x ½)	95,000	
Fair rent (Rs.1,85,000 x ½)	92,500	
Standard rent (Rs.1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent receivable for the whole year (Rs.8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
Actual rent received owing to vacancy (Rs.96,000 – Rs.16,000)	80,000	
Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
Gross Annual Value		80,000
Less: Municipal taxes (5% of Rs.95,000)		4,750
Net Annual value		75,250
Less : Deductions under section 24 -		
(i) 30% of net annual value	22,525	
(ii) Interest on borrowed capital (Rs.750 x 12)	9,000	31,525
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction under section 24 -		9,000
Interest on borrowed capital (Rs 750 x 12)	9,000	
Loss from self occupied portion		(9,000)
Income from house property		34,675

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



Question 14

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are Rs.96,000, Rs.1,26,000 and Rs.1,08,000 (per annum), respectively.

During the Financial Year 2024-25, one-third of the portion of the house was let out for residential purpose at a monthly rent of Rs.5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11% of municipal value was paid during the year.

The construction of the house began in June, 2017 and was completed on 31-5-2020. Vikas took a loan of Rs.1,00,000 on 1-7-2017 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the Assessment Year 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

Computation of income from house property of Mr. Vikas for the AY 2025-26

Particulars	Rs.	Rs.
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (Rs.18,600 x 2/3)		12,400

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

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2024 to 31.3.2025) = 12% of Rs.1,00,000 = Rs.12,000

Pre-construction period interest = 12% of Rs.1,00,000 for 33 months (from 1.07.2017 to 31.3.2018) = Rs.33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs.6,600 from the year of completion of construction i.e. from F.Y. 2020-21 till F.Y. 2024-25.

Therefore, total interest deduction under section 24 = Rs.12,000+6600= 18,600

**Question 15**

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2024-25. She owns a house property at Los Angeles,

U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. The value of one USD (\$) may be taken as Rs.75.

She took ownership and possession of a flat in Chennai on 1.7.2024, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2025. The municipal valuation is Rs.3,84,000 p.a. and the fair rent is Rs.4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax Rs.16,200

Sewerage Tax Rs.1,800

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

Particulars	Rs.
Period prior to 1.4.2024	49,200
1.4.2024 to 30.6.2024	50,800
1.7.2024 to 31.3.2025	1,31,300

She had a house property in Bangalore, which was sold in March, 2021. In respect of this house, she received arrears of rent of Rs.60,000 in March, 2025. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the AY 2025-26 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Would your answer change if she pays tax under the default tax regime under section 115BAC?.

**Solution**

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

well as outside India will form part of her total income.

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for AY 2025-26 will be calculated as under:

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

Note: Interest on borrowed capital

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

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

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



Question 16

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2016-2017. The property consists of eight identical units and is situated at Cochin. During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of Rs.12,000 per month per unit. The municipal value of the house property is Rs.9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

One of the let out units remained vacant for four months during the year. Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house. The other income of Mr. Arun and Mr. Bimal are Rs.2,90,000 and Rs.1,80,000, respectively, for the financial year 2024-25.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2025-26 if they pay tax under the default tax regime under section 115BAC. Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

Computation of total income for the AY 2025-26

Particulars	Rs.	Rs.
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self occupied property	Nil	Nil
II. Let-out portion (75%) – See Working Note below	125,850	1,25,850
Income from house property	125,850	125,850
Other Income	2,90,000	1,80,000
Total Income	4,15,850	3,05,850

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

Particulars	Rs.	Rs.
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of Rs.9 lakh)	6,75,000	
(b) Actual rent [(Rs.12000 x 6 x 12) – (Rs.12,000 x 1 x 4)] = Rs.8,64,000 - Rs.48,000	8,16,000	
- whichever is higher		8,16,000

Less: Municipal taxes 75% of Rs.1,80,000 (20% of Rs.9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of Rs.3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

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

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

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



Question 17

Mr. Ranjan owns a shop whose construction got completed in August 2022.

- He took a loan of Rs. 22 lacs from Bank of Baroda on 1.08.2021 & had been paying interest calculated at 9% p.a.
- During PY 2022-23, shop was let out at a monthly rent of Rs. 45,000.
- He paid municipal tax of Rs. 18,000 each for PY 2022-23 & 2023-24 on 25.05.2023 & 15.04.2024 respectively.

Compute income u/h 'House Property' of Mr. Ranjan for AY 2025-26, assuming that the entire amount of loan is outstanding on the last day of the current PY.



Solution

Computation of income u/h "House Property" of Mr. Ranjan for AY 2023-24

Working Notes:

(1) Municipal taxes deductible from Gross Annual Value

Municipal taxes actually paid by the owner during PY is allowed to be deducted from GAV. Accordingly, only Rs. 18,000 paid on 25.05.2022 is allowed to be deducted from GAV while computing income from house property of PY 2023-24.

(2) Interest on housing loan allowable as deduction u/s 24

- Interest for Current year (Rs. 22,00,000 x 9%) = Rs. 1,98,000
- Pre-construction interest

For the period 1.8.2021 to 31.03.2022: (Rs. 22,00,000 x 9% x 8/12) = Rs. 1,32,000.

Rs. 1,32,000 allowed in 5 equal instalments (Rs. 1,32,000/5) from PY 2023-24 to PY 2026-27. Total Deduction u/s 24(b) = Rs. 1,98,000 + Rs. 26,400 = Rs. 2,24,400.

(3) Deduction u/s 24(b) i.r.o. interest for let out property, fully allowed without any limit

**Question 18**

In August 2018, Mr. Kailash, a first-time home buyer, borrowed a sum of Rs. 35 lakhs from the National Housing Bank for construction of a residential house for Rs. 48 lakhs. The loan was sanctioned on 12.5.2018. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2022 & repayments towards principal and interest commenced immediately after disbursement of loan.

In the light of the above facts, examine:

- Whether Mr. Kailash can claim deduction u/s 24 i.r.o interest for AY 2023-24?
- Whether deduction u/s 80C and 80EE can be claimed by him for AY 2023-24?

**Solution**

- As per section 24(b), interest payable on loans borrowed for acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction

It is stated that the construction is completed only in May, 2023. Hence, deduction u/s 24 i.r.o. interest on housing loan cannot be claimed in AY 2023-24.

- Deduction u/s 80C cannot be claimed**

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During AY 2023-24, there is no such income chargeable under this head. Hence, deduction u/s 80C cannot be claimed for AY 2023-24.

Deduction u/s 80EE cannot be claimed

As per section 80EE, interest payable on loan taken for acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of Rs. 50,000, provided:

- Such loan is sanctioned during the PY 2018-19.
- Value of the house does not exceed Rs. 50 lakhs
- Amount of loan sanctioned does not exceed Rs. 35 lacs &
- Assessee does not own any residential house on the date of sanction of loan

Since loan was sanctioned in PY 2018-19, interest on such loan would not qualify for deduction u/s 80EE.

However, deduction u/s 80EEA can be claimed.

**Question 19**

Mr. Roxx, a citizen of Country Y, is a RNOR in India during FY 2022-23. He owns two HPs in Country Y, one is used as his residence. Another HP is rented for a monthly rent of \$ 18,000. Fair rent of HP is \$ 20,000. The value of one CYD (\$) may be taken as 78.

He took ownership & possession of a flat in Delhi on 1.10.2022, which is used for self- occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during PY 2022-23. Municipal valuation is 4,58,000 p.a. & fair rent is 3,60,000 p.a. He paid property tax of 13,800 & 2,800 as sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of 18,00,000 @ 9.5% from HDFC Bank on 1st August, 2020 for purchasing this flat. No amount is repaid by him till 31.03.2023.

He also had a HP in Bangalore which is let out on a monthly rent of 40,000. Fair rent of which is 4,58,000

p.a. & Municipal value of 3,58,000 p.a. & Standard Rent of 4,20,000 p.a. He had taken a loan of 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of 5,400 is paid by him i.r.o. this house during PY 2022-23.

Compute the income chargeable from HP of Mr. Roxx for AY 2023-24.



Solution

Since Mr. Roxx, is RNOR in India, only income i.r.o. properties situated in India would be taxable in his hands. Thus, the rental income which accrues or arises in Country Y from the let-out property & annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Income from HP of Mr. Roxx for AY 2023-24 will be calculated as under:

	Particulars	Amount	Amount
1.	Self-occupied house at Delhi		
	Annual value		Nil
	Less: Deduction u/s 24		Nil
	Interest on borrowed capital (See Note)		(2,00,000)
	Chargeable income from this HP		(2,00,000)
2.	Let out HP at Bangalore		
	ER, being higher of 3,58,000 MV & FR of 4,58,000 but restricted to SR of 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	GAV (being higher of ER & AR)		4,80,000
	Less: Municipal taxes		(5,400)

	Net Annual Value		4,74,600
	Less: Deduction u/s 24		
	- 30% of net annual value [30% x 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	(3,92,380)
	Chargeable income from this HP		82,220
	Loss under the head "Income from HP" (Rs. 2,00,000 – Rs. 82,220)		(1,17,780)

Note: Interest on borrowed capital

Interest for current year [18,00,000 x 9.5%]	1,71,000
Add: 1/5th of pre-construction interest (2,85,000 x 1/5)	57,000
1.8.2020 to 31.03.2021 (18,00,000 x 9.5% x 8/12) = 1,14,000	<u>2,28,000</u>
1.4.2021 to 31.03.2022 (18,00,000 x 9.5%) = 1,71,000	

Interest deduction allowable u/s 24, restricted to Rs 2,00,000



Question 20

Mrs. Disha Khanna, a resident of India, owns a HP at Bhiwani in Haryana. Municipal value of the property is Rs. 7,50,000, Fair Rent of the property is 6,30,000 & Standard Rent is 7,20,000 p.a. Property was let out for 75,000 p.m. for the period April 2022 to December 2022.

Thereafter, the tenant vacated the property & Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November & December 2022 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year & paid interest of 35,000 during the year for amount borrowed towards repairs of the HP. You are required to compute her income from HP for AY 2023-24

**Solution****Computation of Income u/h HP for AY 2023-24**

Particulars	Amount	Amount
Gross Annual Value [See Working Note]		7,20,000
Less: Municipal taxes (12% of 7,50,000)		(90,000)
Net Annual Value		6,30,000
Less: Deduction u/s 24		
Standard deduction @ 30% of NAV u/s 24(a)	1,89,000	
Interest on capital borrowed u/s 24(b)	35,000	(2,24,000)
Income from HP		4,06,000

Working Note:

(a) Fair rent	6,30,000
(b) Municipal Valuation	7,50,000
(c) Higher of (a) or (b)	7,50,000
(d) Standard Rent	7,20,000
(e) Expected Rent [Lower of (c) or (d)]	7,20,000
(f) Actual rent (75,000 x 9)	6,75,000
(g) GAV = Higher of (e) or (f)	7,20,000

**Question 21**

Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built up area of each house was 1,500 sq. ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2023 and completed on 1-04-2024. Suresh started the construction on 1-04-2023 and completed the construction on 30-06-2024. Ramesh occupied the entire house on 01-04-2024. Suresh occupied the ground floor on 01-07-2024 and let out the first floor for a rent of ₹ 15,000 per month. However, the tenant vacated the house on 31-12-2024 and Suresh occupied the entire house during the period 01-01-2025 to 31-03-2025.

Following are the other information.

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

Ramesh has availed a housing loan of ₹ 20 lakhs @ 12% p.a. on 01-04-2023. Suresh has availed a housing loan of ₹ 12 lakhs @ 10% p.a. on 01-07-2023. No repayment was made by either of them till 31-03-2025. Compute income from house property for Ramesh and Suresh for the previous year 2024-25 (A.Y. 2025-26). (MTP 7 Marks April '23, March '21, Apr '19)

**Solution****Computation of income from house property of Mr. Ramesh for A.Y. 2025-26**

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

**Computation of income from house property of Mr. Suresh for
A.Y. 2025-26**

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

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

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

during the previous year.

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

Expected rent = ₹ 75,000 being higher of -

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

Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2024)

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



Question 22

Mr. Sailesh constructed a house in P.Y. 2018-19 with 3 independent units. During the P.Y. 2024-25, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2025 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2025 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000 Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000 Municipal taxes - ₹ 30,000 paid by Mr. Sailesh Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000, Ground rent - ₹ 6,000 and Fire insurance premium paid - ₹ 60,000.

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Sailesh for the assessment year 2025-26 if he opts to be taxed under section 115BAC. (MTP 7 Marks April 22)

**Solution****Computation of taxable income of Mr. Sailesh for A.Y. 2025-26**

Particulars	Amount	Amount
Income from house property		
Unit - 1 [50% of floor area - Let out]		
Gross Annual Value, higher of		
- Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]		
- Actual rent ₹ 1,80,000 i.e., [₹ 20,000 x 10] less unrealized rent of January, 2022 ₹ 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of ₹30,000]	15,000	
Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of ₹ 90,000]	45,000	70,500
Unit - 3 [25% of floor area - Self occupied]		
Net Annual Value	-	

Less: Interest on loan [Not allowed as Mr. Sailesh is opting for section 115BAC.]	-	-
Income from house property		70,500
Profits and gains from business or profession		
Business Income [without deducting expenditure of Unit - 2 25% floor area used for business purposes]	2,40,000	
Less: Expenditure in respect of Unit -2		
- Municipal taxes [25% of ₹ 30,000]	7,500	
- Repairs [25% of ₹ 7,000]	1,750	
- Interest on loan [25% of ₹ 90,000]	22,500	
- Ground rent [25% of ₹ 6,000]	1,500	
- Fire Insurance premium [25% of ₹ 60,000]	15,000	48,250
Taxable Income		2,62,250

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

**Question 23**

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

Particulars	(Value in ₹)	
	Flat at Goregaon	Flat at Navi Mumbai
Municipal Valuation per annum	1,40,000	1,35,000
Fair Rent per annum	1,60,000	1,80,000

Standard rent per annum	1,40,000	1,90,000
Date of completion of construction	1-02-2012	24-08-2006
Municipal taxes payable during the year (paid for Flat at Navi Mumbai only)	10%	12%
Interest on money borrowed for repair of property during current year	-	72,000

Compute Shraddha's income from house property for the Assessment Year 2025-26. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum. (RTP May '19)

**Solution**

In this case, Shraddha has more than one house property for self-occupation. As per section 23(4), Shraddha can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one (two) of the house properties,

(If Assessee has more than one property for own residential purpose then upto 2 houses can be treated as self occupied property and any other houses are deemed to be let out.)

As per amendment-

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

**Question 24**

Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2024-25.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to	Let-out to
	Star Private Limited	Ms. Puja

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2024-25, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2025-26. All workings should form part of your answer. (PYP 8 Marks, May'19, MTP 7 Marks Sep '23)

**Solution****Computation of taxable income of Mr. Madhvan for A.Y. 2025-26**

Particulars		₹	₹
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		36,000	
[Lower of lease rental paid or payable by the employer (or) 15% 10% of salary i.e., lower of ₹ 65,000 or ₹ 54,000 ₹ 36,000, being 10% of ₹ 3,60,000]			

(It is actual amount of lease rental paid or payable by the employer or 10% of salary whichever is lower as reduced by rent paid by the employee)			
Gross Salary		3,96,000	
Less: Standard deduction u/s 16(IA) [Actual salary or ₹ 40,000 (Rs. 50,000), whichever is less]		~~40,000~~ 50,000	
Net Salary	House 1		3,74,000 3,46,000
Income from house property		House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	
Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	75,000	2,85,000	
Less: Municipal tax paid	18,000	70,000	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV	17,100	64,500	
Interest on loan	Nil	17,000	
Income from house property [₹ 39,900 + ₹ 1,33,500]	39,900	1,33,500	1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2) (x), since rural agricultural land is not a capital asset]			Nil

Total Income			5,19,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			



Question 1

	Area	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.	Is the land situated in this area a capital asset?
(i)	A	1 km	9,000	No
(ii)	B	1.5 kms	12,000	Yes
(iii)	C	2 kms	11,00,000	Yes
(iv)	D	3 kms	80,000	No
(v)	E	4 kms	3,00,000	Yes
(v)	F	5 kms	12,00,000	Yes
(vi)	G	6 kms	8,000	No
(vii)	H	7 kms	4,00,000	No
(viii)	I	8 kms	10,50,000	Yes
(ix)	J	9 kms	15,00,000	No



Question 2

How will you calculate the period of holding in case of the following assets?

- (1) Shares held in a company in liquidation
- (2) Bonus shares
- (3) Flat in a co-operative society

Solution

- (1) **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- (2) **Bonus shares** - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
- (3) **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.



Question 3

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor cars. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of Rs 1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.



Solution

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

**Question 4**

X converts his capital asset (acquired on June 10, 2006 for Rs 60,000) into stock-in-trade on March 10, 2024. The fair market value on the date of the above conversion was Rs 5,50,000. He subsequently sells the stock-in-trade so converted for Rs 6,00,000 on June 10, 2024. Discuss the year of chargeability of capital gain and business income.

**Solution**

Since the capital asset is converted into stock-in-trade during the previous year 2023-24 relevant to the A.Y. 2024-25, it will be a transfer u/s 2(47) during the P.Y. 2023-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2025-26, since the stock-in-trade has been sold only on June 10, 2024. For this purpose, the fair market value on the date of such conversion (je. 10 March, 2024) will be the full value of consideration for computation of capital gains. The capital gains would be computed by reducing the indexed cost of acquisition therefrom, since the transfer (ie., conversion of capital asset into stock in trade) took place during the P.Y. 2023-24. The business income of ₹ 50,000 (ie, 6,00,000 (-) ₹5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y.2025-26. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2025-26.

**Question 5**

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2025. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs 50,000 as capital gain. Is he justified?

**Solution**

In the above example, the transaction is squarely covered by the exemption explained in sec 47 and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

**Question 6**

In which of the following situations capital gains tax liability does not arise?

- Mr. A purchased gold in 1970 for Rs 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs 1,00,000.
- A house property is purchased by a Hindu undivided family in 1945 for Rs 20,000. It is given to one of the family members in the P.Y. 2023-24 at the time of partition of the family. FMV on the date of partition was Rs 12,00,000.
- Mr. B purchased 50 convertible debentures for Rs 40,000 in 1995 which are converted into 500 shares worth Rs 85,000 in November 2023 by the company.

**Solution**

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- As per the provisions of section 47(iii), gift of a capital asset is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

- (iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.



Question 7

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?



Solution

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.



Question 8

Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated

as “transfer” for the purpose of capital gains.

- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long- term capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.



Solution

- (i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as “transfer” for the purpose of capital gains.
- (ii) **True:** Section 2(42A) defines the term ‘short-term capital asset’. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- (iii) **True:** As per section 2(48), ‘Zero Coupon Bond’ means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.



Question 9

Mr. A converts his capital asset acquired for an amount of Rs 50,000 in June, 2004 into stock-in-trade in the month of November, 2023. The fair market value of the asset on the date of conversion is Rs 4,50,000. The stock-in-trade was sold for an amount of Rs 6,50,000 in the month of September, 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2004-05	113
2023-24	348
2024-25	363

**Solution**

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2023-24) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2024-25). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2024-25).

The LTCG and business income for the A.Y.2025-26 are calculated as under:

Particulars	Rs	Rs
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (Rs 50,000 x 348/113)	1,53,982	2,96,018

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

**Question 10**

Singhanian & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2023-24 was Rs 8,50,000. Three of the old machines were sold on 10th June, 2024

for Rs 11,00,000. A second hand plant was bought for Rs 8,50,000 on 30th November, 2024.

You are required to:

- determine the claim of depreciation for Assessment Year 2025-26.
- compute the capital gains liable to tax for Assessment Year 2025-26.
- If Singhanian & Co. had sold the three machines in June, 2024 for Rs 21,00,000, will there be any difference in your above workings? Explain.

**Solution****(i) Computation of depreciation for A.Y.2024-25**

Particulars	Rs
Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2024	6,00,000

Since the value of the block as on 31.3.2025 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs 45,000, being 7½% of Rs 6,00,000.

- The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:
 - When one or some of the assets in the block are sold for consideration more than the value of the block.
 - When all the assets are transferred for a consideration more than the value of the block.

(c) When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

- (iii) If the three machines are sold in June, 2024 for Rs 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs	Rs
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000



Question 11

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of Rs 25 lacs. The fair market value of capital assets of unit 1 on 1.4.2024 is Rs 30 lacs. Unit 1 was started in the year 2006-07. The expenses incurred for this transfer were Rs 28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (Rs)	Assets	Unit 1(Rs)	Unit 2 (Rs)	Total (Rs)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (Reserve building of unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank loan (70% for unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade creditors (25% for unit 1)	1,50,000	Other assets	1,50,000	60,000	2,10,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2022 for Rs 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2025-26.



Solution

Computation of capital gains on slump sale of Unit 1

Particulars	Rs
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	Rs	Rs
Building (excluding Rs 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (Rs 1,50,000 – Rs 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of Rs 1,50,000)	37,500	
Bank Loan (70% of Rs 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2024

Value of patents	Rs
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for Financial Year 2022-23	12,500
Balance as on 1.4.2023	37,500
Less: Depreciation for Financial Year 2023-24	9,375
Balance as on 1.4.2024	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of Rs 3 lakh and Rs 9 lakh (Rs 12 lakh – Rs 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.



Question 12

Mr. Cee purchased a residential house on July 20, 2022 for Rs 10,00,000 and made some additions to the house incurring Rs 2,00,000 in August 2022. He sold the house property in April 2024 for Rs 20,00,000. Out of the sale proceeds, he spent

Rs 5,00,000 to purchase another house property in September 2024.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?



Solution

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	Rs
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs 8,00,000.



Question 13

Long term capital gain of Rs 75 lakh arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

**Solution**

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to Rs 50 lakh, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of Rs 50 lakh, provided the investment is made before 1.11.2024 (i.e., within six months from the date of transfer).

*The exemption under section 54EC is available in respect of capital gains on transfer of capital asset being land or building or both.

Additional Questions**Question 14**

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000

**Solution****Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26**

Particulars	Rs
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x 2,000) (Refer Note 1)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]	NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Other income	8,00,000
Total Income	13,94,000
Tax Liability	
Tax on STCG u/s 11A	
20% of ₹ 3,96,000	79,200
12.5% of (1,96,000 1,25,000) since it is transferred on or after 23.7.2024	8,875
Tax on other income of 8,02,000	

` 3,00,000 to ₹ 7,00,000@5%	20,000	
` 7,00,000 to ₹ 8,02,000 @10%	10,200	30,200
		1,18,275
Add: Health and education cess @4%		4,731
Tax liability		1,23,006
Tax liability (rounded off)		1,23,010

Notes:

- (1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
- Cost of acquisition i.e., 1,000 per share and
 - lower of
 - Fair market value of such asset i.e., ₹2,000 per share and
 - Full value of consideration i.e., ₹ 4,000 per share.
- Therefore, the cost of acquisition of original share is 2,000 per share.

- (2) Securities transaction tax is not allowable as deduction.

**Question 15**

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 into stock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was ₹ 3,00,000. The stock-in-trade was sold for 3,25,000 in the month of January, 2025.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

Cost Inflation Index: F.Y. 2004-05:113; F.Y. 2023-24: 348; F.Y. 2024-25: 363.

**Solution**

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so

converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2025-26.

Particulars	`	`
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3.25,000	
Less: Fair market value on the date of conversion	3.00,000	
Capital Gains		25,000
Full value of consideration (Fair market value on the date of conversion)	3.00,000	
Less: Indexed cost of acquisition (80,000 x 348/113)	2,46,372	
Long-term capital gain		53,628
Taxable Income		78,628

**Question 16**

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363].



Solution

Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	Rs
Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats (10 × ₹ 10 lakhs)	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	1,07,78,761

Proportionate capital gains arising during A.Y. 2025-26
[₹ 1,02,21,239 × 2/3]

Less: Exemption under section 54EC

Capital gains chargeable to tax for A.Y.2025-26

1,02,21,239

68,14,159

50,00,000

18,14,159

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2023-24, in this case).
- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock in trade (i.e., P.Y.2023 24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2024-25).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2024-25, only proportionate capital gains (ie, 2/3rd) would be chargeable to tax in the A.Y.2025 26.
- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock in trade, the period of 6 months is to be reckoned from

the date of sale of stock in trade for the purpose of exemption under section 54EC (CBDT Circular No.791 dated 2.6.2000). In this case, since the investment in bonds of NHA has been made within 6 months of sale of assets, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHA or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHA during the P.Y. 2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the maximum deduction allowable for AY. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, is only ₹ 50 lakhs.



Question 17

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident which occurred in December 2024.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was ₹10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

(1) Towards loss of stock ₹ 4,80,000

(ii) Towards damage of machinery ₹ 6,00,000

(iii) Towards gold chain and diamond ring ₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961



Solution

(i) **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note -The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

(ii) **Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short term capital loss.

Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring capital assets as envisaged by section. 2(14), They are not "personal effects", which alone are to be excluded. If any profit or

gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

**Question 18**

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title to the property

Mr. Jaikumar was handed over the possession of the property on 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2024 was ₹ 1,70,00,000;
- (b) on 15.12.2024 was ₹ 1,71,00,000; and
- (c) on 14.01.2025 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 35,00,000 on 28.5.2025.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02-100; 2024-25-363

**Solution**

Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2025-26

Particulars	Rs
Capital Gains on sale of residential house	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/ bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	
Full value of sale consideration (Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration)	1,70,00,000
Less: Cost of acquisition of residential house	

Long-term capital gains (Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]

1,40,00,000

Less: Exemption u/s 54

55,00,000

Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.

Long term capital gains chargeable to tax

85,00,000

Note: It may be noted that since Sarthak has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.



Question 19

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount

of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- (i) Acquired two residential houses at Delhi and Chandigarh for 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.
- (iii) Subscribed to NHA capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06-117; F.Y. 2007-08-129; F.Y. 2024-25-363.



Solution

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2025-26

Particulars	Rs. (in lakhs)	Rs. (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		

Value adopted by Stamp Valuation Authority
₹ 890 lakhs

[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.

However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.

In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration]

Gross Sale consideration (Actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)

Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)

Net Sale consideration

Less: Indexed cost of acquisition

- Cost of vacant land, 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [88 lakhs x 363/117]
- Construction cost of residential building (₹ 100 lakhs x 363/129)

Long-term capital gains

Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long term capital gain]

Less: Exemption under section 54

Where long term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.

810.00

8.10

801.90

273.03

281.40

554.43

247.47

130.00

Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.

Less: Exemption under section 54EC

Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2025), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.1.2025 (i.e., within six months after the date of transfer).

Long term capital gains chargeable to tax		67.47

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.



Question 20

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty 10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2025. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

**Solution****Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26**

Particulars	Amount (Rs.)	Amount (Rs.)
Actual sale consideration	30,50,000	39,00,000
Valuation as per Stamp duty Authority on the date of agreement (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration) Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]	39,00,000	

Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars	Amount (Rs.)
On LTCG of 25,20,500 x 12.5%	3,15,063
Add: Health and Education cess @4%	12,603
	3,27,666
On LTCG with indexation benefit	
Net Sale consideration	38,69,500
Less Indexed cost of acquisition (₹ 9,59,000 x 363/100)	34,81,170
Less: Indexed cost of Improvement [₹ 3,90,000 x 363/254]	5,57,362
Long-term capital loss	(1,69,032)
Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.	

Notes:**(1) Computation of cost of acquisition**

Particulars	Amount (Rs.)	Amount (Rs.)
Cost of acquisition,		10,70,000

Being the higher of		
(i) lower of Fair market value i.e. ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000+ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money. taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources and such amount will not be deducted from the cost of acquisition of such asset. while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head "Income from other sources" in the hands of Mr. Shiva in A.Y.2016 17.

**Question 21****[DELETED]****Question 22**

Mr. Gyaanchand purchased 1200 shares of "A" limited at ₹130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2005. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001

was ₹900 per share and ₹2,000 per share as on 31.01.2018. On 07.07.2023 Mr. Gyaanchand sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute capital gain chargeable to tax in the hands of Mr. Gyaanchand for the A.Y.2024-25. (MTP 4 Marks, Oct'21)

**Solution****Computation of capital gain of Mr. Gyaanchand for the A.Y.2024-25**

Particulars	₹	₹
Capital Gains		
In respect of 600 shares (bonus shares)		
Full value of consideration [600 shares x ₹2,400 per share]	14,40,000	
Less: Cost of acquisition [600 shares x ₹2,000]	12,00,000	2,40,000
Higher of (I) and (ii), below		
(I) Nil, being cost of acquisition		
(ii) ₹2,000 per share, being the lower of FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		
In respect of 1,200 original shares		
Full value of consideration [1,200 shares x ₹2,400]	28,80,000	
Less: Cost of acquisition [1,200 shares x ₹2,000]	24,00,000	4,80,000
Higher of (I) and (ii), below		
(I) ₹900, being original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹900), at the option of the assessee		
(ii) ₹2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		
Long term capital gain		7,20,000

**Question 23**

Aggarwal & Sons, HUF purchased a house property in the year 1950 for ₹50,000. On 31.10.2023, the HUF was totally partitioned and the aforesaid house property was given to Mr. Subhash Aggarwal, a member of the family. Fair Market value of the house as on 31.10.2023 was ₹21,00,000. FMV of the house as on 1.4.2001 was ₹3,50,000. What will be the tax implications in the hands of Mr. Subhash Aggarwal and the HUF? (MTP 3 Marks, Oct'21)

**Solution****Tax implications in the hands of HUF**

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Aggarwal & Sons, HUF transferred the asset to Mr. Subhash Aggarwal, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.

Tax implications in the hands of Mr. Subhash Aggarwal

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.

**Question 24**

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2024-25 from the following details provided by Mr. Naveen with respect to sale of certain securities during

F.Y. 2023-24, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and chess):

- (i) Sold 10,000 shares of Y Ltd. on 05-04-2023 @ ₹ 650 per share Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under: Highest price - ₹ 300 per share, Average price - ₹ 290 per share Lowest price - ₹ 280 per share
- (ii) Sold 1,000 units of AB Mutual Fund on 20-05-2023 @ ₹ 50 per unit AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10- 03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31 - 01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.
- (iii) Sold 100 shares of C Ltd. on 27-09-2023 @ ₹ 200 per share. C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04- 2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as under (MTP 7 Marks, April'21, PYP 6 Marks Nov 19)

2001-02	100
2016-17	264
2017-18	272
2020-21	301
2023-24	348

**Solution**

	Particulars	₹
(i)	Sale of 10,000 shares of Y Ltd. on 5.4.2023 @ 650 per share	
	Sales consideration (10,000 x ₹ 650)	65,00,000
	Less: Cost of acquisition Higher of:	₹ 30,00,000
	- Actual cost (10,000 x ₹ 100)	10,00,000
	- Lower of: 30,00,000	
	• ₹ 30,00,000 (₹ 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and	
	• ₹ 65,00,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	35,00,000
(ii)	Sale of 1,000 units of AB Mutual Fund on 20.5.2023 @ ₹ 50 per unit Sale consideration (1,000 x ₹ 50)	50,000
	Less: Cost of acquisition - Higher of -	50,000
	- Actual cost (1,000 x ₹ 10)	10,000
	- Lower of: 50,000	
	• ₹ 55,000 (₹ 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and	
	• ₹ 50,000, being full value of consideration on transfer	
	Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	Nil

(iii)	Sale of 100 shares of C Ltd. on 27.9.2023 @ 200 per share	20,000
	Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) x 348/100] 646	17,400
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]	2,600

Computation of tax on such capital gains for A.Y. 2024-25

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of Y Ltd.	3,40,000
Tax under section 112 @ 20% on long-term capital gains of ₹ 2,600 arising on sale of unlisted shares of C Ltd.	520
Total tax payable	3,40,520

Note - this is an earlier Qs and thus limit is 1L and rate is 10%. For the current FY limit would be 1.25L and rate is 12.5%

Question 25

Mr. Yusuf bought a vacant land for ₹ 80 lakhs in March 2009. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2010-11. He entered into an agreement for sale of the above said residential house with Mr. John (not a relative) in July 2023. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Yusuf received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs. The sale deed was executed and registered on 10-2-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 650 lakhs. Mr. Yusuf paid 1% as brokerage on sale consideration received. Subsequent to sale, Mr. Yusuf made following investments:

- (i) Acquired a residential house at Delhi for ₹ 80 lakhs.
 (ii) Acquired a residential house at London for ₹ 40 lakhs.
 (iii) Subscribed to NHAI bond: ₹ 45 lakhs on 29-5-2024 and ₹ 15 lakhs on 12-7-2024.

Compute the income chargeable under the head "Capital Gains" for A.Y. 2024-25. The choice of exemption must be in the manner most beneficial to the assessee. (MTP Oct 20, 7 Marks, RTP May 18)

Cost Inflation Index:	F.Y. 2008-09	137
	F.Y. 2010-11	167
	F.Y. 2023-24	348

**Solution**

Computation of income chargeable under the head "Capital Gains" for A.Y.2024-25

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 600 lakhs		
Value adopted by Stamp Valuation Authority ₹ 650 lakhs		
Gross Sale consideration		600
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 105% (110%) of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. (In section 50C if SDV is not more than 110% of the consideration, then Consideration shall be treated as Full Value of Consideration)		

In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through any other prescribed electronics mode on or before the date of agreement.

In this case, since advance of ₹20 lakh is received in cash on the date of agreement, stamp duty value on the date of registration has to be considered. Since stamp duty value on the date of registration exceeds 105% (110%) of the actual consideration, such stamp duty value on the date of registration would be taken as full value of consideration]

Less: Brokerage@1% of sale consideration (1% of ₹ ₹600 lakhs)		<u>6.00</u>
Net Sale consideration		<u>594</u>
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ Rs 80 lakhs, plus registration and other expenses i.e., ₹ Rs 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/137]	223.53	
- Construction cost of residential building (₹Rs 100 lakhs x 348/167)	208.38	431.91
Long-term capital gains before exemption		182.05
		162.09
Less: Exemption under section 54		80.00

Since the amount of capital gain does not exceed ₹ Rs 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of two residential house property in India one year before or two years after the date of transfer of original asset, at the option of the assessee. However, in the present case, the exemption would be available only in respect of the residential house acquired at Delhi and not in respect of the residential house in London since the residential house property should be purchased or constructed in India		50.00
Long term capital gains chargeable to tax		52.05 32.09

Note: Since the residential house property was held by Mr. Yusuf for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain



Question 26

Mr. Suresh entered into an agreement with Mr. Mukesh to sell his residential house located at New Delhi on 25.05.2023 for ₹ 80,00,000. Mr. Mukesh was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.02.2024.

Mr. Mukesh had paid the sale proceeds in the following manner;

- 25% through account payee bank draft on the date of agreement.
- 50% on the date of the possession of the property.
- Balance after the completion of the registration of the title of the property.

The value determined by the Stamp Duty Authority on 25.05.2023 was ₹ 92,00,000 whereas on 14.02.2024 it was ₹ 94,50,000.

Mr. Suresh had acquired the property on 01.04.2003 for ₹ 21,00,000. After recovering the sale proceeds from Mukesh, he purchased another residential house property in Kanpur for ₹ 22,00,000.

Cost Inflation Index for Financial Year(s)

2003-04 109

2023-24 348

Compute the capital gain arising in the hands of Mr. Suresh for the Assessment Year 2022-23. (MTP 6 Marks Oct'22, Old SM) (Same concept different figures RTP Nov'18, MTP7 Marks, Oct'19)



Solution

Computation of Capital Gain of Mr. Suresh for A.Y. 2024-25

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 80 lakhs
Value adopted by Stamp Valuation Authority	₹ 92 lakhs
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.]	

In this case, since 25% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Full value of consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	92,00,000
Less: Indexed cost of acquisition of residential house	
[₹ 21 lakhs x 348/109]	67,04,587
Long-term capital gains [Since the residential house property was held by Mr. Suresh for more than 24 months immediately preceding the date of its transfer]	24,95,413
Less: Exemption under section 54	22,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of residential house property in India within one year before or two years after the date of transfer of original asset.	
Long-term capital gains chargeable to tax	2,95,413

**Question 27**

Mr. Kalyan has a residential house property which was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 22,00,000 in December 2023. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Kalyan preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31 -03-2024 for ₹ 17,00,000 for self- occupation. On 01-03-2025, he sold such new residential house for ₹ 30,00,000.

Compute his capital gain for the A.Y. 2024-25 and 2025-26. (Cost Inflation Index: 2001-02; 2005- 06 and 2023-24 are, 100; 117 and 348) (MTP 4 Marks Oct '23)

**Solution****Computation of capital gain in the hands of Mr. Kalyan for A.Y. 2024-25**

Particulars	₹
Full value of consideration	25,00,000
[As per section 50C, in case the actual sale consideration (i.e., ₹ 22 lakhs, in this case) is less than the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration. However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	
Less: Indexed cost of acquisition [₹ 2,00,000 x 348/117]	5,94,872
Long-term capital gain [Since the residential house is held for more than 24 months]	19,05,128
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2024 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	2,05,128

Computation of capital gains in the hands of Mr. Kalyan for A.Y. 2025-26

Particulars	₹
Full value of consideration	30,00,000
Less: Cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 31.3.2024, in this case) is transferred within 3 years of its	
purchase (i.e., on 1.3.2025, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., ₹ 19,34,188, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	30,00,000

**Question 28**

Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2023. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	Amount (₹ In lacs)	Assets	Amount (₹ In lacs)
Own Capital	1,850	Fixed Assets:	
Accumulated P & L balance	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	Other Assets:	
Unit RS	340	Unit PT	790
		Unit QL	860
		Unit RS	490
Total	3,510	Total	3,510

Other information:

- Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.
- Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2013 and was revalued at ₹ 180 lacs.
- Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income- tax Act, 1961.
- Unit RS was set up by Mr. Pratap in December, 2011.
Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2019-20. Note: Cost Inflation Indices for the financial year 2011-12 and financial year 2023-24 are 184 and 348, respectively.(RTP May '19, PYP 10 Marks ,May 18)

**Solution****Computation of capital gain on slump sale of Unit RS for A.Y. 2024 -25**

Particulars	₹
Full value of consideration (The fair market value of capital asset would be higher of: FMV1- being the fair market value of capital assets transferred by way of slump sale & FMV2- being the fair market value of the consideration (monetary or non- monetary) received or accruing as a result of transfer by way of slump sale)	15,40,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [Refer Working Note below]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	6,70,00,000

Working Note: Net worth of Unit-RS

Particulars	₹
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	8,70,00,000

Notes:

- (1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.
- (2) "Net worth" of the undertaking shall be the aggregate value of total assets of the undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts. However, any change in the value of assets on account of revaluation shall not be considered for this purpose.
- (3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.
- (4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.
- (5) Indexation benefit is not available in case of slump sale

**Question 29**

Determine the capital gains/loss and tax liability in the following scenarios for the A.Y. 2024-25 assuming the assessee does not have any other source of income:

- On 12th December, 2023, 1,200 shares of X Ltd., a listed company are sold by Mr. Vishal, a non-resident, @ ₹ 1,550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 25th May, 2017 @ ₹ 425 per share by paying STT at the time of purchase. The price at which these shares were traded in National Stock Exchange on 31st January, 2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	680
Average Trading Price	610
Lowest Trading Price	540

- Mr. Kabir, a resident aged 45 years, is the owner of residential house which was purchased on 1st August, 2021 for ₹ 19,00,000. He sold the said house on 25th September, 2023 for ₹ 24,50,000. Valuation as per stamp valuation authorities was ₹ 25,50,000 as on the date of sale. CII – 2021-22: 317; 2023-24: 348 (RTP Nov '23)

**Solution**

	Particulars		Amount ₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @10% on amount exceeding ₹ 1,00,000]		
	Full value of consideration [1,200 x ₹ 1,550]		18,60,000
	Less: Cost of acquisition		8,16,000
	Higher of		
	(i) Cost of acquisition [1,200 x ₹ 425]	5,10,000	
	(ii) Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 x 680]	8,16,000	

	Fair market value of listed equity shares as on 31.1.2018 [Highest price quoted on the recognized stock exchange i.e., ₹ 680 per share sale consideration ₹ 1,550 per share]		
	Long term capital gain taxable u/s 112A/ Total Income		10,44,000
	Tax on long-term capital gain exceeding ₹ 1.25L i.e., ₹ 9,19,000 @12.5%		1,14,875
	Add: Health and Education Cess@4%		4,595
	Tax liability		1,19,470
	Tax liability (Rounded off)		1,19,470
	Since Mr. Vishal is a non-resident, benefit of unexhausted basic exemption limit would not be available to him.		
(ii)	Sale of residential house [Long-term capital asset, since held for more than 24 months] Full value of consideration [Actual consideration, since stamp duty value does not exceeds 110% of actual sale consideration]		24,50,000
	Less: Indexed cost of acquisition [₹ 19,00,000 x 348/317]		20,85,804
	Long term capital gain/ Total Income		3,60,631
	Total Income (Rounded off)		3,64,196
	Long-term capital gain taxable u/s 112 @20% on ₹ 64,196 [₹ 3,64,196 – ₹ 3,00,000, being unexhausted basic exemption limit] (In the new scheme the basic limit is increased to ₹ 3,00,000)		12,839

	Less: Rebate under section 87A [Since the total income does not exceed ₹ 5 lakhs]		12839
			Nil
	Add: Health and Education Cess@4%		Nil
	Tax liability		Nil
	Tax liability (Rounded off)		Nil

**Question 30**

Mr. Govind purchased 600 shares of “Y” limited at ₹ 130 per share on 26.02.1979. “Y” limited issued him, 1,200 bonus shares on 20.02.1984. The fair market value of these share at Mumbai Stock Exchange as on 1.04.2001 was ₹ 900 per share and ₹ 2,000 per share as on 31.01.2018. On 31.01.2022 he converted 1000 shares as his stock in trade. The shares were traded at Mumbai Stock Exchange on that date at a high of ₹ 2,200 per share and closed for the day at ₹ 2,100 per share. On 07.07.2023 Mr. Govind sold all 1800 shares @₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute total income of Mr. Govind for the assessment-year 2024-25. (PYP 5 Marks, Nov’20)

**Solution****Computation of total income of Mr. Govind for the A.Y.2024-25**

	Particulars		Amount ₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		

	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)		
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	1,00,000
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		
	Higher of (I) and (ii), below	2,000	
(I)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹ 2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

Note – Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2023, being the date of conversion of capital asset into stock in trade for which we have to consider the

definition of “fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date.

In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2023. Alternatively, highest price can also be considered as the FMV as on 31.1.2023. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars		Amount ₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Cost of acquisition [800 shares x ₹ 2,000] (See Working Note below)	16,00,000	3,20,000
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)		2,00,000

	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion] [See Note above]	22,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 2,000] (See Working Note below)	20,00,000	
	Total Income		7,20,000
	Working Note - Cost of acquisition (per share)		
	Higher of (I) and (ii), below	2,000	
(I)	₹ 900 per share, being		
	In case of shares purchased - Original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹ 900), at the option of the assessee		
	In case of bonus shares - FMV as on 1.4.2001 (Nil or ₹ 900, at the option of the assessee)		
(ii)	₹2,000 per share, being the lower of		
	FMV as on 31.1.2018 - ₹ 2,000 per share		
	Sale consideration – ₹ 2,400 per share		

Note - It is possible to take a view that since no STT was paid on the date of conversion of capital asset, being listed shares into stock in trade, capital gains have to be computed u/s 112 and not 112A. If this view is taken, the total income of Mr. Govind would, accordingly, be computed in the following manner:

Computation of total income of Mr. Govind for the A.Y.2024-25

	Particulars	Amount ₹
I	Profits and gains of business and profession	
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000

	Less: FMV on the date of conversion (₹ 2,100 x 1000 shares) [See Note below]	21,00,000	3,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 348/100] (See Working Notes 1 and 2 below)	25,05,600	
	In respect of 1,000 shares converted into stock in trade on 31.1.2023 (Capital gains is taxable in the P.Y.2023-24, when the stock in trade is sold)	(5,85,600)	
	Full value of consideration [1000 shares x ₹ 2,100, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 331/100] (See Working Notes 1 and 2 below)]	29,79,000	
		(8,79,000)	
	Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(14,64,600)	
	Total Income		3,00,000
	Working Note –		
	1. Cost of acquisition (per share)		
	Higher of (I) and (ii), below i.e., ₹ 900 per share		
(I)	₹ 900 per share, being the FMV as on 1.4.2001		

(ii)	In case of shares purchased - Original cost of acquisition (₹ 130)		
	In case of bonus shares – Nil		
2.	In case of 800 shares sold during the year, the CII of F.Y.2023-24 i.e., 348 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2023, the CII of the year of conversion, i.e., F.Y.2022-23 i.e., 331 has to be considered to compute the indexed cost of acquisition.		

Note – Explanation to section 55(2) (ac) defines “fair market value” as the highest price of capital asset quoted on the stock exchange only for the purpose of the said clause (ac) i.e., to arrive at the FMV as on 31.1.2018 for computing cost of acquisition of shares.

However, the question states two prices on 31.1.2023, being the date of conversion of capital asset into stock in trade for which we have to consider the definition of “fair market value” as per section 2(22B). As per this definition, FMV refers to the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. In the question, two prices are given on the relevant date i.e., the date of conversion of capital asset into stock in trade, namely, the highest price and the closing price. The above solution is given considering the closing price as the FMV as on 31.1.2023. Alternatively, highest price can also be considered as the FMV as on 31.1.2023. In such case, the total income of Mr. Govind would be computed in the following manner:

Alternate Answer

	Particulars	₹	₹
I	Profits and gains of business and profession		
	Full value of consideration [1000 shares x ₹ 2,400 per share]	24,00,000	
	Less: FMV on the date of conversion (₹ 2,200 x 1000 shares) [See Note above]	22,00,000	2,00,000
II	Capital Gains		
	In respect of 800 shares held as capital asset up- to the date of sale		
	Full value of consideration [800 shares x ₹ 2,400 per share]	19,20,000	
	Less: Indexed cost of acquisition [800 shares x ₹ 900 x 348/100] (See Working Notes 1 and 2 below)	25,05,600	
	In respect of 1,000 shares converted into stock in trade on 31.1.2019 (Capital gains is taxable in the P.Y.2019-20, when the stock in trade is sold)	(5,85,600)	
	Full value of consideration [1000 shares x ₹ 2,200, being FMV on the date of conversion]	21,00,000	
	Less: Cost of acquisition [1000 shares x ₹ 900 x 331/100] (See Working Notes 1 and 2 below)]	29,79,000	
		(8,79,000)	
	Long-term capital loss to be carried forward = (5,85,600) + (8,79,000) =	(14,64,600)	
	Total Income		2,00,000
Working Note –			
1. Cost of acquisition (per share)			

Higher of (i) and (ii), below i.e., ₹ 900 per share		
(i) ₹ 900 per share, being the FMV as on 1.4.2001		
(ii) In case of shares purchased - Original cost of acquisition (₹130)		
In case of bonus shares – Nil		
2. In case of 800 shares sold during the year, the CII of F.Y.2023-24 i.e., 348 has to be considered to calculate indexed cost of acquisition. In case of 1000 shares converted into stock in trade on 31.1.2023, the CII of the year of conversion, i.e., F.Y.2022-23 i.e., 331 has to be considered to compute the indexed cost of acquisition.		

**Question 31**

Ms. Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2020 in which she agrees to allow such Company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2012 for ₹ 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2023. On such date, Stamp duty value of shopping mall was ₹ 4,14,00,000. Subsequently on 18.03.2024, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹ 65,00,000.

She has also purchased a house on 09.05.2023 in consideration of ₹ 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2023 and disbursement was made on 01.06.2023. She does not own any other residential house on the date of sanction of loan. Principal amount

of ₹ 1,30,000 was paid during the financial year 2023-24.

Cost Inflation Indices: 2023-24: 348, 2012-13: 200

Compute total income of Ms. Mishika for the assessment year 2024 -25 assuming that she has not opted for the provisions under section 115BAC. (PYP 7 Marks Dec '21)

**Solution**

Computation of total income of Ms. Mishika for the A.Y.2024 -25

Particulars	₹	₹
Income from house property [Self-occupied]		Nil
Net Annual Value	Nil	
Less: Interest on housing loan of ₹ 3,55,000 [₹ 35,50,000 x 12% x 10/12 months] restricted to ₹ 2,00,000/-	2,00,000	
	(2,00,000)	
Less: Set-off of loss against long-term capital gains	2,00,000	
Long-term capital gains on transfer of land under specified agreement Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2020-21 would be taxable in the previous year 2023-24, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be- Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate (₹ 4,14,00,000 x 20%)]		82,80,000

Less: Indexed of cost of acquisition [$\text{₹ } 15,00,000 \times 348/200$]	26,10,000	
Long-term capital gain		56,70,000
Less: Deduction under section 54F		
Deduction in respect of amount invested for purchase of a residential house acquired within one year prior to date of transfer would be allowable proportionately, since amount invested is less than the net consideration. Accordingly, deduction would be ₹ 29,05,180 ($\text{₹ } 56,70,000 \times \text{₹ } 46,00,000 / \text{₹ } 82,80,000$)	31,50,000	
Long-term capital gains		25,20,000
Less: Set-off of loss from house property [It is beneficial to set-off loss from house property against long-term capital gains, since in case of Ms. Mishika total income comprises of LTCG taxable@20% and STCG taxable at normal slab rates; and she can claim deduction of ₹ 2,80,000 under Chapter VI-A against STCG of ₹ 2,90,000. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]	2,00,000	
		23,20,000
Short-term capital gains		
Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration		65,00,000

Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [$\text{₹ } 4,14,00,000 \times 15\%$]	62,10,000	
Short-term capital gains		2,90,000
Gross Total Income		26,10,000
Less: Deductions under Chapter VI-A (allowable against short-term capital gains of ₹ 2,90,000)		
Deduction under section 80C – repayment of principal amount of housing loan	1,30,000	
Deduction under section 80EEA – Ms. Mishika would be eligible for deduction of interest on housing loan ($\text{₹ } 3,55,000 - \text{₹ } 2,00,000 = \text{₹ } 1,55,000$) to the extent of ₹ 1,50,000, since stamp duty value of the house does not exceed ₹ 45,00,000 [being ₹ 44,37,500 ($\text{₹ } 35,50,000 \times 100/80$)] and she does not own any other residential house on the date of sanction of loan.	1,50,000	2,80,000
Total Income		23,30,000
Total Income (rounded off)		23,30,000

Note -

As per section 45(5A), any capital gains arising from the transfer of a capital asset, being land or building or both, under a specified agreement, is chargeable to income-tax as income of the previous year in which the certificate of completion is issued by the competent authority. In the above solution, the CII of F.Y.2023-24 has been considered on the basis of parity, since, as per section 45(5A), it is the stamp duty value of the developed property (shopping mall, in this case) on the date of issue of certificate of completion (26.12.2023), which is deemed as the full value of consideration for transfer of land handed over to the developer.

Alternate view -

The definition of transfer, inter alia, includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred. Hence, in case of 'specified agreement(s)', 'transfer' takes place at the time when the owner of the immovable property hands over the same to the developer i.e., in F.Y.2020-21 in this case.

As per the plain reading of definition of 'indexed cost of acquisition', the CII of the year in which the asset (land, in this case) is transferred has to be considered. Accordingly, as per this interpretation, CII of F.Y. 2020-21 i.e., 301 can be considered for computing indexed cost of acquisition. If the CII of F.Y.2020-21 is considered on the basis of this line of reasoning, the figures of long-term capital gains and total income would accordingly change. However, the CII of F.Y.2020-21 has not been given in the question for the purpose of making such computation.

**Question 32**

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration. On 01-10-2023, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2023-24 is ₹ 1,00,000. Determine the tax implications. (PYP 4 Marks May'22)

**Solution**

	₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2023 ($6/12 \times ₹ 70,000$ [Net Annual Value of ₹ 1,00,000 less deduction under section 24(a) @30%]) would be included in the total income of Mr. Sarthak.	35,000
Since the HUF was partitioned on 1.10.2023, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on attrition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	
Sarthak's Share [25% of ₹ 35,000 ($₹ 70,000 \times 6/12$)]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32).	
25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income.	
Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

**Question 1**

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of Rs.5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of Rs.4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

**Solution**

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be

limited to the accumulated profit i.e., Rs.4,00,000 and not the amount of loan which is Rs.5,00,000.

**Question 2**

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B, -

- (1) Cash gift of Rs.75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is Rs.5 lakh on that date. Mr. B had purchased the land in April, 2010.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ Rs.400 each on 19th June, 2024, the fair market value of which was Rs.600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (office building) booked by him two years back at Rs.20 lakh. The stamp duty value of the property as on 1st November, 2023 was Rs.32 lakh and on the date of booking was Rs.23 lakh. He had paid Rs.1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for Rs.7 lakh. Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26.

**Solution****Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26**

	Particulars	Rs.
(1)	Cash gift is taxable under section 56(2)(x), since it exceeds Rs.50,000	75,000

(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds Rs.50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4)	Difference of Rs.2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
(5)	Difference between the stamp duty value of Rs.23 lakh on the date of booking and the actual consideration of Rs.20 lakh paid is taxable under section 56(2)(x) since the difference exceeds Rs.2,00,000, being the higher of Rs.50,000 and 10% of consideration	3,00,000
Income from Other Sources		9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2024-25

Particulars	Rs.
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000
Short-term capital gains	2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

**Question 3**

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- Akhil HUF received Rs.75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is Rs. 9,00,000.
- Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was Rs.100 per share. He also received jewellery worth Rs.45,000 (FMV) from his nephew on the same day.
- Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is Rs.5,25,000.

**Solution**

	Taxable/ Non-taxable	Amount liable to tax (Rs.)	Reason
(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).

(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs.50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs.10,000) and jewellery (Rs.45,000) exceeds Rs.50,000. Hence, the entire amount of Rs.55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

**Question 4**

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for Rs.90 lakh on 1.1.2025, when the stamp duty value was Rs.150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was Rs.140 lakh. Mr. Hari had received a down payment of Rs.15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for Rs.75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

**Solution****Case 1: Tax implications if Mr. Hari is a property dealer**

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs.15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs.9,00,000, being the higher of Rs.50,000 and 10% of consideration. Therefore, Rs.60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque / draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Therefore, **Rs.75 lakh**, being the difference between the stamp duty value on the date of transfer i.e., Rs.150 lakh, and the purchase price i.e., Rs.75 lakh, would be chargeable as **business income** in the hands of Mr. Hari, since stamp duty value exceeds **110% of the consideration**

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Thus, Rs.75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs.150 lakh) and the purchase price (i.e., Rs.75 lakh) would be chargeable as short-term capital gains. It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee	There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case). Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs.9,00,000, being the higher of Rs.50,000 and 10% of consideration. Therefore, Rs.60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on

cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs.15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.



Question 5

Compensation on account of disaster received from a local authority by an individual or his / her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-Tax Act, 1961



Solution

The statement is not correct. As per Section 10(10BC), any amount received or receivable as compensation by an individual or his / her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

**Question 6**

Interest on enhanced compensation received by Mr. G during the previous year 2024-25 is Rs.5,00,000. Out of this interest, Rs.1,50,000 relates to the previous year 2020-21, Rs.1,65,000 relates to previous year 2021-22 and Rs.1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2025-26.

**Solution**

The entire interest of Rs.5,00,000 would be taxable in the year of receipt, namely, P.Y. 2024-24.

Particulars	Amount Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) @50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

Additional Questions**Question 7**

Examine under which heads the following incomes are taxable:

- Rental income in case property held as stock-in-trade for 3 years
- Dividend on shares in case of a dealer in shares
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries payable to a Member of Parliament
- Receipts without consideration
- In case of retirement, interest on employee's contribution if provident fund is unrecognized.

- Rental income in case of a person engaged in the business of letting out of properties.

**Solution**

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Profits and gains of business or profession / Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

**Question 8**

Examine whether the following are chargeable to tax and the amount liable to tax :

- (i) A sum of Rs.1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- (ii) Interest on enhanced compensation of Rs.96,000 received on 12-3-2025 for acquisition of urban land, of which 40% relates to P.Y.2023-24.

**Solution**

Sr. No.	Taxable / Not Taxable	Answer Amount liable to tax (Rs.)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs.96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2024-23 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

**Question 9**

On 10.10.2024, Mr. Govind (a bank employee) received Rs.5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17. Out of this interest, Rs.1,50,000 relates to the financial year 2017-18; Rs.1,65,000 to the financial year 2018-19; and Rs.1,85,000 to the financial year 2019-20. He incurred Rs.50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2025-26?

**Solution**

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2024-25:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs.,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

**Question 10**

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2025:

- (i) Cash gift of Rs.51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth Rs.2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2025, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs.52,000.

Compute the income, if any, assessable as income from other sources.

**Solution**

- (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of Rs.51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs.50,000.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".
- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision

is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs.50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of "property".
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of "sum of money" received.

Income assessable as "Income from other sources"

If the first view is taken, the total amount chargeable to tax as "Income from other sources" would be Rs.51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs.1,03,000 (Rs.51,000 + Rs.52,000).

**Question 11**

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2024 for Rs.3,00,000 when the market price was Rs.5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at Rs.4,45,000. The transfer was not subjected to securities transaction tax.
Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.
- (ii) Mr. Chezian is employed in a company with taxable salary income of

Rs.5,00,000. He received a cash gift of Rs.1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2024 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?



Solution

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds Rs.50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of Rs.2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (Rs.5,00,000) less the indexed cost of acquisition (Rs.4,45,000) would result in a long term capital gains of Rs.55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of Rs.1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.



Question 12

Mr. Amit furnishes the following particulars of his incomes for PY 2023-23. Compute his IFOS for AY 2024-25.

1	Dividend on equity shares	Rs. 6,000
2	Dividend on preference shares	Rs. 5,000
3	Dividend from a foreign company	Rs. 10,000
4	Dividends received from Assam Tea Ltd. (60% of the income is agricultural Income)	Rs. 25,000
5	Income from agricultural land in India	Rs. 12,000
6	Income from agricultural land in Pakistan	Rs. 10,000
7	Interest on Securities (Net)	Rs. 18,000
8	Winning from Horse-Race (Gross)	Rs. 13,000
9	Rent from sub-letting a house	Rs. 40,000
10	Rent payable by Mr. Mohan for the sub-let house	Rs. 25,000
11	Other expenses on sub-let-house	Rs. 5,000
12	Income from letting on hire of building & machinery under one composite lease	Rs. 22,000
13	Interest on Bank Deposits	Rs. 4,000
14	Directors sitting fees received	Rs. 10,000
15	Ground rent received from Land in Pathankot	Rs. 6,000
16	Income from undisclosed sources	Rs. 65,000
17	Amount received on account of winnings from lotteries	Rs. 25,000

Following deductions are claimed by him

(a) Allowable depreciation on Building & Machinery	Rs. 6,000
(b) Fire Insurance on Building & Machinery	Rs. 1,000
(c) Amount spent for buying lottery ticket	Rs. 5,000



Solution

Dividend on equity shares	Rs. 6,000
Dividend on preference shares	Rs. 5,000
Dividend from a foreign company	Rs. 10,000

Dividends received from Assam Tea Ltd. (Since it is Indian company)	Rs. 25,000
Income from agricultural land in India	Exempt
Income from agricultural land in Pakistan	Rs. 10,000
Interest on Securities (after grossing up @ 10%) [18000/90%]	Rs. 20,000
Winning from Horse-Race [Gross amount is given, so no need to gross up again]	Rs. 13,000
Rent from sub-letting a house [Rs. 40,000 – 25,000 – 5,000]	Rs. 10,000
Income from letting of machinery & building after Expense [Rs. 22,000 - (Rs. 6,000 + Rs. 1000)]	Rs. 15,000
Interest on Bank Deposits	Rs. 4,000
Directors sitting fees received	Rs. 10,000
Ground rent received from Land in Pathankot	Rs. 6,000
Income from undisclosed sources – Taxable @ 78%	Rs. 65,000
Amount received on account of winnings from lotteries	Rs. 25,000

Notes:

- (a) Amount spent for buying lottery ticket is not deductible. (Winning from lottery is taxable @ 30%)
- (b) Agricultural income from land situated in India is exempt u/s 10.

**Question 13**

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th Sep 2021 for Rs. 42 Lacs.

On DOR, SDV of the said property is Rs. 45 Lacs. However, on the DOA SDV of the said property was Rs. 44 Lacs.

Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of total value of the property.

What are the tax implications in the hands of Mr. Suraj & Mr. Ganesh for AY

2023-23? Mr. Suraj had purchased the land on 19th February, 2014 for Rs. 9,20,000 & completed the construction of house on 18th January 2020 for Rs. 15,50,000.

[CII: FY 2012-13: 200; FY 2016-17: 264; FY 2018-19: 289; FY 2019-20: 301]

May 2019 RTP

**Solution**

- As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than SDV, SDV shall be deemed to be the full value of consideration.
- However, where DOR & DOA are not the same & part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the DOA, then SDV on the DOA may be taken to be the full value of consideration.
- Further, where the SDV on the DOA or registration, as the case may be, does not exceed 110% of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.
- In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the DOA, the SDV of Rs. 44,00,000 on the DOA would be taken for the purpose of computing FVC.
- Further, since SDV of land & building of Rs. 44,00,000 does not exceed Rs. 46,20,000 i.e., 110% of Rs. 42,00,000, the consideration received i.e., Rs. 42,00,000 i.r.o. land & building would be deemed to be the full value of consideration.
- In the given problem, land has been held for a period exceeding 24 months & building for a period less than 24 months immediately preceding the date of transfer. So, Land is a long-term capital asset, while building is a short-term capital asset.
- Accordingly, capital gains would be determined in the following manner:

Particulars	Rs.
Long term capital gain on sale of land	
Consideration received/accruing for transfer of land [70% of Rs. 42 Lacs]	29,40,000
Less: Indexed cost of acquisition [Rs. 9,20,000 x 301/200]	13,84,600
Long-term capital gain (A)	15,55,400
Short-term capital loss on sale of building	
Consideration received from transfer of building [30% of Rs. 42 Lacs]	12,60,000
Less: Cost of acquisition	15,50,000
Short term capital loss (B)	(2,90,000)

STCL can be set-off against LTCG. Therefore, net taxable LTCG = Rs. 13,20,600 (Rs. 16,10,600 – Rs. 2,90,000). It is taxable @ 20% u/s 112, after adjusting unexhausted BEL against such LTCG.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the SDV on the DOA or DOR as the case may be, & the difference between actual consideration & SDV so considered is more than higher of Rs. 50,000 or 10% of actual consideration, then difference between such value & actual consideration of such property is chargeable to tax as income from other sources.

Where DOR & DOA are not the same & part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the DOA, then SDV on the DOA may be taken for the purpose of determining income taxable under the head "Income from other sources". Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the SDV on the DOA has to be taken. Further, since difference of Rs. 2,00,000 is not more than Rs. 4,20,000 being higher of Rs. 50,000 & Rs. 4,20,000 (10% of Rs. 42,00,000), no income would be chargeable to tax as income from other sources in hands of Mr. Ganesh.



Question 14

Ms. Julie received following amounts during PY 2022-23.

- (1) Received loan of 5,00,000 from ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of equity share capital in said company. Accumulated profit of company was 2,00,000 on the date of loan.
- (2) Received Interest on enhanced compensation of 5,00,000. Out of this interest 1,50,000 relates to PY 2019- 20, 1,90,000 relates to PY 2020-21 & 1,60,000 relates to PY 2021-22. She paid 1 Lacs to her advocate for his efforts in the matter.

Discuss tax implications, if any, arising from these transactions in her hand with reference to AY 2024-24.



Solution

- (1) Ms. Julie is a shareholder having substantial interest in the closely held company ABC Pvt. Ltd. As per section 2(22)(e), any loan received from a closely held company by a shareholder having substantial interest is deemed to be dividend in hands of the shareholder to the extent company possesses accumulated profits on date of loan. Hence, 2,00,000 shall be taxable as dividend in hands of Ms. Julie.
- (2) As per section 145B (1), any interest received by an assessee on compensation or enhanced compensation, as the case may be, shall be deemed to be income of year in which it is received. Further, as per section 56(2)(viii), income by way of interest received on compensation or on enhanced compensation referred to in section 145B(1) above shall be taxable u/h IFOS in PY in which such interest is received. Further, as per section 57(iv), in case of above interest, a deduction of a sum equal to 50% of such income shall be allowed to assessee & no deduction shall be allowed under any other clause of section 57.

Particulars	Rs.
Interest on enhanced compensation received	5,00,000
Less: Deduction @ 50%	(2,50,000)
Balance taxable	2,50,000

**Question 15**

Ms. Julie received following amounts during the previous year 2024-25.

- (1) Received loan of ₹ 5,00,000 from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹ 2,00,000 on the date of the loan.
- (2) Received Interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2021-22, ₹ 1,90,000 relates to previous year 2022-23 and ₹ 1,60,000 relates to previous year 2023-24. She paid ₹ 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2025-26. (PYP 4 Marks, Nov'20)

**Solution**

- (1) Any payment by way of loan by a closely held company to its shareholder holding not less than 10% of voting power is deemed as dividend, to the extent of accumulated profits of the company. Accordingly, out of ₹ 5 lakhs given by ABC Pvt. Ltd. to Ms. Julie, loan to the extent of ₹ 2 lakhs would be treated as deemed dividend for the A.Y.2024-25. ~~Such dividend would, however, be taxable @ 30% in the hands of ABC Ltd. Consequently, it would be fully exempt in Julie's hands under section 10(34).~~

Dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/

remuneration paid to any other person. DDT has been abolished.

- (2) Interest on enhanced compensation is chargeable to tax under the head "Income from other sources" in the year of receipt, after providing for deduction of 50% of such income. Accordingly, ₹ 2,50,000 [₹ 5,00,000 – ₹ 2,50,000, being 50% of ₹ 5 lakh] would be chargeable to tax in the hands of Ms. Julie under the head "Income from Other Sources" for the A.Y.2025-26.



Question 1

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

	Particulars	Rs.
(1)	Opening balance of plant and machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 after reducing depreciation for FY 2023-24)	30,00,000
(2)	New plant and machinery purchased and put to use on 08.06.2024	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2024	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2025	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2025-26, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.



Solution

Computation of depreciation and additional depreciation for AY 2025-26

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@ 15% on Rs.50,00,000 [See Working Notes 1 & 2]	7,50,000	-

@ 7.5% (50% of 15%, since put to use for less than 180 days) on Rs.8,00,000	60,000	-
@ 20% (50% of 40%, since put to use for less than 180 days) on Rs.3,00,000	-	60,000
Additional Depreciation		
@ 20% on Rs.20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@ 10% (50% of 20%, since put to use for less than 180 days) on Rs.8,00,000	80,000	-
Total depreciation	12,90,000	60,000

Working Notes:

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

Particulars	Plant & Machinery (Rs.)	Computer (Rs.)
Opening balance as on 1.4.2024	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2024	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2024	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2024	58,00,000	3,00,000

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

Particulars	Plant & Machinery (Rs.)	Computer (Rs.)

Plant and machinery put to use for 180 days or more [Rs.30,00,000 (WDV)+ Rs.20,00,000 (purchased on 8.6.2024)]	50,00,000	
Plant and machinery put to use for less than 180 days	8,00,000	-
Computers put to use for less than 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- (1) As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.
Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2024 and computer acquired and installed on 02.01.2024, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to Rs.80,000, being 10% (i.e., 50% of 20%) of Rs.8 lakh. Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (2) As per third proviso to section 32(1)(ii), the balance additional depreciation of Rs.80,000 being 50% of Rs.1,60,000 (20% of Rs.8,00,000) would be allowed as deduction in the A.Y.2026-27.
- (3) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

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

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

**Question 2**

A car purchased by Dr. Soman on 10.08.2021 for Rs.5,25,000 for personal use is brought into professional use on 1.07.2024 by him, when its market value was Rs.2,50,000.

Compute the actual cost of the car and the amount of depreciation for the AY 2025-26 assuming the rate of depreciation to be 15%.

**Solution**

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

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

Therefore, amount of depreciation on car as per section 32 for the AY 2025-26 would be Rs.78,750, being Rs.5,25,000 x 15%.

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

**Question 3**

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during FY 2024-25 at the

cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for AY 2025-26. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount Rs.
1.	Computer including computer software	27 Sept., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books (other than annual publications are of Rs.12,000)	1 Apr., 24	1 Apr., 24	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 24	1 Apr., 24	3,00,000
6.	Laptop	26 Sep., 24	8 Oct., 24	43,000

**Solution****Computation of depreciation allowable for AY 2025-26**

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

Working Note:**Computation of depreciation**

Block of Assets	Rs.
Block 1: Furniture – [Rate of depreciation - 10%] Put to use for more than 180 days [Rs.3,00,000 @ 10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	

(a) Computer including computer software (put to use for more than 180 days) [Rs.35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [Rs.8,500 @ 20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [Rs.12,500 @ 40%]	5,000
(d) Laptop (put to use for less than 180 days) [Rs.43,000 @ 20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [Rs.13,000 @ 40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the FY 2023-24 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

**Question 4**

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2024. The manufacturing unit was set up on 1.5.2024. He commenced his manufacturing operations on 1.6.2024. The total cost of the plant and machinery installed in the unit is Rs.120 crore. The said plant and machinery included second hand plant and machinery bought for Rs.20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of Rs.15 crore. Compute the amount of depreciation allowable under section 32 of the

Income-tax Act, 1961 in respect of the AY 2025-26. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

Computation of depreciation allowable for the AY 2025-26 in the hands of Mr. Gamma

Particulars	Rs. in crore	
Total cost of plant and machinery	120.00	15.75
Less: Used for Scientific Research (Note 1)	15.00	
	105.00	
Normal Depreciation at 15% on Rs.105 crore		15.75
Additional Depreciation:		
Cost of plant and machinery	120.00	
Less: Second hand plant and machinery (Note 2) 20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35(1)(iv) read with section 35(2)(ia) (Note 2)	35.00	17.00
	85.00	
Additional Depreciation at 20%		17.00
Depreciation allowable for AY 2025-26		32.75

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised

the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

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

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

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

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

**Question 5**

Mr. A, furnishes the following particulars for the P.Y.2023-24. Compute the deduction allowable under section 35 for A.Y.2024-25, while computing his income under the head "Profits and gains of business or profession", if.

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

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

**Solution**

(i) If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction under section 35 for the A.Y.2024-25

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

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

Computation of deduction under section 35 for the A.Y.2024-25

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

**Question 6**

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of Rs.80 lakh, Rs.60 lakh and Rs.50 lakh, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is Rs.50 lakh, Rs.40 lakh and Rs.30 lakh, respectively. During the FY 2023-24, he incurred capital expenditure of Rs.20 lakh, Rs.15 lakh & Rs.10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2024-25 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section

35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the AY 2024-25 is Rs.16 lakhs, Rs.14 lakhs and Rs.31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.



Solution

Computation of profits and gains of business or profession for AY 2024-25

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

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

(B)	Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2021 (excluding the expenditure incurred on acquisition of land) = Rs.30 lakh (Rs.80 lakh – Rs.50 lakh) and Rs.20 lakh (Rs.60 lakh – Rs.40 lakh)	30	20	50
(C)	Capital expenditure incurred during the FY 2023-24	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains/ sugar)	50	35	85
	Total deduction u/s 35AD for AY 2024-25	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

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

Notes:

- Deduction of 100% of the capital expenditure is available under section 35AD for AY 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- However, since setting up and operating a warehousing facility for

storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

- (iii) Mr. A can, however, claim depreciation @10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the FY 2023-24.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs.55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of Rs.28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.



Question 7

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2023. He incurred capital expenditure of Rs.50 lakh during the period January, 2023 to March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the FY 2023-24, he incurred capital expenditure of Rs.2 crore (out of which Rs.1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2024-25, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the AY 2024-25 is Rs.25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are Rs.120 lakhs for the AY 2024-25. Also, assume that payments for capital expenditure were made by net banking.



Solution

Computation of profits and gains of business or profession for AY 2024-25

Particulars	Rs.
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the FY 2023-24 (excluding the expenditure incurred on acquisition of land) = Rs.200 lakh – Rs.150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023	50 lakh
Total deduction under section 35AD for AY 2024-25	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh



Question 8

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of

sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2022 and it claimed deduction of Rs.100 lacs incurred on purchase of two buildings for Rs.50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2023-24. However, in February, 2024, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav.



Solution

Since the capital asset, in respect of which deduction of Rs.50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the FY 2023-24, the deeming provision under section 35AD(7B) is attracted during the AY 2024-25.

Particulars	Rs.
Deduction allowed under section 35AD for A.Y.2023-24	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of Rs.50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for AY 2024-25. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Rs.
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of Rs.50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000



Question 9

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2025 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the FY 2024-25, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in Rs.
(1)	Salary to its employees (credited and paid in March, 2025)	12,00,000
(2)	Directors' remuneration (credited in March, 2025 and paid in April, 2025)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2025 at the time of payment and remitted the same in July, 2025?



Solution

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

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance @30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the FY

2024-25, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for AY 2025-26 is as follows –

Particulars		Amount paid in Rs.	Disallowance u/s 40(a)(ia) @30%
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2025-26 at the time of payment and remitted to the Government, the amount of Rs.8,400 would be allowed as deduction while computing the business income of A.Y. 2026-27.

In case, assessee fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee –

- (i) has furnished his return of income under section 139;
 - (ii) has taken into account such sum for computing income in such return of income; and
 - (iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed,
- it would be deemed that the assessee has deducted and paid the tax on such sum.

The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

Since the date of furnishing the return of income by the payee is taken to be the date on which the payer has deducted tax at source and paid the same, 30% of such expenditure/payment in respect of which the payer has failed to deduct tax at source shall be disallowed under section 40(a)(ia) in the year in which the said expenditure is incurred. However, 30% of such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the payee, since tax is deemed to have been deducted and paid by the payer in that year.



Question 10

During the FY 2024-25, the following payments/expenditure were made/incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2024 was Rs.99 lacs):

- (i) Interest of Rs.45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) Rs.10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iii) Commission of Rs.16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2024 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?



Solution

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

- (i) The obligation to deduct tax at source from interest paid to a resident

arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2022-23 exceeds Rs.1 crore. Thus, in present case, since the turnover of the assessee is less than Rs.1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

- (ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed Rs.1 crore in the immediately preceding previous year.

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

- (iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs.15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., FY 2022-23 exceeds Rs.1 crore. Thus, in present case, since the turnover of the assessee is less than Rs.1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed Rs.50 lakh during the FY 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.



Question 11

A firm has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2024-25, in accordance with its partnership deed, and it has a book profit of 10 lakhs. What is the remuneration allowable as deduction?



Solution

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

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

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



Question 12

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

- (1) Salary of 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the A.Y. 2025-26 as per section 40(b).



Solution

- (i) As per Explanation 3 to section 40(b), "book profit" shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners

of the firm if the same has been already deducted while computing the net profit.

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

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

Particulars		
Net Profit (before deduction of depreciation, salary and interest)		17,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] ($\text{₹ } 5,00,000 \times 12\%$)	60,000	2,10,000
Book Profit		4,90,000

- (ii) Salary actually paid to working partners = $40,000 \times 2 \times 12 = 9,60,000$.
As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits -

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

Therefore, the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

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

Hence, allowable working partners' salary for the A.Y.2025-26 as per the provisions of section 40(b)(v) is 9,60,000.



Question 13

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

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



Solution

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

Particulars	Rs.
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of Rs 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of Rs 14,00,000 = Rs 1,40,000)	1,40,000
Excess contribution disallowed under section 40A(9)	60,000



Question 14

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

		Rs.
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2023-24 & 2024-25)	15,00,000
(ii)	Indian Bank (FY 2024-25)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2024-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2024, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

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



Solution

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

In the given case of Hari, the unpaid interest of Rs.15,00,000 due to APSFC and of Rs.30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari

that the entire interest of Rs.45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the AY 2025-26 shall be calculated as follows:

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

Clarification on non-applicability of section 43B on employee's Contribution to welfare funds [Explanation 5 to section 43B]

As per section 2(24)(x), any sum received by an assessee, being an employer from his employee as contribution to any provident fund or superannuation fund or any fund set up under Employee's State Insurance Act, 1948 or any other fund for the welfare of employees would be considered as the income of an employer.

The deduction in respect of above sum will be allowed to the assessee under section 36(1)(va) only if such sum is credited by the assessee to the employee's account in the relevant fund on or before the due date, being the date specified under the relevant Act, Rule, order or notification issued thereunder.

As per section 43B, any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, would be allowable during any P.Y. if the same has been paid on or before the 'due date' applicable in his case for furnishing the return of income under section 139(1) in respect of that P.Y.

Explanation 5 clarifies that the provisions of section 43B regarding allowability

of certain expenditure in a previous year only on actual payment basis (i.e., payment on or before the due date of filing of return of income for relevant assessment year), does not apply and would be deemed never to be applied to employee's contribution received by employer towards any welfare fund. In effect, clause (b) of section 43B covers only employer's contribution to provident fund, superannuation fund, gratuity fund or any other fund for welfare of employees, for remittance of which extended time limit upto due date of filing return u/s 139(1) is available; however, it does not include within its scope, employees' contribution to such funds received by the employer, which has to be credited to the employee's account in the relevant fund on or before the due date specified under the relevant Act, Rule etc. Amount credited after the said due date but on or before the due date under section 139(1) would not be eligible for deduction.



Question 15

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

Particulars	Rs.
Financial year 2020-21	1,15,000
Financial year 2021-22	1,80,000
Financial year 2022-23	2,10,000

What is his obligation regarding maintenance of books of accounts for AY 2024-25 under section 44AA of Income-tax Act, 1961?



Solution

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

As per Rule 6F, a person carrying on a notified profession shall be required to

maintain specified books of accounts:

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

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded Rs.1,50,000 in financial year 2018-19, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

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



Question 16

Mr. Praveen engaged in retail trade, reports a turnover of Rs 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is Rs 14,00,000 and balance through prescribed electronic modes on or before 31st October 2025. His income from the said business as per books of account is Rs 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the AY 2025-26?
- If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
- In case Mr. Praveen does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?

- (iv) What is the due date for filing his return of income under both the options?

**Solution**

- (i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover ($14,00,000/2,98,50,000 \times 100$) and his total turnover for the F.Y.2024-25 is below Rs 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs 18,19,000 (Rs 1,12,000, being 8% of Rs 14,00,000 + Rs 17,07,000, being 6% of Rs 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the previous year 2023-24 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2024-25 relevant to A.Y.2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31. Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- (iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2023. In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

**Question 17**

Mr. X commenced the business of operating goods vehicles on 1.4.2022. He purchased the following vehicles during the FY 2024-25. Compute his income under section 44AE for AY 2025-26.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2024
(2)	6,500	1	15.03.2025
(3)	10,000	3	16.07.2024
(4)	11,000	1	02.01.2025
(5)	15,000	2	29.08.2024
(6)	15,000	1	23.02.2025

Would your answer change if the goods vehicles purchased in April, 2024 were put to use only in July, 2024?

**Solution**

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2024-25, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs.1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

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

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months $\times$ No. of vehicles [(1) $\times$ (3)]

For Heavy goods vehicle			
2	29.08.2024	8	16
1	23.02.2025	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27
1	02.1.2025	3	3
			55

The presumptive income of Mr. X under section 44AE for AY 2025-26 would be -

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

The answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2024, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.



Question 18

Miss Rashi, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2025:

S. No.	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000

(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

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



Solution

Computation of business income and agricultural income of Ms. Rashi for the AY 2025-26

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

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).

Additional Questions**Question 19**

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

	(Rs. in lacs)
WDV of Plant and Machinery on 31.3.2024	30
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10
New machinery purchased on 1-12-2024	8
Computer purchased on 3-1-2025	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for Rs.10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2025 if

- he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
- he pays tax under the default tax regime under section 115BAC..

**Solution**

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2024

Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2022-23	4.75	-
Opening balance as on 1.4.2024	25.25	

Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 3.1.2024	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2024)	43.25	4.00

Computation of Depreciation for AY 2025-26

(i) If Mr. Venus exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

	Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (Rs.25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2023 (Rs.10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		

	New Machinery purchased on 1.9.2024 (Rs.10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (Rs.10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [Rs.8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [Rs.4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

(1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2006, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

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

- any office appliances or road transport vehicles;
- any machinery or plant installed in, inter alia, office premises.

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

- (i) Machinery purchased on 1.12.2024, installed in office and
- (ii) Computer purchased on 3.1.2025, installed in office.

- (2) Balance additional depreciation @10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation @10% (i.e., Rs.1 lakhs, being 10% of Rs.10 lakhs) in respect of new machinery which had been purchased during the FY 2024-25 and put to use for less than 180 days in that year can be claimed in FY 2024-25 being immediately succeeding previous year.

- (ii) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

	Particulars	Plant & Machinery (Rs in lacs)	Computer (Rs in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation Normal Depreciation		
	- WDV of plant and machinery (Rs 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2023 (Rs 10 lacs x 15%)	1.50	-

	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation Normal Depreciation		
	New machinery purchased on 1.12.2024 [Rs 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [Rs 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	5.89	0.80



Question 20

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the AY 2025-26, assuming that he does not opt for section 115BAC:

	(Rs. in lacs)
(i) WDV of block as on 31.3.2024 (15% rate)	50
(ii) Depreciation for P.Y. 2023-24	7.50
(iii) New machinery purchased on 12-10-2024	10
(iv) Machinery imported from Colombo on 12-4-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9
(v) New computer installed in generation wing unit on 15-7-2024 All assets were purchased by A/c payee cheque.	2

**Solution****Computation of depreciation under section 32 for AY 2025-26**

Particulars	Rs.	Rs.
Normal Depreciation		
Depreciation @15% on Rs.51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2024 of Rs.50,00,000 – Depreciation for P.Y. 2023-24 of Rs.7,50,000 + Purchase cost of imported machinery of Rs.9,00,000]	7,72,500	
Depreciation @ 7.5% on Rs.10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	
Depreciation @40% on computers purchased Rs.2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation @10% of Rs.10,00,000 [being actual cost of new machinery purchased on 12-10-2024]	1,00,000	
Additional Depreciation @20% on new computer installed in generation wing of the unit [20% of Rs.2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		10,67,500

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings.

Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation @20%.

Since the new machinery was purchased only on 12.10.2024, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the AY 2025-26. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

**Question 21**

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the AY 2025-26.

- Construction of school building in compliance with CSR activities amounting to Rs.5,60,000.
- Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to Rs.4,50,000.
- Interest on loan paid to Mr. X (a resident) Rs.50,000 on which tax has not been deducted. The sales for the FY 2023-24 was Rs.202 lakhs. Mr. X has not paid the tax, if any, on such interest.

(iv) Commodities transaction tax paid Rs.20,000 on sale of bullion.



Solution

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of Rs.5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs.4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (FY 2024-25, in this case), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction under section 35AD while computing business income of such specified business would be Rs.4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) Rs.50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the FY 2022-23 exceeds Rs.100 lacs.

Therefore, Rs.15,000, being 30% of Rs.50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of Rs.50,000 paid by it to Mr. X.

The balance Rs.35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of Rs.20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of Rs.20,000 paid is allowable as deduction under section 36(1)(xvi).



Question 22

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

- (ii) Where a person follows mercantile system of accounting, an expenditure of Rs.25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of Rs.25,000 through a crossed cheque, Rs.25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2024 is a deductible expenditure under section 36.
- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.



Solution

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following

mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding Rs.10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.

- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the

assessee will not be entitled to claim additional depreciation under section 32(1)(ia).



Question 23

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the AY 2025-26:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity Rs.5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of Rs.50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee Rs.20,000.
- (iv) Payment of Rs.50,000 by using credit card for fire insurance.
- (v) Salary payment of Rs.4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (vi) Payment made in cash Rs.30,000 to a transporter in a day for carriage of goods



Solution

- (i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:
 - (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
 - (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of

actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

- (ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds Rs.10,000.
Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.
- (iii) **Not allowable as deduction:** Income-tax of Rs.20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).
As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.
- (iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.
- (v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs.4,00,000 outside India by a company without deduction of tax at source.
- (vi) **Allowable as deduction:** The limit for attracting disallowance under

section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is Rs.35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of Rs.30,000 made in cash to a transporter for carriage of goods.



Question 24

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

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2025 for Rs.25,000 through a crossed cheque is hit by the provisions of section 40A(3).
- (b)
- It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
 - Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.



Solution

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b)
- True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same

as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

- (ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.



Question 25

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2025:

Trading and Profit and Loss Account for the year ended 31.03.2024

Particulars	Rs.	Particulars	Rs.
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares	8,100		
(Short term)			

To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:
 Opening stock Rs.9,000
 Closing stock Rs.18,000
- (ii) Salary includes Rs.10,000 paid to his brother, which is unreasonable to the extent of Rs.2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one time payment to Mr. Ramesh.
- (iv) The depreciation provided in the Profit and Loss Account Rs.1,05,000 was based on the following information:
 The opening balance of plant and machinery (i.e., the written down value as on 31.3.2024 minus depreciation for P.Y. 2022-23) is Rs.4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for Rs.70,000. Two old plants were sold on 1.10.2024 for Rs.50,000.
- (v) Rent and rates includes GST liability of Rs.3,400 paid on 7.4.2024.
- (vi) Other general expenses include Rs.2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

**Solution****Computation of business income of Mr. Sivam for the AY 2025-26**

Particulars		Rs.	Rs.
Net Profit as per profit and loss account			50,000
Add:	Inadmissible expenses/ losses		
	Under valuation of closing stock	18,000	
	Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
	Printing and stationery – whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds Rs.10,000 [Section 40A(3)]	23,200	
	Depreciation (considered separately)	1,05,000	
	Short term capital loss on shares	8,100	
	Donation to public charitable trust	2,000	1,58,300
			2,08,300
Less:	Items to be deducted:		
	Under valuation of opening stock	9,000	
	Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
	Business income before depreciation		1,96,900
Less:	Depreciation (See Note 1)		66,000
			1,30,900

Computation of business income as per section 44AD :

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., Rs.1,12,11,500 x 6 /100 = Rs.6,72,690

Notes:

1. Calculation of depreciation

Particulars	Rs.
Opening balance of plant & machinery as on 1.4.2022 (i.e. WDV as on 31.3.2022 (-) depreciation for P.Y. 2021-22)	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2023	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

**Question 26**

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2024, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2024. This new vehicle could however be put to use only on 15th June, 2024.

Compute the total income of Mr. Sukhvinder for the AY 2025-26, taking note of the following data:

Particulars	Rs.	Rs.
Freight charges collected		12,70,000
Less : Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

**Solution**

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be Rs.1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is Rs.13,72,500 (**See Notes 1 & 2 below**) and his total income would be Rs.14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be Rs.4,45,000 instead of Rs.13,72,500 and his total income would be Rs.5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for AY 2025-26

Particulars	Presumptive income Rs.	Where books are maintained Rs.
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month / per month	Ton	Amount Rs.
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500

**Question 27**

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000

To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the FY 2024-25:

- Administrative charges include Rs.46,000 paid as commission to brother of the assessee. The commission amount at the market rate is Rs.36,000.
- The assessee paid Rs.33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of Rs.4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2024 was Rs.20,000 and the balance was paid in November 2024.
- Housing loan principal repaid during the year was Rs.50,000 and it relates to residential property acquired by him in P.Y. 2022-23 for self-occupation. Interest on housing loan was Rs.23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	Rs.
WDV as on 31.03.2024 minus Depreciation for P.Y. 2023-24	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the AY 2025-26 assuming he has not opted for the provisions of section 115BAC.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.



Solution

Computation of total income of Mr. Raju for the AY 2025-26

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is Rs.35,000 in respect of payment to transport operators. Therefore, amount of Rs.33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	

Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
State GST penalty paid disallowed [See Note 2 below]		
Depreciation debited to profit and loss account	5,000	
	2,00,000	3,03,000
		8,03,000
Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	
Income from agriculture [Exempt under section 10(1)]	1,80,000	
Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,18,500
		3,84,500
Income from house property		
Annual value of self-occupied property	Nil	
Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		3,99,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime].		
Total Income		3,99,500

Working Note:**Computation of depreciation under the Income-tax Act, 1961**

Plant & Machinery (Depreciation rate @ 15%)	Rs.
Depreciation @15% on Rs.14 lakh (WDV as on 31.3.2024 of Rs.14 lakh less Depreciation for P.Y. 2022-23 of Rs.2.10 lakh plus assets purchased during the year and used for more than 180 days Rs.2 lakh)	2,08,500
Depreciation @7.5% on Rs.2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible.

However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be Rs.3,94,500.

**Question 28**

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2024 are given below:

Plant & Machinery (Depreciation rate @ 15%)	Rs.
Opening balance of car (only asset in the block) as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	3,00,000
Opening balance of machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y. 2022-23)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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

Compute the income arising from the above activities for the AY 2025-26.

**Solution**

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

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

Computation of depreciation for FY 2024-25

Particulars	Rs.	Rs.
Car		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2022 (-) depreciation for P.Y.2022-23)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2022-23)		15,00,000
Depreciation @ 15% for FY 2024-25		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if

the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

**Question 29****- November 2016**

Mr. Raghu, a Resident Individual (age 35 years), furnished following information from his P&L A/c for PY 22-23:

- Net Profit as per books of A/c was Rs. 6,50,000.
- Following Incomes were credited in the P&L A/c:
 - Interest on Government Securities: Rs. 25,000.
 - Dividend from a Foreign Company: Rs. 50,000.
 - Gold Coins worth Rs. 55,000 received as Gift from his father.
- Interest on Loan amounting to Rs. 68,000 was paid i.r.o Capital borrowed for purchase of New Asset which has not been put to use till 31st March 2024.
- General Expenses includes: Compensation of Rs. 4,500 paid to an Employee while terminating his services.
- He contributed the following amounts by Cheque:
 - Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
 - Rs. 28,000 towards Premium for Health Insurance & Rs. 2,500 for Preventive Health Check up for Self & his wife.
 - Rs. 35,000 on Medical Expenses of his father (Age 82 yrs) [No Insurance had been taken on health of his father] You are required to compute the Total Income of Mr. Raghu for AY 2024-25

**Solution****Computation of Taxable Income & Tax Liability of Mr. Raghu**

I Income u/h 'PGBP'			
	Net profit as per P&L A/c		6,50,000
	Add: Expenses not deductible u/h 'PGBP' but debited to P&L A/c	68,000	68,000
	1. Interest on Loan [Disallowed u/s 36(1)(iii)] [Note 1]		
	Less: Income which are taxable under other heads or Exempt Incomes but credited to P&L A/c		
	1. Interest on Government Securities (considered u/h 'IFOS')	(25,000)	
	2. Dividend from Foreign Company (considered u/h 'IFOS')	(50,000)	
	3. Gold Coins from Father (considered u/h 'IFOS')	(55,000)	(1,30,000)
			5,88,000
II Income u/h 'IFOS'			
	1. Interest on Government Securities	25,000	
	2. Dividend from Foreign Company (Taxable since received from foreign company)	50,000	
	3. Gold Coin from Father (not taxable since received from Relative)	Nil	
			75,000
	Gross Total Income		6,63,000
	Section 80D: Health Insurance Premium for Assessee & Spouse [Max. of Rs. 25,000]	(25,000)	
	Section 80D: Medical Expense of his Father (82 Yr) [Senior & Max. Limit is Rs. 50,000]	(35,000)	
	Section 80G: Swach Bharat Kosh [100% deduction allowed without restriction]	(20,000)	
			(80,000)
	Total (taxable) Income		5,83,000

Notes:

- As per Sec. 36(1)(iii), Interest on Capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
- Compensation to Employees for Termination is incurred for business & thus allowed u/s 37.

**Question 30****RTP May 2019**

M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business u/s 44AD provides the following details:

Total turnover for PY 2022-23 is Rs. 130 lacs. Out of the above:

- Rs. 25 lacs received by A/c payee cheque during PY 2022-23;
- Rs. 50 lacs received by cash during PY 2022-23;
- Rs. 25 lacs received by A/c payee bank draft before the due date of filing ROI of PY 2022-23;
- Rs. 30 lacs not received till due date of filing of return.

Compute the amount of deemed profits of M/s ABC u/s 44AD(1) for AY 2024-25.

- (a) 10.4 lacs (b) 7.0 lacs (c) 5.5 lacs **(d) 9.4 lacs**

**Question 31****– May 2020 RTP**

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25.09.2022, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2022 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the

car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using car immediately after purchase. Determine the depreciation allowable on car for the AY 2024-25, if this is the only asset in the block. If this car would also be used in the subsequent AY 2025-26 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

**Solution****Computation of depreciation allowance**

Since the car was put to use for more than 180 days in the PY.2021-22, full depreciation@30% (higher rate of depreciation is allowable on the actual cost, since car is purchased during the period 23.8.2021 to 31.3.2022] of Rs. 19,20,000, which is the total price (inclusive of GST) would be allowable.

However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable

Depreciation for PY 2021-22 = $30\% \times \text{Rs. } 19,20,000 \times 75\% = \text{Rs. } 4,32,000$. Written Down Value as on 1.4.2022 = $\text{Rs. } 19,20,000 - \text{Rs. } 4,32,000 = \text{Rs. } 14,88,000$.

Depreciation for PY 2022-23 = $30\% \times \text{Rs. } 14,88,000 \times 75\% = \text{Rs. } 3,34,800$.

**Question 32****– November 2019**

Mr. Prakash is in the business of operating goods vehicles. As on 1.4.2022, he had following

Vehicle	Gross Vehicle Weight (Kgs)	Date of Purchase	Put to use during FY
			22-23
A	8500	2.4.2020	Yes
B	13000	15.5.2020	Yes
C	12000	4.8.2020	No (as under repairs)

During PY 2022-23, he purchased following vehicles:

Vehicle	Gross Vehicle Weight (Kgs)	Date of Purchase	Date on which put to use
D	11000	30.4.2022	10.5.2022
E	15000	15.5.2022	18.5.2022

Compute his income u/s 44 AE of the Income Tax Act, 1961 for AY 2024-25.

**Solution**

Since Mr. Prakash does not own more than 10 vehicles at any time during PY 2022-23, he is eligible to opt for presumptive taxation scheme u/s 44AE. 1,000 per ton of gross vehicle weight or unladen weight p.m. or part of the month for each heavy goods vehicle & 7,500 p.m. or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits & gains from such goods carriage.

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

(1)	(2)	(3)	(4)	(5)	(6)
Name of Vehicles	Date of purchase	No. of months for which vehicle is owned	Gross vehicle weight (Kgs)	Presumptive income	Total taxable presumptive income
For Heavy goods vehicle:					
B	15.5.2021	12	13,000	1,56,000 (13 x 1,000 x 12)	1,56,000
E	15.5.2022	11	15,000	1,65,000 (15 x 1,000 x 11)	1,65,000
For goods vehicle other than heavy goods vehicle:					

A	2.4.2021	12	8,500	90,000 (7,500 × 12)	90,000
C	4.8.2021	12	12,000	90,000 (7,500 × 12)	90,000
D	30.4.2022	12	11,000	90,000 (7,500 × 12)	90,000
Total					5,91,000

**Question 33**

Mr. X commenced the business of operating goods vehicles on 1.4.2024. He purchased the following vehicles during the P.Y.2024-25. Compute his income under section 44AE for A.Y.2025-26.

	Gross Vehicle Weight(in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2022
(2)	6,500	1	15.03.2023
(3)	10,000	3	16.07.2022
(4)	11,000	1	02.01.2023
(5)	15,000	2	29.08.2022
(6)	15,000	1	23.02.2023

Would your Answer change if the goods vehicles purchased in April, 2024 were put to use only in July, 2024?

(Old & New SM)(Same concept different figures RTP May'19)

**Solution**

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs. 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy

goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2024	8	16
1	23.02.2025	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27
1	02.1.2025	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2025-26 would be -Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 × Rs. 1,000 × 15 ton being for heavy goods vehicle.

The Answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

**Question 34**

Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21-09-2024, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine the depreciation allowable on car for the A.Y. 2025-26, if this is the only asset in the block. Rate of depreciation may be taken at 15% If this car were to be used in the subsequent Assessment Year 2025-26 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

(PYP 4 Marks, Nov'18, RTP Nov '19)

**Solution**

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2018-19, full depreciation@15% is allowable on the actual cost of ₹15,36,000, which is the total price (inclusive of GST). However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	
Depreciation for P.Y.2024-25 = $15\% \times ₹15,36,000 \times 75\% =$	1,72,800

Written Down Value as on 1.4.2025 = ₹15,36,000 – ₹1,72,800 = ₹13,63,200	
Depreciation for P.Y.2025-26 = $15\% \times ₹13,63,200 \times 75\% =$	1,53,360

Note - As per section 17(5) of the CGST Act, 2017/Delhi GST Act, 2017, input tax credit would not be available in respect of motor vehicles except if they are used for making taxable supply of such vehicles or for transportation of goods or passengers or for imparting training on driving, flying navigating such vehicles. In this case, the question mentions that the car is the only asset in the block. In the absence of any information in the question to the contrary, it is logical to assume that the car is not used for making the above taxable supplies. Accordingly, input tax credit would not be available and hence, 1 As per section 49(4), in case where capital gains arise from subsequent sale of property, which was subject to tax under section 56(2)(x), the value taken into account for the purpose of section 56(2)(x) would be deemed to be the cost of acquisition.

GST would form part of actual cost of car. The above solution has been worked out accordingly. However, input tax credit would be available if it is assumed that the car is used in making the above taxable supplies or in transportation of goods, the answer would be as follows –

Alternative Answer

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2024-25, full depreciation@15% is allowable on the actual cost of ₹ 12 lakh (exclusive of GST of ₹ 3,36,000), assuming that input tax credit is available in respect of GST.	
Further, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable.	

Depreciation for P.Y.2024-25 = $15\% \times ₹ 12,00,000 \times 75\% =$	1,35,000
Written Down Value as on 1.4.2015 = $₹ 12,00,000 - ₹ 1,35,000 = ₹ 10,65,000$	
Depreciation for P.Y.2025-26 = $15\% \times ₹ 10,65,000 \times 75\% =$	1,19,813

**Question 35**

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2025.

Receipts	₹	Payments	₹
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2023 received in April, 2024		Entertainment Expenses	1,10,000
IPD 40,000	85,000	Purchase of Television	48,000
OPD 45,000			
Dividend from shares (net)	18,900	Gift to daughter-in law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000

		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

- He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.
- Entertainment expenses include ₹ 25,000 for dinner to doctors in a five star hotel.
- Interest on loan for repairs to property includes ₹ 40,000 for his residential property.
- His daughter in law earned income of ₹ 10,000 from the amount received as gift.
- Fixed Assets values as on 01.04.2024 are as under :
Nursing Home Equipment's ₹ 2,20,000, Medical Books (incl. annual publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.
- Television purchased for nursing home purpose on 21.09.2024 is put to use on 03.10.2024.
- He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2024.

You are required to

- Compute the total income and tax payable by him for AY 2025 -26 as per the regular provisions of the Income-tax Act, 1961. Assume that he has not opted for section 115BAC.
- What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA?

(PYP 14 Marks Nov '22)

**Solution**
I. Computation of total income and tax payable by Dr. Rohan for A.Y. 2025-26 as per the regular provisions of the Act

	Particulars	₹	₹	₹
I	Income from house property			
	Annual value [Assuming residential property self occupied]		Nil	
	Less: Deduction under section 24(b)			
	Interest on loan for repairs to property, ₹ 40,000, restricted to		30,000	
	Loss from self-occupied property			30,000
	[can be set-off against Profits and gains of business or profession or Income from other sources]			
	Profits and gains from business and profession			
	Gross Receipts			
	Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2024 received in April 2024 [Fees for March 2024 is chargeable to tax during P.Y. 2024-25, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]	85,000		
	Fees received during the year	10,25,000		
	Gifts received from relatives of patients [taxable as business income]	45,000	18,05,000	
	Less: Permissible deductions			
	Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 – ₹ 60,000]	2,90,000		

Taxes and insurance	26,000		
Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
Interest on loan for repair to property [to the extent relating to business] = ₹ 65,000 – ₹ 40,000, relating to residential property	25,000		
Nursing home expenses	3,75,000		
Professional fees paid for consulting services	1,20,000	9,46,000	
		8,59,000	
Less: Depreciation under section 32 Nursing home equipment's [2,20,000 x 15%]	33,000		
Note – Nursing home equipment would be eligible for depreciation @15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @40%. If 40% rate is applied, depreciation would be ₹ 88,000			
Medical books [35,000 x 40%]	14,000		
Laptop [40,000 x 40%]	16,000		

Television [48,000 x 15%, since the television is put to use for 180 days during the P.Y. 2024-25] Note - Television would be eligible for depreciation @15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @40%. If 40% rate is applied, depreciation for TV would be ₹ 19,200. Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation @10%. If 10% rate is applied, depreciation for TV would be ₹ 4,800.	7,200	70,200	7,88,800
Income from Other Sources			
Dividend from shares [18,900/90%]		21,000	
Honorarium for painting services in Jai Hind Art School [22,500/90%]		25,000	
Honorarium (Alternative without TDS) - ₹ 22,500			
Note – In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹ 22,500. Since the threshold limit for deducting tax at source under section 194J is ₹ 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.			
Interest on income-tax refund		1,500	

Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		10,000	57,500
Gross Total Income			8,16,300
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Deposits in PPF		55,000	
Deduction under section 80D Medical expenses to the extent of ₹ 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy)		50,000	
Deduction under section 80G		10,000	
Donation towards PM CARES Fund			1,15,000
Total Income			7,01,300
Tax Payable			
Upto ₹ 5,00,000 [since Dr. Rohan is aged 80 years or above]		Nil	
₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300 @ 20%]		40,260	
			40,260
Add: HEC @ 4%			1,610
Tax liability			41,870
Less: TDS on fees from visits to other hospitals		65,000	
TDS on dividend from shares		2,100	
TDS on honorarium for painting services in Jai Hind art School		2,500	69,600
Tax Refundable			27,730

II. Computation of total income and tax payable by Dr. Rohan for A.Y. 2025-26 if he opts for section 44ADA

	Particulars	₹	₹
I	Income from house property		
	Loss from self occupied property		(30,000)
II	Income from business or profession		
	Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]		9,02,500
III	Income from Other Sources		57,500
	Gross Total Income		9,30,000
	Less: Deduction under Chapter VI-A		1,15,000
	Total Income		8,15,000
	Tax Payable		
	Upto ₹ 5,00,000	Nil	
	₹ 5,00,001 to ₹ 8,15,000 [3,15,000@20%]	63,000	
			63,000
	Less: HEC@4%		2,520
	Tax liability		65,520
	Less: TDS		69,600
	Tax Refundable		4,080
	Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.		



Question 36

Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2024- 25, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs were received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions

of section 115BAC. What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings.

(MTP 3 Marks, Nov'21) (Same concept different figures RTP Nov'21)



Solution

Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD

The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than Rs. 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

Particulars	Rs.
6% of Rs. 25 lakhs, being turnover effected through account payee cheque	1,50,000
8% of Rs. 85 lakhs, being cash turnover	6,80,000
	8,30,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in Rs.	
Total Income	8,30,000	
Tax on 8,30,000		
Upto Rs. 2,50,000	Nil	
₹ 2,50,001 – Rs. 5,00,000@5%	12,500	

₹ 5,00,001 – Rs. 8,30,000@20%	66,000	78,500
Add: Health and Education cess@4%		3,140
Tax liability		81,640

Accordingly, she is required to pay advance tax of Rs. 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

**Question 37**

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

	₹ in lakhs
WDV of Plant and Machinery on 31.3.2024	30.00
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10.00
New machinery purchased on 1-12-2024	8.00
Computer purchased on 3-1-2025	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2025 if -

- he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
- he pays tax under the default tax regime under section 115 BAC.

**Solution**

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025

Particulars	Plant & Machinery (in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	-
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	
Computer Purchase on 3.1-2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	43.25	4.00

(i) **If Mr. Venus exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)**

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfillment of conditions.

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (in lacs)	Computer (₹ in lacs)
I	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	

II	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2006, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.
However, additional depreciation shall not be allowed in respect of, inter alia,-
 - any office appliances or road transport vehicles;
 - any machinery or plant installed in, inter alia, office premises.
 In view of the above provisions, additional depreciation cannot be claimed in respect of -
 - Machinery purchased on 1.12.2024, installed in office and
 - Computer purchased on 3.1.2025, installed in office.
- Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2023-24 and put to use for less than 180 days in that year can be claimed in P.Y. 2024-25 being immediately succeeding previous year.

(i) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation Normal Depreciation		
	• WDV of plant and machinery (25.25 lacs x 15%)	3.79	-
	• New Machinery purchased on 1.9.2024 (10 lacs x 15%)	1.50	-
	(A)	5.29	-
II	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation Normal Depreciation		

New machinery purchased on 1.12.2024 [8 lacs x 7.5% (i.e., 50% of 15%)]		
Computer purchased on 3.1.2024 [4 lacs x 20% (50% of 40%)]	0.60	-
(C)	-	0.80
Total Depreciation (A+B+C)	0.60	0.80
	5.89	0.80

**Question 1**

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

**Solution**

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

**Question 2**

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of Rs.30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are Rs.7,00,000 & Rs.4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2025-26.

**Solution**

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

Computation of Gross total income of Mr. A

Particulars	Rs.	Rs.
Salary received by Mrs. A (Rs.30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	50,000	3,10,000

Other Income		7,00,000
Gross total income		10,10,000

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

**Question 3**

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

**Solution**

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

Gross total income of Mr. A = Rs.7,00,000[other income].

Gross total income of Mrs. A = Salary received by Mrs. A [Rs.30,000 × 12] less Rs.50,000, being the standard deduction under section 16(ia) plus other income [Rs.4,00,000] = Rs.7,10,000.

**Question 4**

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of Rs.3,44,000 without any qualification in accountancy. Mr. B also receives Rs.30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is Rs.6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2025-26.

**Solution**

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

Computation of Gross total income of Mr. B

Particulars	Rs.
Income under the head salary of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
	3,74,000

Computation of Gross total income of Mrs. B

Particulars	Rs.	Rs.
Income from Salary [clubbed in the hands of Mr. B]		Nil
Income from house property		
Gross Annual Value [Rs.6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of Rs.72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

**Solution**

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of Rs.5,00,000 on 1.4.2023 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (Rs.)	Capital contribution out of gift from Mrs. Vaishaly (Rs.)	Total (Rs.)
Capital as on 1.4.2024	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2024 (3:5)	1,50,000 $(4,00,000 \times \frac{3}{8})$	2,50,000 $(4,00,000 \times \frac{5}{8})$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 is Rs.2,50,000.

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

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding Rs.50,000 without consideration from a relative i.e., his wife.

Question 5

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of Rs.5,00,000. He incurred a loss of Rs.2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of Rs.5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs.4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

**Question 6**

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

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

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

**Solution**

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

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

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

**Question 7**

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is Rs.2,000 p.a. each and that of the son is Rs.1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2023 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is Rs.10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr A and Mrs A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

**Solution**

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

Particulars	Rs.	Rs.
Twin minor daughters [Rs.2,000 × 2]	4,000	1,000
Less: Exempt under section 10(32) [Rs.1,500 × 2]	3,000	
Minor son	1,200	Nil
Less: Exempt under section 10(32)	1,200	
Income to be clubbed in the hands of Mr. A		1,000

Note – As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of Rs.84,000 [i.e., Rs.1,20,000 (-) Rs.36,000, being 30% of Rs.1,20,000) would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

**Question 8**

Compute the gross total income of Mr. & Mrs. A from the following information:

	Particulars	Rs.
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special talent	3,000
(f)	Gift received by C on 30.09.2024 from friend of Mrs. A	2,500

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



Solution

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

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

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

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

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

Particulars	Rs.	Rs.
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	

Gift of Rs.2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of Rs.50,000	Nil	
	3,000	
Less : Exemption under section 10(32)	1,500	1,500
Gross Total Income		4,05,000



Question 9

Mr. Vasudevan gifted a sum of Rs.6 lakhs to his brother's wife on 14-6-2024. On 12-7-2024, his brother gifted a sum of Rs.5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2024 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.



Solution

In the given case, Mr. Vasudevan gifted a sum of Rs.6 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of Rs.5 lakhs to Mr. Vasudevan's wife on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

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

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

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

Additional Questions



Question 10

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

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.



Solution

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter

suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or Rs.1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	Rs.
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (Rs.6,200 + Rs.4,300)	10,500
	Less: Income exempt under section 10(32) (Rs.1,500 + Rs.1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

- (1) All the four children are minor children;
- (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- (3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (4) This is the first year in which clubbing provisions are attracted.

**Question 11**

During the previous year 2024-25, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of Rs.5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of Rs.25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was Rs.52,000 from such flat.
- Mr. A gifted Rs.2,00,000 to his minor son who invested the same in a business and he derived income of Rs.20,000 from the investment.
- Mr. A's minor son derived an income of Rs.20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of Rs.10,000. He had no other income. Mrs. A received salary of Rs.20,000 per month from a part time job. Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they do not wish to opt for section 115BAC.

**Solution**

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2025-26

Particulars	Mr. A (Rs.)		Mrs. A (Rs.)	Minor Son (Rs.)
Income under the head "Salaries"				

Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (Rs.10,000×12)		1,20,000	-	
Less: Standard deduction under section 16(ia)		50,000	50,000	
		70,000	1,90,000	
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (Rs.5,00,000 × 9%) [See Note (1) below]	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son under section 64(1A)		1,92,000	1,90,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs.45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply. In this case, the commission income of Rs.25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.
- (3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.
Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs.1,500 per child.

Therefore, the income of Rs.20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of Rs.1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of Rs.1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of Rs.1,90,000. Therefore, Rs.18,500 (i.e., Rs.20,000 – Rs.1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note—The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs.50,000 without consideration from a relative i.e., his father.

- (5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs.20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

**Question 12**

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

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



Solution

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

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

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

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

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

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

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

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



Question 13

A proprietary business was started by Smt. Rani in the year 2022. As on 1.4.2023 her capital in business was Rs.3,00,000.

Her husband gifted Rs.2,00,000 on 10.4.2023 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2023-24, Rs.1,50,000 and Financial year 2024-25 Rs.3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2025-26 with reasons.



Solution

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise

than for adequate consideration. In this case Smt. Rani received a gift of Rs.2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is computed as under:

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Minor Son (Rs.)
	Rs.	Rs.	Rs.
Capital as at 1.4.2023	3,00,000	-	3,00,000
Investment on 10.04.2023 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2023	1,50,000		1,50,000
Capital employed as at 1.4.2024	4,50,000	2,00,000	6,50,000
Profit for F.Y.2024-25 to be apportioned on the basis of capital employed as at 1.4.2023 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2025-26 is Rs.1,20,000.



Question 14

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

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

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



Solution

Clubbing of income and other tax implications

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

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

Tax implications

- Income of Rs.45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- Salary of Rs.26,000 (Rs.76,000 less standard deduction under section 16(ia) of Rs.50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- Income from fixed deposit of Rs.10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before

including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs.1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

- (iv) Income of Rs.95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (v) Income of Rs.1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note—Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.



Question 15

Kamal gifted Rs. 10 Lacs to his wife, Sulochana on her birthday on, 1.1.2022. Sulochana lent Rs. 5,00,000 out of gifted amount to Krishna on 1.4.2022 for 6 months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15.10.2022 which were sold for Rs. 75,000 on 30.12.2022. STT was paid on such sale. Balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of Rs. 15,000 in the business in PY 2021-22. In whose hands the above income & loss shall be included in AY 2023-24.



Solution

As per section 64(1),

- If any person has transferred any asset to his or her spouse without adequate consideration in such case Income shall be clubbed in the income of transferor, hence Interest income of Rs. 50,000 shall be

clubbed in income of Mr. Kamal.

- If asset received by the spouse has been invested in the proprietor business, income from the business shall be clubbed in the income of transferor & if there is any loss, it will also be clubbed. Thus, loss of Rs. 15,000 shall also be clubbed.
- If any person has transferred the asset to the spouse, income from the asset shall be clubbed but if same income is invested further, any subsequent income shall not be clubbed.

In the given case, Mrs. Sulochana has invested interest income in the shares & there was capital gain on the sale of shares, such capital gain shall not be clubbed rather it will be taxable in the hands of Mrs. Sulochana.



Question 16

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

(a) Income from B's profession	4,50,000
(b) Mrs. B's salary as fashion designer	7,60,000
(c) Minor son D (interest on FD with a bank which were gifted to him by his uncle)	10,000
(d) Minor daughter P's earnings from sports	95,000
(e) D's winnings from lottery (gross)	1,95,000



Solution

- (a) Income of Rs. 4,50,000 from Mr. B's profession shall be taxable in the hands of Mr. B u/h PGBP.
- (b) Salary of Rs. 7,60,000 received by Mrs. B as a fashion designer shall be taxable as salaries in hands of Mrs. B.
- (c) Income from FD of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of mother, Mrs. B as Income u/h IFOS, since her income is greater than income of Mr. B before including the income of the minor child. As per Section 10(32), income of a minor child is exempt upto Rs. 1,500 per child (if clubbed).

- (d) Income of Rs. 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen on account of an activity involving application of her skill.
- (e) Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mrs. B as "IFOS", since her income is greater than the income of Mr. B before including the income of minor child.
- Note: She can reduce the TDS from such lottery income while computing her net tax liability.

Computation of income of Mr. B & Mrs. B

Particulars	Mr. B	Mrs. B
Income from X's Business	4,50,000	
Salary as fashion designer	-	7,60,000
Bank Interest to Minor Son D (10,000 - 1,500) [Rs. 1,500 exempt u/s 10(32)]	-	8,500
Income of Minor Daughter from Sports (since she is earning income from her own talent, sports income is not to be clubbed)	-	-
Lottery income to minor son D	-	1,95,000
Total	4,50,000	9,63,500



Question 17

Mr. X has 4 minor children consisting of three daughters & a son. Their annual income for AY 2023-24 are:

First daughter (including Scholarship received Rs. 5,000)	Rs. 10,000
Second Daughter	Rs. 8,500
Third Daughter (Suffering from disability specified U/s 80U)	Rs. 4,500
Minor Son	Rs. 40,000

Mr. X gifted 2 lacs to his minor Son who invested them in the business & derived income of 20,000 which is included above. Compute the Income earned by Minor Children to be clubbed in the hands of Mr. X.



Solution

Computation of Income of minor children to be clubbed in income of Mr. X

(i) Income of First Daughter	10,000	
Less: Scholarship received exempt u/s 10(16) (assumed received for education)	(5,000)	
Less: Exempt u/s 10(32)	(1,500)	
Income to be clubbed		3,500
(ii) Income of Second Daughter	8,500	
Less: Exempt u/s 10(32)	(1,500)	
Income to be clubbed		7,000
(iii) Income of Third Daughter who is suffering from disability shall not be clubbed		Nil
(iv) Income of Son Less: Exempt u/s 10(32) [40,000 - 1,500]		38,500
Total Income to be clubbed (3,500 + 7,000 + 38,500)		49,000



Question 18

Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was declared on these debentures for PY 2022-23. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for AY 2023-24, Shyam showed Rs. 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

- (a) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
- (b) **No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.**
- (c) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending

upon their discretion

- (d) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.



Question 19

Rayaan gifted Rs. 15 lakhs to his wife, Sargam on her birthday on 23.2.2022. Sargam lent Rs. 8 lakhs out of the gifted amount to Karuna on 1.4.2022 for 6 months on which she received interest of Rs. 80,000. It was (Rs. 80,000) was invested in shares of a listed company on 5.10.2022, which were sold for Rs. 96,000 on 28.3.2023. STT was paid on purchase & sale of such shares. Balance amount of gift was invested on 1.4. 2022 as capital by Sargam in her new business. She suffered loss of Rs. 52,000 in the business in PY 2022-23. In whose hands the above income & loss shall be included in AY 2023-24, assuming that capital invested in the business was entirely out of the funds gifted by her husband.



Solution

Interest on loan: Accordingly, Rs. 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss & not income. Thus, the entire loss of Rs. 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1.4.2022, capital invested was entirely out of the funds gifted by her husband.

STCG: Income from the accretion of transferred asset shall not be clubbed & therefore, STCG of Rs. 16,000 [Rs. 96,000 - Rs. 80,000 (COA)] arising in hands of Mrs. Sargam from sale of shares acquired by investing the interest income of Rs. 80,000 earned by her (from the loan given out of the sum gifted by her

husband), would not be included in hands of Mr. Rayaan. Thus, such income is taxable in hands of Mrs. Sargam.



Question 20

Mrs. & Mr. Vinod have 2 minor children M & N. Following receipts are of M & N during PY 2022-23:

- (i) M received a gift of 70,000 from her friend's father on occasion of her birthday.
- (ii) M won a prize money of 3,00,000 in National Quiz competition. This was invested in debentures of a company, from which interest of 19,000 (gross) accrued during the year.
- (iii) N won prize in lottery. Net amount received after deduction of TDS was 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under provisions of Income Tax Act, 1961. Detailed computation of income is not required.



Solution

As per section 64(1A), if any income accrues/arises to a minor child, such income shall be clubbed in income of mother/father whosoever has higher income before taking into consideration income to be clubbed. However, if any minor child has income through manual labour or has income through activity involving application of his skill, talent or specialized knowledge & experience, provisions of clubbing shall not apply. Such income will be considered to be the income of minor child & his tax liability shall be computed separately. Further, if the income of minor child is to be clubbed, exemption shall be allowed u/s 10(32) up to 1,500 p.a. per child, provided father does not opt to be taxed u/s 115BAC.

In the given case, income of father is higher than mother. Hence, income of both minor children i.e. M & N shall be clubbed with the income of father.

- (i) Gift of 70,000 received by M from her friend is taxable as it is not received from any relative of M. The same would be clubbed in income of father.
- (ii) Prize money earned by M in National Quiz Competition shall not be clubbed as it is earned through application of her skill, talent or specialized knowledge & experience. However, interest income on debentures of 19,000 shall be clubbed in income of father.
- (iii) Prize Money earned by N shall be taxable on gross basis & same shall be clubbed with income of father i.e. $1,05,000/70\% = 1,50,000$ shall be clubbed.

Exemption u/s 10(32) up to 1,500 p.a. per child (not allowed if the father opts to be taxed u/s 115BAC).



Question 21

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? (Old & New SM, RTP May'23)



Solution

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mr. Vaibhav received a gift of ₹ 5,00,000 on 1.4.2024 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2023	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2022 (3:5)	1,50,000 $4,00,000 \times \frac{3}{8}$	2,50,000 $4,00,000 \times \frac{5}{8}$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 is ₹ 2,50,000.

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

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.



Question 22

Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2024. Shagun lent such amount to Kinjal on 1st April, 2024 for six months on which she received interest of ₹ 75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2024, which were sold

for ₹ 90,000 on 30th March, 2025. Securities transactions tax was paid on purchase and sale of such shares. In whose hands the above income shall be included in A.Y.2025-26. Support your answer with brief reasons. (MTP 3 Marks, Oct'21, Mar'19, RTP Nov '18, Nov'19)



Solution

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by Mrs Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 15,000 (₹ 90,000, being the sale consideration less ₹75,000, being the cost of acquisition) arising in the hands of Mrs Shagun from sale of shares acquired by investing the interest income of ₹75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.



Question 23

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2024. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2024 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2024, which were sold for ₹ 75,000 on 30th December, 2024. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital

by Nisha in a newly business started on 1.4.2024. She suffered loss of ₹ 15,000 in the business in Financial Year 2024-25. In whose hands the above income and loss shall be included in Assessment Year 2025 -26? Support your answer with brief reasons. (MTP 4 Marks April '23 & Oct '20)



Solution

Interest on loan

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2024, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

Capital Gain on sale of shares of listed company

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the

hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 15% in the hands of Ms. Nisha.



Question 24

Mr. Vijay gifted a sum of ₹ 4 lakhs to his brother's wife on 19-6-2024. On 21-7-2024, his brother gifted a sum of ₹ 3 lakhs to Mr. Vijay's wife. The gifted amounts were invested as fixed deposits in banks by Mr. Vijay and wife of Mr. Vijay's brother on 01-8-2024 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vijay and his brother. (MTP 4 Marks, May'20)



Solution

In the given case, Mr. Vijay gifted a sum of ₹4 lakhs to his brother's wife on 19.06.2024 and simultaneously, his brother gifted a sum of ₹3 lakhs to Mr. Vijay's wife on 21.07.2024. The gifted amounts were invested as fixed deposits in banks by Mr. Vijay and his brother's wife. These transfer are in the nature of cross transfer Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfer are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

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

Accordingly, the interest income arising to Mr. Vijay in the form of interest on fixed deposits would be included in the total income of Mr. Vijay and interest income arising in the hands of his brother's wife would be taxable in the

hands of Mr. Vijay's brother as per section 64(1), to the extent of amount of cross transfer i.e., ₹3 lakhs.

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

However, the interest income earned by his spouse on fixed deposit of ₹3 lakhs alone would be included in the hands of Mr. Vijay's brother and not the interest income on the entire fixed deposit of ₹4 lakhs, since the cross transfer is only to the extent of ₹3 lakhs.



Question 25

Mrs and Mr. Naresh Yadav have two minor children Mahi and Nonu. The following are the receipts in the hands of Mahi and Nonu during the year ended 31-3-2024:

- (i) Mahi received a gift of ₹ 85,000 from her friend's father on the occasion of her birthday.
- (ii) Nonu won a prize money of ₹3,00,000 in National Sports competition. This was invested in debentures of a company, from which interest of ₹ 25,000 (gross) accrued during the year. Mr. Marsh's income before considering clubbing provisions is higher than that of his wife. Explain how these items will be considered for taxation under the provisions of the Income Tax Act, 1961. Detailed computation of income is not required. (MTP 5 Marks, Oct'19)

**Solution**

- (i) **Gift received from non-relative by minor daughter Mahi**
 Gift of ₹ 85,000 received by minor daughter Mahi, from non-relative would be taxable, since the amount of gift exceeds ₹ 50,000. It would be included in the hands of her father, Mr. Naresh Yadav, since his income before considering clubbing provisions is higher than that of his wife.
 Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor daughter Mahi so included in the hands of Mr. Naresh Yadav under section 10(32)
- (ii) **Prize money of ₹ 3,00,000 in National Sports Competition/Interest on debentures received by minor son Nonu**
 Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be included in the hands of parent. Hence, the prize money of ₹ 3,00,000 won in National Sports Competition by minor son Nonu from exercise of special talent would not be included in the income of either parent.
 However, interest of ₹ 25,000 on debentures has to be included in the hands of her father, Mr. Naresh Yadav, even if the investment is made out of income arising from application of special talent.
 Exemption of ₹1,500 would be allowed in respect of the aggregate income of minor son Nonu so included in the hands of Mr. Naresh Yadav under section 10(32).

**Question 26**

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2024-25:

- (i) He had a fixed deposit of ₹ 4,00,000 with State Bank of India with

interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.

- (ii) He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2024. During the previous year 2024- 25, she received a rent of ₹ 20,000 p.m. from letting out the flat.
- (iii) He gifted ₹ 10,00,000 to M ₹ Kajal on 1st April, 2024 which Mrs Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2024-25 of ₹ 9,00,000.
- (iv) His minor son Sandeep earned income from company deposit of ₹ 1,50,000.

Mr. Shashank and Mrs Kajal do not have any other income during the P.Y. 2024-25. Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2025-26.(MTP 6 Marks, Aug'18)

**Solution**

Computation of Total income of Mr. Shashank and Mrs Kajal for the A.Y. 2025-26

Particulars	Mr. Shashank (₹)	Mrs. Kajal (₹)
Salary income (₹ 30,000 x 12) Less standard deduction ₹ 50,000 (As per amendment)	3,10,000	
Income from house property [₹ 2,40,000 (₹ 20,000 x 12) less standard deduction of 30%] (Note 1)	1,68,000	
Income from other sources		
Interest on fixed deposit with State bank of India (₹ 4,00,000 x 10%) (Note 2)	40,000	
Profits and gains from business or profession		

Profits earned by M [₹] Kajal from her business (Note 3)	3,00,000	6,00,000
Income before including income of minor child under section 64(1A)	8,18,000	6,00,000
Income from other sources		
Minor son Sandeep - Income from company deposit (Note 4)	1,48,500	
Total income	9,66,500	6,00,000

Notes:

- (1) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Shashank shall be deemed to be the owner of the flat gifted to Mrs Kajal and hence, the income arising from the same shall be computed in the hands of Mr. Shashank.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of M[₹] Kajal, since she has received immovable property without consideration from a relative i.e., her husband.

- (2) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.
- (3) Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs Kajal received a gift of ₹ 10,00,000 on 1.4.2024 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2025-26 is computed as under:

Particulars	M [₹] Kajal's capital contribution (₹)	Capital contribution out of gift from Mr. Shashank (₹)	Total (₹)
Capital as on 1.4.2024	20,00,000	10,00,000	30,00,000
Profit for P.Y. 2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2024 (2:1)	6,00,000 (9,00,000 x 2/3)	3,00,000 (9,00,000 x 1/3)	9,00,000

Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2025-26 is ₹ 3,00,000. Note: The provisions of section 56(2)(x) would not be attracted in the hands of M[₹] Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e, her husband.

- (4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than M[₹] Kajal's income of ₹ 6,00,000. Therefore, ₹ 1,48,500 (i.e., ₹ 1,50,000 – ₹ 1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.

**Question 27**

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

Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi? (MTP 4 Marks March '23, Old & New SM)

**Solution**

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

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

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

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

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

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the

income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

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

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

**Question 28**

Mr. Manoj, a bhajan singer of Rajasthan and his wife Mrs. Daya furnish the following information relating to the A.Y. 2025-26.

1	Income of Mr. Manoj - Professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Daya (Computed)	3,80,000
3	Loan received by Mrs. Daya from Ramu & Jay (P) Ltd. (Mrs. Daya holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000

4	Income of their minor son Ganesh from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Ganesh from friend of Mr. Manoj on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Manoj & Mrs. Daya for the A.Y. 2025-26 if they opt for the provisions of section 115BAC. (MTP 5 Marks Sep '23, PYP 5 Marks Nov'19)

**Solution****Computation of Taxable income of Mr. Manoj for A.Y. 2025-26**

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son – Ganesh	
- Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	Nil
- Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil
Income of minor married daughter – Gudia	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000

Less: Exempt under section 10(32) [Since Mr. Manoj has opted for the provisions of section 115BAC, exemption u/s 10(32) would not be available]	-
(Income of minor daughter would be included in the hands of Mr. Manoj, since his income, before including minor daughter's income, is higher than his wife's income).	
Taxable Income	6,05,000

Computation of Taxable income of Mrs. Daya for A.Y. 2025-26

Particulars	₹
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt.) Ltd.	Nil
[Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Daya has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	
Taxable Income	3,80,000

**Question 29**

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000

(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" from scholarship received from his school	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2025-26 assuming that they have not opted to be taxed under section 115BAC. (PYP 5 Marks July'21, MTP 5 Marks Oct '23)

Answer 13

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2025-26

Particulars		Mr. Dharmesh	Mrs. Anandi
		Amount (₹)	
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total Income before including income of minor children		17,50,000	9,60,000
Income of minor son "A"			

Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]			
Income of minor son "B"			
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]			-
Income from fixed deposit with PNB	5,000		
[Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]			
Less: Exemption under section 10(32)	1,500	3,500	
Income of minor daughter "C"			

Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]		Nil	
Hence, clubbing provisions will not apply in this case/no adjustment is required.			
Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]			
Hence, clubbing provisions will not apply in this case / no adjustment is required.		Nil	
Gross Total Income/ Total Income		17,53,500	9,60,000

Note - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16). Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised

knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.



Question 30

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

- Mr. Chaman's salary income - ₹ 11,00,000
- Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2024-25. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2024-25.
- Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2025-26. Ignore section 115BAC pertaining to alternative tax regime. (PYP 6 Marks May '23)



Solution

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2025-26

	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	₹	₹	₹	₹
Income under the head "Salaries" (computed)	11,00,000			
Profits and gains from business or profession Income from Kathak performances		2,50,000		
Capital Gains Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		2,00,000		

The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since			3,56,000	
such income arises from her own skills/talent. However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500]5	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000

Gross Total Income				
	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A	10,000			
- Under section 80TTA In respect of interest on saving bank account to the extent of				
Under section 80U				35,000
- Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note – (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2024 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

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



Question 31

On 10th April, 2018, Mr. Mayur made a gift of ₹ 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a fixed deposit account in a Nationalised bank. The bank credited a sum of ₹ 42,500 as interest on fixed deposit on 31st March, 2025. Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19th June, 2017) in September 2017 which were purchased by him on 18th December, 2005 for ₹ 95,000. Tejas received a dividend of ₹ 10,000 on these shares in October 2024. He sold these shares on 1st December, 2024 for ₹ 4,80,000 and deposited ₹ 3,10,000 in a company at 14% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2005-06	113
2012-13	184
2019-20	280
2017-18	264
2024-25	384

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2024-25. Compute his Gross Total Income for the A.Y. 2025-26. (RTP May '19)



Solution

Computation of Gross Total Income of Mr. Mayur for the A.Y. 2025-26

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		

Less: Indexed Cost of Acquisition [$\text{₹ } 95,000 \times 384/264$]	1,38,182	3,41,818	
Income from Other Sources			
Dividend of ₹ 10,000 on equity shares [Exempt u/s 10(34)] Dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.			
Interest on company deposit [$\text{₹ } 3,10,000 \times 14\% \times 4/12$]	14,467	24,467	
		3,66,285	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	3,64,785
Gross Total Income			8,14,785

Notes:

- (1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.
- (2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.

- (3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2017-18, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2005-06. The solution based on alternate view is given as under:

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

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [$\text{₹ } 95,000 \times 348/113$]	2,92,566	1,87,434	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
Dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assessee. Interest Income incurred to earn such income will be allowed as a deduction but only upto 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished)	10,000		

Interest on company deposit [₹ 3,10,000 x 14% x 4/12]	14,467	24,467	
		2,11,901	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	2,10,401
Gross Total Income			6,60,401



Question 1

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

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



Solution

- (a) **The statement is not correct.** Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.
- (b) **The statement is correct.** As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.



Question 2

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

	Date of issue of policy	Person insured	Actual capital sum assured (Rs.)	Insurance premium paid during 2024-25 (Rs.)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2019	Spouse	1,50,000	20,000
(iii)	1/6/2022	Handicapped son (section 80U disability)	4,00,000	80,000



Solution

	Date of issue of policy	Person insured	Actual capital sum assured (Rs.)	Insurance premium paid during 2024-25 (Rs.)	Deduction u/s 80C for A.Y. 2024-25 (Rs.)	Remark (restricted to % of sum assured) (Rs.)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2019	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2022	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
Total					1,23,000	



Question 3

An individual assessee, resident in India, has made the following deposit / payment during the previous year 2024-25:

Particulars	Rs.
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value Rs.2,00,000)	25,000

What is the deduction allowable under section 80C for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

**Solution****Computation of deduction under section 80C for A.Y.2025-26**

Particulars	Rs.
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value Rs.2,00,000, as the policy is taken after 31.3.2013)	20,000
Total	1,70,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

**Question 4**

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

**Solution**

Tax treatment in the hands of Mr. A in respect of employer's and own

contribution to pension scheme referred to in section 80CCD

- Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, Rs.1,80,000, being 15% of basic salary of Rs.12,00,000, will be included in Mr. A's salary.
- Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

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

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

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

In the alternative, Rs.50,000 can be claimed as deduction under section

80CCD(1B). The balance Rs.1,30,000 (Rs.1,80,000 – Rs.50,000) can be claimed as deduction under section 80CCD(1).

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



Question 5

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

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

Compute the eligible deduction under Chapter VI-A for the A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

Computation of deduction under Chapter VI-A for the A.Y.2025-26

Particulars	Rs.
Deduction under section 80C	

- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to Rs.1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
- Contribution to approved pension fund of LIC Rs.1,05,000	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to Rs.1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2025-26	1,50,000



Question 6

Mr. A, aged 40 years, paid medical insurance premium of Rs.20,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of Rs.47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed Rs.3,600 to Central Government Health Scheme during the year. He has incurred Rs.3,000 in cash on preventive health check-up of himself and his spouse and Rs.4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution****Deduction allowable under section 80D for the A.Y.2025-26**

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

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed Rs.25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs.1,400, being (Rs.25,000 – Rs.20,000 – Rs.3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed Rs.50,000. Therefore, the expenditure on preventive health check-up for

father would be restricted to Rs.3,000, being (Rs.50,000 – Rs.47,000).

- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is Rs.4,400 (i.e., Rs.1,400 + Rs.3,000), which is within the maximum permissible limit of Rs.5,000.

**Question 7**

Mr. Y, aged 40 years, paid medical insurance premium of Rs.22,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of Rs.33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of Rs.20,000 on his father, aged 71 years, who is not covered under mediclaime policy. His father is also not dependent upon him. He contributed Rs.6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution****Deduction allowable under section 80D for the A.Y.2024-25**

	Particulars	Rs.	Rs.
(i)	Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii)	Contribution to CGHS	6,000	
		28,000	
	restricted to		25,000
(iii)	Mediclaime premium paid for mother, who is over 60 years of age	33,000	

(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
		53,000	
	restricted to		50,000
			75,000

**Question 8**

Mr. X is a resident individual. He deposits a sum of Rs. 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

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

**Question 9**

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

**Solution**

Since the expense was incurred for a dependant disabled person, Mr. X will be

entitled to claim a deduction of Rs. 75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be Rs. 1,25,000.

**Question 10**

Mr. B has taken three education loans on April 1, 2024, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (Rs.)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (Rs.)	1,00,000	40,000	80,000
Annual repayment of interest (Rs.)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

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

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

**Question 11**

Mr. A purchased a residential house property for self-occupation at a cost of Rs.45 lakh on 1.4.2018, in respect of which he took a housing loan of Rs.35 lakh from Bank of India @11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), assuming that the entire loan was outstanding as on 31.3.2024 and he does not own any other house property.

**Solution**

Particulars	Rs.
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 24(b) Rs.3,85,000 [Rs.35,00,000 × 11%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE Rs.1,85,000 (Rs.3,85,000 – Rs.2,00,000) Restricted to	50,000

**Question 12**

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26.

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	Rs.43 lakhs	Rs.45 lakhs	Rs.20 lakhs	Rs.15 lakhs

Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	Rs.45 lakhs	Rs.48 lakhs	-	-
Cost of electric vehicle	-	-	Rs.22 lakhs	Rs.18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

**Solution**

Particulars	Rs.
Mr. A	
Interest deduction for A.Y.2025-26	

(i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs.3,54,750 [Rs.43,00,000 × 9%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA Rs.1,54,750 (Rs.3,87,000 – Rs.2,00,000) Restricted to	1,50,000
Mr. B Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs.4,05,000 [Rs.45,00,000 × 9%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds Rs.45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	
Mr. C Deduction under Chapter VI-A Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs.20 lakhs × 10% = Rs.2,00,000, restricted to Rs.1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D Deduction under Chapter VI-A Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2020.	Nil

**Question 13**

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

- Premium paid to insure the life of her major daughter (policy taken on 1.4.2019) (Assured value Rs.1,80,000) – Rs.20,000.
- Medical Insurance premium for self – Rs.12,000; Spouse – Rs.14,000.
- Donation to a public charitable institution Rs.50,000 by way of cheque.
- LIC Pension Fund – Rs.60,000.
- Donation to National Children's Fund – Rs.25,000 by way of cheque
- Donation to Jawaharlal Nehru Memorial Fund – Rs.25,000 by way of cheque
- Donation to approved institution for promotion of family planning – Rs.40,000 by way of cheque
- Deposit in PPF – Rs.1,00,000

Compute the total income of Mr. Shiva for A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution****Computation of Total Income of Mr. Shiva for A.Y. 2025-26**

Particulars	Rs.	Rs.
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value Rs.1,80,000, as the policy is taken after 31.3.2013)	18,000	

Deduction under section 80CCC in respect of LIC pension fund	1,18,000 60,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to	1,78,000	1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (Rs.)	% of deduction	Deduction u/s 80G (Rs.)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Jawaharlal Nehru Memorial Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
				87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., Rs.6,00,000, in this case. Rs.60,000, being 10% of adjusted total income is the qualifying limit, in this case. Firstly, donation of Rs.40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of Rs.50,000 to public charitable trust is restricted to 20,000 (being, Rs.60,000 - Rs.40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be Rs.10,000, which is 50% of Rs.20,000.



Question 14

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 is Rs.4,60,000, paid house rent at Rs.12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



Solution

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

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

$$\text{Rs.1,44,000 (-) } \frac{(10 \times 4,60,000)}{100} = \text{Rs.98,000 (A)}$$

(ii) 25% of total income = $\frac{(25 \times 4,60,000)}{100} = \text{Rs.1,15,000 (B)}$

(iii) Amount calculated at Rs.5,000 p.m. = Rs.60,000 (C)

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

**Question 15**

During the P.Y. 2024-25, ABC Ltd., an Indian company,

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

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

**Solution**

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

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

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

**Question 16**

Mr. A has commenced the business of manufacture of computers on 1.4.2023. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular / Casual	Total monthly emoluments per employee (Rs.)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000
(iii)	50	1.8.2024	Casual	24,500
(iv)	100	1.9.2024	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2025-26, if the profits and gains derived from manufacture of computers that year is Rs.75 lakhs and his total turnover is Rs.10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024?

**Solution**

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed “additional employees” during the P.Y. 2024-25.

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

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

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

Working Note:

Number of additional employees

Particulars		No. of workmen	
Total number of employees employed during the year			350
Less:	Casual employees employed on 1.8.2024 who do not participate in recognized provident fund	50	
	Regular employees employed on 1.5.2024, since their total monthly emoluments exceed Rs.25,000	125	
	Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100	275
Number of "additional employees"			75

Notes –

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed Rs.25,000. Also, 100 regular employees employed on 1.9.2024 do not qualify as additional employees for the P.Y.2025-26, since they are employed for less than 240 days in that year. Therefore, only 75 employees employed on 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.
- (ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2026-27.

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

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2023, since they have been employed for more than 150 days in the previous year 2024-25. Additional employee cost = Rs.2,16,00,000 + Rs.24,000 × 7 × 100 = Rs.3,84,00,000

Deduction under section 80JJAA = 30% of Rs.3,84,00,000 = Rs.1,15,20,000

**Question 17**

Mr. Aakash received royalty of Rs.2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was Rs.40,000. The amount remitted to India till 30th September, 2024 is Rs.2,30,000. The remaining amount was not remitted till 31st March, 2025. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

The net royalty of Rs.2,48,000 (i.e., royalty of Rs.2,88,000 less Rs.40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB:	Rs.
Royalty Rs.2,88,000 × 15/18 = Rs.2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	<u>40,000</u>
Deduction u/s 80QQB	<u>1,90,000</u>

**Question 18**

Mr. A, a resident individual aged 61 years, has earned business income (computed) of Rs.1,35,000, lottery income of Rs.1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of Rs.30,000 with banks. He invested an amount of Rs.1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution****Computation of total income of Mr. A for A.Y.2025-26**

Particulars	Rs.	Rs.
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto Rs.50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is Rs.1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = Rs.2,85,000 – Rs.1,20,000 = Rs.1,65,000.

**Question 19**

Mr. Gurnam, aged 42 years, has salary income (computed) of Rs.5,50,000 for the previous year ended 31.03.2025. He has earned interest of Rs.14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, assuming that he does not opt for section 115BAC:

- Life insurance premium paid to Birla Sunlife Insurance in cash amounting to Rs.25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2021 and the sum assured on life of his dependent parents is Rs.2,00,000.
- Life insurance premium of Rs.25,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is Rs.3,50,000 and the life insurance policy was taken on 30.3.2013.
- Life insurance premium paid by cheque of Rs.22,500 for insurance of his life. The insurance policy was taken on 08.09.2020 and the sum assured is Rs.2,00,000.
- Premium of Rs.26,000 paid by cheque for health insurance of self and his wife.
- Rs.1,500 paid in cash for his health check-up and Rs.4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- Paid interest of Rs.6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of Rs.5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

**Solution**

**Computation of total income of Mr. Gurnam for the Assessment Year
2025-26**

Particulars	Rs.	Rs.	Rs.
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
Less: Deduction under Chapter VIA			
Under section 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- major son	25,500		
- self Rs.22,500 restricted to 10% of Rs.2,00,000	20,000	45,500	
Under section 80D (See Note 2)			
Premium paid for Rs.26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account Rs.14,500 restricted to		10,000	91,500
Total Income			4,73,000

Notes:

- As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam. In respect of insurance policy issued on or after 01.04.2013, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is issued before 01.04.2013, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured. Therefore, in the present case, deduction of Rs.25,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2013 and the premium amount is less than 20% of Rs.3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of Rs.2,00,000 since, the policy was issued on or after 01.04.2013 and the premium amount exceeds 10% of sum assured.
- As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs.25,000. Further, deduction up to Rs.5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash. Therefore, in the present case, in respect of premium of Rs.26,000 paid for health insurance of self and wife, deduction would be restricted to Rs.25,000. Since the limit of Rs.25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check- up for self and wife. However, deduction of Rs.4,500 is allowable in respect of health check-up of his parents, since it falls within

the limit of Rs.5,000.

- (3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding Rs.2,000. Therefore, deduction under section 80G is not allowable in respect of cash donation of Rs.5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs.10,000. Therefore, deduction of Rs.10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is Rs.14,500.

Additional Questions



Question 20

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

- During the financial year 2024-25, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- In order to be eligible to claim deduction under section 80C, investment / contribution / subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- Where an individual repays a sum of Rs.30,000 towards principal and Rs.14,000 as interest in respect of loan taken from a bank for pursuing

eligible higher studies, the deduction allowable under section 80E is Rs.44,000.

- Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received Rs.7 lakhs on 1.5.2023, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2025-26.
- Mr. Vishal, a Central Government employee, contributed Rs.50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD.



Solution

- The statement is correct.** The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- The statement is not correct.** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to Rs.14,000.
- The statement is not correct.** The proviso to section 80CCD(3) provides

that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26.

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



Question 21

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

- Rajan has to pay to a hospital for treatment Rs.62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited Rs.25,000 with LIC for maintenance of dependant disabled.
- Rajan has incurred Rs.20,000 for treatment and Rs. 25,000 was deposited with LIC for maintenance of dependant disabled.
- Payment of Rs.50,000 by cheque to an electoral trust by an Indian company.



Solution

- The deduction of Rs.75,000 under section 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is Rs.1,25,000.
- The assessee Rajan has deposited Rs.25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim Rs.75,000 since the deduction of Rs.75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is Rs.1,25,000.

- Section 80DD allows a deduction of Rs.75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be Rs.75,000 even though the total amount incurred/deposited is only Rs.45,000. If the dependant is a person with severe disability the quantum of deduction is Rs.1,25,000.
- Amount paid by an Indian Company to an electoral trust is eligible for deduction under section 80GGB from gross total income, since such payment is made otherwise than by way of cash.



Question 22

For the Assessment year 2025-26, the Gross Total Income of Mfr. Chaturvedi, a resident in India, was Rs.8,18,240 which includes long-term capital gain of Rs.2,45,000 taxable under section 112 and Short-term capital gain of Rs.58,000. The Gross Total Income also includes interest income of Rs.12,000 from savings bank deposits with banks and Rs.40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF Rs.1,20,000 and also paid a medical insurance premium Rs.51,000. Mr. Chaturvedi also contributed Rs.50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2025, in a tax efficient manner.



Solution

Computation of total income and tax payable by Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime

Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		-
		8,18,240

Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	-	
Under section 80D	-	
Under section 80G	-	-
Under section 80TTB	-	-
Total income		8,18,240
Total income (rounded off)		8,18,240
Tax on total income (including long-term capital gains of Rs.2,45,000)		
LTCG Rs.2,45,000 x 20%		49,000
Balance total income Rs.5,73,240		13,662
		62,662
Add: Health and Education cess @4%		2,506
		65,168

Optional Tax Regime Particulars	Rs.	Rs.
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of Rs.51,000 is paid by otherwise than by cash. The deduction would be restricted to Rs.50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	
		2,37,662

Total income (excluding long term capital gains)	3,35,578
Total income (including long term capital gains)	5,80,578
Total income (rounded off)	5,80,580
Tax on total income (including long-term capital gains of Rs.2,45,000)	
LTCG Rs.2,45,000 x 20%	49,000
Balance total income Rs.3,35,580 (See Note 4 below)	1,779
	50,779
Add: Health and Education cess @4%	2,031
Total tax liability	52,810

Notes:**1. Computation of deduction under section 80G:**

Particulars	Rs.
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,240
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section 80G	35,324
Deduction under section 80G – 50% of Rs.35,324	17,662

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding Rs.2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto Rs.50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.

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

**Question 23**

Mr. Rajmohan whose gross total income was Rs.6,40,000 for the financial year 2024-25 furnishes you the following information:

- Repayment of loan taken from SBI for acquisition of residential house (self-occupied) – Rs.50,000.
- Five year post office time deposit – Rs.20,000.
- Donation to a recognized charitable trust Rs.25,000 which is eligible for deduction under section 80G at the applicable rate.
- Interest on loan taken for higher education of spouse paid during the year –Rs.10,000.

Compute the total income of Mr. Rajmohan for the Assessment year 2025-26 if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Solution**

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

Particulars	Rs.	Rs.
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
Under section 80E		
Interest on loan taken for higher education of	10,000	92,500
Section 80U		12,500
Total Income		5,47,500

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, Rs.5,60,000 (i.e. 6,40,000 – Rs.80,000), 10% of which is Rs.56,000, which is higher than the actual donation of Rs.25,000. Therefore, the deduction under section 80G would be Rs.12,500, being 50% of the actual donation of Rs.25,000.

**Question 24**

Compute the eligible deduction under Chapter VI-A for the A.Y. 2025-26 of Ms. Roma, aged 40 years, who has a gross total income of Rs.15,00,000 for the A.Y. 2025-26 and provides the following information about her investments/ payments during the P.Y. 2024-25:

Sl. No.	Particulars	Amount (Rs.)
1.	Life Insurance premium paid (Policy taken on 31-03-2013 and sum assured is Rs.4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

**Solution****Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2025-26**

Particulars	Rs.	Rs.
Deduction under section 80C		
Life insurance premium paid Rs.35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2013)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of Rs.1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund		
	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of Rs.30,000 towards medical policy taken for self, wife and dependent children restricted to		
Medical insurance premium paid Rs.52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

**Question 25**

Mr. Arihant, a resident individual aged 40 years, has GTI of Rs. 7,50,000 comprising of income from Salary & income from HP for AY 2025-26. He provides the following information:

- ❖ Paid Rs. 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured Rs. 4,00,000 & date of issue of policy 01.08.2018.
- ❖ Deposited Rs. 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.
- ❖ Paid Rs. 78,000 towards medical insurance for term of 3 years as a lumpsum payment for himself & his spouse. Also incurred Rs. 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned Rs. 4,50,000 interest from fixed deposit.

Contributed Rs. 25,000 to the Clean Ganga Fund, set up by the CG. Compute the Total Income & deduction under Chapter VI-A for AY 2025-26.

**Solution****Computation of Total Income of Mr. Arihant for AY 2025-26**

Particulars	Rs.	Rs.	Rs.
GTI			7,50,000
Less: Deduction under Chapter VI-A			
Section 80C			
❖ Life insurance premium of Rs. 70,000 (restricted to Rs. 60,000 i.e., 15% of Rs. 4,00,000 (sum assured), since policy has been taken on/ after 1.4.2014, i.r.o. his handicapped son suffering from disability u/s 80U)	60,000		

❖ Tax saver deposit of Rs. 90,000 in the name of his major son – No deduction u/s 80C, since such deposit has to be made in name of assessee himself.	Nil	60,000	
Section 80D			
❖ Medical insurance premium for self & his wife, pertaining to PY 2022-23 is Rs. 26,000, being 1/3rd of Rs. 78,000, lumpsum premium, since policy would be in force for 3 PYs. Said deduction would restrict to	25,000		
❖ Deduction i.r.o medical expenditure of Rs. 54,000 for his father, being senior citizen is allowable, since no insurance policy is taken in his name, to the extent of	50,000	75,000	
Section 80G			
❖ Contribution by a resident towards Clean Ganga Fund is for 100% deduction without any qualifying limit.	25,000	25,000	
Total Income			5,90,000

**Solution**

- ❖ Mr. Srivastava has opted out of the pension scheme in December 2022.
- ❖ Hence, as per section 10(12A), amount withdrawn from NPS shall be exempt to the extent of 60% of amount payable to him.
- ❖ Thus, 60% of 2,00,000 i.e., 1,20,000 shall be exempt. Balance 80,000 shall be taxable u/h IFOS.

**Question 27**

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2025-26. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2024-25:

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2018 to insure his life (Sum assured – ₹ 4,00,000).
- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2024, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability. (MTP 7 Marks, Mar 21, RTP May '19)

**Question 26**

Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to NPS Rs. 50,000 every year since 2019 & was claiming deduction u/s 80CCD. In December 2022, he opted out of the pension scheme & withdrew a lump sum amount of 2,00,000. Is the amount so withdrawn taxable? If yes, how much is taxable?

**Solution**

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2025-26

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2013)	40,000	
	Five year term deposit with bank	45,000	
		2,35,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		
			1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000

80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
		50 000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	
	Total of (i) and (ii)		96,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
	Deduction under Chapter VI-A		6,11,000

Notes:

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE.

**Question 28**

Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for Assessment year 2025-26 is ₹ 1.85 crore and total turnover is ₹ 18.70 crore.

On 1st April 2024, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during the previous year 2024-25 comprises of:

- (a) 15 casual employees employed on 15th April 2024 till 31st January 2025 on monthly emolument of ₹ 22,000 per month
- (b) 40 regular employees employed on 1st May, 2024 on monthly emolument of ₹ 22,000 per month
- (c) 25 contractual employees employed on 1st July 2024 for 2 years on monthly emolument of ₹ 15,000 per month
- (d) 35 regular employees employed on 1st August, 2024 on monthly emolument of ₹ 30,000 per month
- (e) 25 regular employees employed on 1st October, 2024 on monthly emolument of ₹ 22,000 per month

Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2025-26, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.

Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.

[Note - Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2025-26] (RTP Nov '18)

**Solution****Computation of deduction under section 80JJAA**

Mr. Anay is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2025-26, as his total turnover from business exceeds ₹ 1 crore and he has employed "additional employees" during the P.Y.2024 -25.

Additional employee cost = [₹ 22,000 × 40 new regular employees × 11 months] + [₹ 15,000 per month × 9 months × 25 new contractual employees]
= ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000

Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.

Working Note: Number of Additional employees employed during the P.Y.2024 -25

Particulars		No. of additional employees	
Total number of additional employees employed during the year			140
Less:	Casual workmen employed on 15th April 2024, who do not participate in the recognised provident fund	15	

Regular employees employed on 1st August 2024, since their total monthly emoluments exceed ₹ 25,000	35	
Regular employees employed on 1st October 2024, for a period of less than 240 days during the P.Y.2024-25	25	75
Total number of additional employees employed during the P.Y.2024-25		65

Yes, the answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel. Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2024 would also qualify for deduction under section 80JJAA for A.Y. 2025-26.

Additional employee cost = ₹ 1,30,55,000 + ₹ 33,00,000 (₹ 22,000 x 6 x 25)
= ₹ 1,63,55,000

Deduction under section 80JJAA = 30% of ₹ 1,63,55,000 = ₹ 49,06,500



Question 29

Mr. Jain, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2024-25 -

- He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2019 and the sum assured is ₹ 2,20,000.
- He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2023-24 amounted to ₹ 9,00,000. Expenses incurred for writing the book amounted to ₹ 40,000.
- His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.

- He received a gold chain worth ₹ 68,000 from his in-laws on the occasion of his marriage anniversary
- He had deposited ₹ 70,000 in fixed deposit with SBI in the name of his minor son in September 2024. Interest earned on such deposit ₹ 5,500.
- He donated ₹ 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
- He had taken a loan of ₹ 38,00,000 for the purchase of a house property valuing ₹ 45,00,000 for self- occupation from a financial institution on 1st May 2022. He repaid ₹ 1,80,000 during the P.Y. 2024- 25 out of which ₹ 1,05,000 is towards principal payment and the balance is for interest on loan.

Compute the total income of Mr. Jain for the A.Y. 2024-25 if he does not opt for the provisions of section 115BAC. (RTP Nov '23)



Solution

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

Particulars	₹	₹
Income from house property		(75,000)
NAV	Nil	
Less: Interest on loan	75,000	
Income from Other Sources		(75,000)
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati	65,000	
[The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds ₹ 50,000. It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife].	1,500	

Less: Exemption under section 10(32)		63,500
Value of Gold Chain [The Fair market value of ₹ 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-
Interest on fixed deposit in the name of his son [It would be included in the hands of Mr. Jain, assuming his income before considering clubbing provisions is higher than his wife]	5,500	
Less: Exemption under section 10(32)	1,500	4,000
Gross Total Income		8,52,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium [Since Mr. Jain suffers from severe disability, premium upto 15% of the sum assured ₹ 2,20,000 would be allowed, as the policy is taken after 31.3.2013]	27,000	
Repayment of principal amount for housing loan	1,05,000	1,32,000
Deduction under section 80G		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding ₹ 2,000]		-
Deduction under section 80QQB		
Royalty income of a resident from literary book*		3,00,000
Deduction under section 80U [Since Mr. Jain suffers from severe disability]		1,25,000
Total income		2,95,500

Note - Expenses on royalty should have been deducted from the deduction under Section 80QQB - Institute had not deducted it.



Question 30

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

- (i) A housing loan of ₹ 36,00,000/- taken on 15th March, 2022 for the purchase of a house to be used for self-residence at a cost of ₹ 47,00,000/- . The stamp duty value of the house was ₹ 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2024-25 was:
 (A) towards principal - ₹ 1,25,000/-
 (B) towards interest - ₹ 3,65,000/-

This is the first and only residential house owned by Mr. Ray.

- (ii) A vehicle loan of ₹ 16,00,000/- taken on 31st October, 2022 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2024-26 was:
 (A) towards principal - ₹ 75,000/-
 (B) towards interest - ₹ 1,90,000/-

Besides these loans, he has also paid a sum of ₹ 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y.2025-26 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC. (PYP 4 Marks May '23)



Solution

Computation of amount of deductions available to Mr. Ray for A.Y. 2025-26

		Amount (₹)	
(i)	Deduction allowable while computing income under the head "Income from house property"		

	Deduction under section 24(b) for interest on loan of ₹ 3,65,000 in respect of self-occupied property restricted to		2,00,000
(ii)	Deduction under Chapter VI-A from Gross Total Income Deduction under section 80C For repayment of loan of ₹ 1,25,000 to bank	1,25,000	
	Deduction under section 80EEA Since stamp duty value does not exceed ₹ 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto ₹ 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022. ₹ 3,65,000 – ₹ 2,00,000 [claimed as deduction u/s 24(b)] = ₹ 1,65,000 restricted to ₹ 1,50,000, being the maximum permissible deduction	1,50,000	
	Deduction under section 80EEB Deduction for interest on loan for purchase of electric vehicle of ₹ 1,90,000 restricted to ₹ 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2020 and 31.3.2024. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable	1,50,000	
	Deduction under section 80GGC	Nil	
	Contribution of ₹ 15,000 to political party not allowable since the sum is paid in cash Deduction under Chapter VI-A from Gross Total Income		4,25,000
			6,25,000



Question 1

Mr. A (aged 35 years) submits the following particulars pertaining to the A.Y.2025-26:

Particulars	Rs.
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2025-26, assuming that

- He has exercised the option of shifting out of the default tax regime u/s 115BAC
- He pays tax under the default tax regime



Solution

Computation of total income of Mr. A for the A.Y.2025-26 under the normal provisions of the Act

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary	4,00,000	
Less: Loss from house property of Rs.2,20,000 to be restricted to Rs.2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of Rs.20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Business loss of Rs.1,00,000 set-off to the extent of Rs.80,000	(-) 80,000	-

Business loss of Rs.20,000 to be carried forward for set-off against business income of the next assessment year

Gross total income [See Note below]

Less: Deduction under Chapter VI-A

Total income

2,00,000

Nil

2,00,000

Notes:

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

Computation of total income of Mr A for the AY 2025-26 under default tax regime

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary		4,00,000
Income from Other Sources (Interest on FD)	80,000	
Less: Business Loss of Rs 1,00,000 set off to the extent of Rs 80,000	(-) 80,000	-
Business loss of Rs 20,000 to be carried forward for set off against business income of the next AY		
Gross Total Income / Total Income		4,00,000

- Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of Rs 2,20,000

from house property to be carried forward to next assessment year for set-off against income from house property of that year.

- (ii) Business loss of Rs 1,00,000 is set off against bank interest of Rs 80,000 and remaining business loss of Rs 20,000 will be carried forward as it cannot be set off against salary income



Question 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2024-25:

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

What is the total income chargeable to tax for the A.Y.2023-24, assuming that he pays the tax under Section 115BAC?



Solution

Total income of Mr. B for the A.Y. 2023-24

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salaries	45,000	
Income from house property to be carried forward (Note 1)	(24,000)	
Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
Capital Gains		

Long term capital gain taxable u/s 112	19,000	
Short term capital loss Rs.25,000 set off against long-term capital gains to the extent of Rs.19,000 [Note (iii)]	(19,000)	
	Nil	
Balance short term capital loss of Rs.6,000 to be carried forward [Note (iii)]		
Taxable income		45,000

Notes:

- Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any
- Business loss cannot be set-off against salary income. Therefore, loss of Rs.22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of Rs.4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of Rs.25,000 can be set-off against long-term capital gains to the extent of Rs.19,000. The balance short term capital loss of Rs.6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.



Question 3

During the P.Y. 2024-25, Mr. C has the following income and the brought

forward losses:

Particulars	Rs.
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2022-23	(96,000)
Short term capital loss of A.Y.2023-24	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2025-26?

**Solution**

Taxable capital gains of Mr. C for the A.Y. 2025-26

Particulars	Rs.	Rs.
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2022-23	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2021-22		
Rs.96,000 set off to the extent of Rs.75,000	(75,000)	Nil
[See Note below]		
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2021-22 of Rs.21,000 (i.e. Rs.96,000 – Rs.75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

**Question 4**

Mr. D has the following income for the P.Y.2024-25:

Particulars	Rs.
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2024-25)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2022-23)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2025-26?

**Solution**

Total income of Mr. D for the A.Y. 2023-24

Particulars	Rs.	Rs.
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of Rs.96,000 from the activity of owning and maintaining race horses set-off to the extent of Rs.75,000	75,000	Nil
Balance loss of Rs.21,000 (Rs.96,000 – Rs.75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2025-26		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000
Total income		35,000

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

**Question 5**

Mr. E has furnished his details for the A.Y.2025-26 as under:

Particulars	Rs.
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2021-22	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for the A.Y.2025-26?



Solution

Computation of taxable income of Mr. E for the A.Y.2025-26

Particulars	Rs.	Rs.
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of Rs 30,000 has to be carried forward to the next assessment year.

Additional Questions



Question 6

Compute the gross total income of Mr. F for the A.Y. 2025-26 from the information given below –

Particulars	Rs.
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2022-23)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)



Solution

Gross Total Income of Mr. F for the A.Y. 2025-26

Particulars	Rs.	Rs.
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Note:

- (1) Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of Rs 90,000 brought forward from A.Y.2022-23 cannot be set-off in the A.Y.2023-24, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2024-25.

**Question 7**

Mr. Soohan submits the following details of his income for the assessment year 2025-26:

Particulars	Rs.
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2017-18)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he exercised the option of shifting out of the default tax regime provided under Sec 115BAC(1A).

**Solution****Computation of Gross Total Income of Mr. Soohan for the A.Y.2023-24**

Particulars	Rs.	Rs.
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of Rs.1,20,000 from iron-ore business set-off as per section 72(1) to the extent of Rs.50,000	(50,000)	Nil
Balance business loss of Rs.70,000 of P.Y.2016-17 to be carried forward to A.Y.2024-25		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of Rs.60,000 set-off to the extent of Rs.40,000	(40,000)	Nil
Balance short-term capital loss of Rs.20,000 to be carried forward		
Short-term capital loss of Rs.10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000

Gross Total Income		
Losses to be carried forward to A.Y.2024-25		3,26,000
Loss of iron-ore business (Rs.1,20,000 – Rs.50,000)		
Short term capital loss (Rs.20,000 + Rs.10,000)		

Notes:

1. Agricultural income is exempt under section 10(1)
2. It is presumed that loss from iron-ore business relates to P.Y.2017-18, the year in which the business was discontinued.

**Question 8**

Mr. Batra furnishes the following details for year ended 31.03.2023:

Particulars	Rs.
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2022-23 Rs.25,000.
- (ii) Brought forward loss from business of textile Rs.60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the Assessment Year 2025-26, assuming that he exercised the option of shifting out of the default tax regime

provided under Sec 115BAC(1A). Also determine the losses eligible for carry forward to the Assessment Year 2026-27.

**Solution****Computation of Gross Total Income of Mr. Batra for the A.Y. 2025-26**

Particulars	Rs.	Rs.
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of Rs.60,000 from textile business b/f from A.Y. 2015-16 set-off to the extent of Rs.50,000	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of Rs.25,000 from activity of owning and maintaining race horses b/f from A.Y. 2020-20 set-off to the extent of Rs.15,000	15,000	NIL
Balance loss of Rs.10,000 to be carried forward to A.Y. 2024-25 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of Rs.1,00,000 on sale of unlisted shares set-off to the extent of Rs.30,000	30,000	NIL
Balance loss of Rs.70,000 to be carried forward to A.Y. 2024-25 [See Note 3]		
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2026-27

Particulars	Rs.
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2020-21	10,000

Notes:-

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2017-18 expired in the A.Y. 2025-26, the balance unabsorbed business loss of Rs.10,000 cannot be carried forward to A.Y. 2026-27.
- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of Rs.70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

**Question 9**

Mr. A furnishes you the following information for the year ended 31.03.2025:

		(Rs.)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover Rs.1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2024-25. Assume 10% of the turnover during the previous year 2024-25 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii)	He has brought forward depreciation relating to A.Y. 2023-24	1,00,000

Compute taxable income of Mr. A and his tax liability for the assessment year 2025- 26 with reasons for your computation, assuming that he exercised the option of shifting out of the default tax regime provided under Sec 115BAC(1A)

**Solution**

Computation of total income and tax liability of Mr. A for the A.Y. 2025-26

Particulars	Rs.
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2020-21	1,00,000
Total income	9,70,000

Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade:** Presumptive business income under section 44AD is Rs.8,41,340 i.e., 8% of Rs.13,57,000, being 10% of the turnover received in cash and 6% of Rs.1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is Rs.7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of Rs 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.
However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds Rs.1 crore (the enhanced limit of Rs 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.
- Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be Rs.7,500 x 12 x 5 which is equal to Rs.4,50,000. However, the income from plying of vehicles as per books is Rs.3,20,000, which is lower than the presumptive income of Rs.4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. Rs.3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

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

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	Rs.
Income from retail trade under section 44AD [Rs.13,57,000 @ 8% plus Rs.1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [Rs.7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

**Question 10**

Mr. Aditya furnishes the following details for the year ended 31-03-2023:

Particulars	Rs.
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000

Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 Rs.2,000.
- (2) Brought forward loss from trading business Rs.5,000 relating to A.Y.2020-21.

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



Solution

Computation of total income of Mr. Aditya for the A.Y.2023-24

Particulars	Rs.	Rs.
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	<u>2,00,000</u>	1,00,000
Loss from house property to the extent not set off i.e. Rs.50,000 (Rs.2,50,000 – Rs.2,00,000) to be carried forward to A.Y. 2024-25		
Profits and gains of business or profession		
Income from trading business	45,000	

Less: Brought forward loss from trading business of

A.Y. 2018-19 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.

5,000

40,000

Income from speculative business B

Less: Loss of Rs.25,000 from speculative business A set-off as per section 73(1) to the extent of Rs.5,000

5,000

Nil

Balance loss of Rs.20,000 from speculative business A to be carried forward to A.Y.2024-25 as per section 73(2)

Loss of Rs.20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.

Capital Gains

Long term capital gain on sale of urban land

2,00,000

Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]

75,000

Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A

1,02,000

23,000

Total Income

1,63,000

Items eligible for carried forward to A.Y.2025-26**Loss from House property**

As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of Rs.2,00,000 only.

As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2033-34, in this case.

Loss from speculative business A

Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30, in this case, as specified under section 73(4).

Loss from specified business

Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.

50,000

20,000

20,000

Loss from the activity of owning and maintaining race horses

2,000

Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2027-28, in this case, as specified under section 74A(3).

**Question 11**

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25.

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

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2024-25 are as follows:

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

Compute the Gross total income of Mr. Garg for the Assessment Year 2025-26 and the amount of loss, if any that can be carried forward or not.

**Solution****Computation of Gross Total Income of Mr. Garg for the A.Y. 2025-26**

	Particulars	Rs.	Rs.
(i)	Income from salary		15,000
(ii)	Profits and gains of business or profession	66,000	
	Less: Unabsorbed depreciation brought forward from A.Y.2024-25	<u>11,000</u>	55,000
	(Unabsorbed depreciation can be set-off against any head of income other than "salary")		
(iii)	Capital gains		
	Long-term capital gain on sale of land	10,800	
	Less: Brought forward short-term capital loss [Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	<u>9,800</u>	1,000
	Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2026-27

	Particulars	Rs.
(1)	Loss from speculative business [to be carried forward as per section 73]	22,000
	[Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of Rs.22,000 brought forward from A.Y.2024-25 has to be carried forward to A.Y. 2026-27 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y. 2028-29]	

- (2) **Loss on maintenance of race horses [to be carried forward as per section 74A]** 15,000
 [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30]
- (3) **Loss from gambling can neither be set-off nor be carried forward.**

**Question 12**

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2025:

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

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

**Solution****Computation of total income of Mr. Srivatsan for the A.Y.2025-26**

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of Rs.2,40,000 set off to the extent of Rs.30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of Rs.2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		30,000
Total income		85,000

Losses to be carried forward:

Particulars	Rs.
(1) Loss from cloth business (Rs.2,40,000 – Rs.30,000 – Rs.2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) Loss from specified business covered by section 35AD can be set-off only

against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.

- (ii) Business loss cannot be set off against salary income. However, the balance business loss of Rs.2,10,000 (Rs.2,40,000 – Rs.30,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs.2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be Rs.40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium of Rs.45,000 paid has to be restricted to Rs.30,000 [i.e., Gross Total Income of Rs.1,15,000 – Rs.40,000 (LTCG) – Rs.45,000 (Casual income)].
- (v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

**Question 13**

Mr. Rajat submits the following information for the financial year ending 31st March, 2025. He desires that you should:

- (a) Compute the total income and
(b) Ascertain the amount of losses that can be carried forward.

	Particulars	Rs.
(i)	He has two houses:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)

(ii)	He has three proprietary businesses:	
(a)	Textile Business:	
(i)	Discontinued from 31st October, 2024 – Current year loss	40,000
(ii)	Brought forward business loss of A.Y.2020-21	95,000
(b)	Chemical Business:	
(i)	Discontinued from 1st March, 2022 – hence no profit/loss	Nil
(ii)	Bad debts allowed in earlier years recovered during this year	35,000
(iii)	Brought forward business loss of A.Y. 2021-22	50,000
(c)	Leather Business: Profit for the current year	1,00,000
(d)	Share of profit in a firm in which he is partner since 2010	16,550
(iii)	(a) Short-term capital gain	60,000
	(b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

**Solution****Computation of total income of Mr. Rajat for the A.Y. 2025-26**

	Particulars	Rs.	Rs.
1.	Income from house property		
	House No.1	72,000	
	House No.2	(-) 30,000	42,000
2.	Profits and gains of business or profession		
	Profit from leather business	1,00,000	
	Bad debts recovered taxable under section 41(4)	35,000	
		1,35,000	

	Less: Current year loss of textile business	(-) 40,000	
		95,000	
	Less: Brought forward business loss of textile business for A.Y.2020-21 set off against the business income of current year	95,000	Nil
3.	Capital Gains		
	Short-term capital gain		60,000
	Gross Total Income		1,02,000
	Less: Deduction under Chapter VI-A Under section 80C – LIC premium paid		10,000
	Total Income		92,000

Statement of losses to be carried forward to A.Y. 2026-27

Particulars	Rs.
Brought forward chemical business loss of A.Y. 2021-22 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2025-26 to be carried forward u/s 74	35,000

Notes:

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

**Question 14**

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2025:

- (i) Salary received as a partner from a partnership firm Rs.7,50,000. The same was allowed to the firm.

- (ii) Loss on sale of shares listed in BSE Rs.3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land Rs.5,00,000.
- (iv) Rs.51,000 received in cash from friends in party.
- (v) Rs.55,000, received towards dividend on listed equity shares of domestic companies.
- (vi) Brought forward business loss of assessment year 2023-24 Rs.12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2025-26 and ascertain the amount of loss that can be carried forward.



Solution

Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2025-26

Particulars		Rs.
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: B/f business loss of A.Y. 2023-24 Rs.12,50,000 to be set-off to the extent of Rs.7,50,000		7,50,000
		Nil
(Balance b/f business loss of Rs.5,00,000 can be carried forward to the next year)		
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below)		
	3,00,000	2,00,000
Income from other sources		

Cash gift received from friends - since the value of cash gift exceeds Rs.50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		3,06,000

Notes:

- Balance brought forward business loss of assessment year 2023-24 of Rs.5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).



Question 15

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25:

Sl. No.	Particulars	Rs.
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to Rs.8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses

(pertaining to A.Y. 2024-25) are:

Sl. No.	Particulars	Rs.
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2025-26, and the amount of loss that can or cannot be carried forward.



Solution

Computation of Gross Total Income of Mr. P for the A.Y. 2025-26

Particulars		Rs.	Rs.
(i)	Income from salary		18,000
(ii)	Income from House Property		
	Net Annual Value	70,000	
	Less: Deduction under section 24 (30% of Rs.70,000)	21,000	49,000
(iii)	Income from business and profession		
(a)	Income from business	80,000	
	Less : Current year depreciation	8,000	
		72,000	
	Less : Unabsorbed depreciation	9,000	63,000
(b)	Income from speculative business	12,000	
	Less : B/f loss of Rs.16,000 from speculative business s/o to the extent of Rs.12,000	12,000	Nil
	(Balance loss of Rs.4,000 (i.e. Rs.16,000 – Rs.12,000) can be carried forward to the next year)		
(iv)	Income from capital gain		

Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

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

Notes:

- Loss on gambling can neither be set-off nor be carried forward.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2026-27. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).



Question 16

– November 2018 RTP

From the following information for PY 2021-22, compute the total income of Mr. Arihant for AY 2023-24 & show eligible items for c/f & upto which AY:

Particulars	Amount
LTCG from sale of urban land	2,30,000
LTCG on sale of shares (STT not paid)	85,000

LTCL on sale of listed shares in RSE (STT paid at time of acquisition & sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered u/s 35AD	40,000
Income from salary	3,50,000
Loss from HP	2,20,000
Income from trading business	75,000

Following are details of unabsorbed depreciation & the b/f losses:

- (1) Unabsorbed depreciation of Rs. 11,000 pertaining to AY 2022-23.
- (2) Losses from owning & maintaining of race horses pertaining to AY 2022-23: Rs. 5,000.
- (3) Brought forward loss from trading business Rs. 8,000 relating to AY 2019-20.



Solution

Computation of total income of Mr. Arihant for AY 2023-24

Particulars	Rs.	Rs.
Income from Salary	3,50,000	1,93,000
Less: Loss from HP set-off against salary income	1,57,000	
House Property (Loss)	2,20,000	Nil
Less: Adjusted against Capital gains u/s 112	43,000	
Less: Adjusted against salary income	1,57,000	
[Loss of Rs. 20,000 shall be c/f to next year]		
Profits & gains of business or profession		
Income from trading business	75,000	

Less: B/f loss from trading business of AY 2019-20 [8 years time limit within which set-off is permitted has not expired]	8,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X	15,000	
Capital Gains		
LTCG on sale of urban land	2,30,000	
Less: LTCL on sale of shares (STT not paid)	85,000	
Less: LTCL u/s 112A on sale of listed shares [Note 1]	1,02,000	
Less: Loss from HP	43,000	Nil
Total Income	3,51,000	

Items eligible for carried forward to AY 2024-25

- Loss from HP: Rs. 20,000.
 - Loss from speculative business X: Rs. 10,000.
 - Loss from specified business u/s 35AD: Rs. 40,000.
- Loss from the activity of owning & maintaining race horses: Rs. 5,000.



Question 17

– May 2019 RTP

Compute GTI of Mr. Avinash & show the items eligible for carry forward & AYS upto which such losses can be carry forward from following the information for PY 2022-23:

Particulars	Amount
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered u/s 35AD	45,000
Income from salary (computed)	4,18,000
Loss from HP	2,20,000

Income from trading business	2,80,000
Income from owning & maintaining race horses	8,000
LTCG from sale of urban land	2,05,000
LTCL on sale of equity shares (STT not paid)	85,000
LTCL on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition & sale of shares)	1,10,000

Following are the brought forward (B/F) losses:

- Losses from owning & maintaining of race horses pertaining to AY 2021-22: Rs. 12,000.
- B/F loss from speculative business MNO 18,000 relating to AY 2020-21.
- B/F loss from trading business of Rs. 12,000 relating to AY 2019-20.

Assume Mr. Avinash has furnished his ROI before DD u/s 139(1) in all the above PYs



Solution

Computation of Gross total income of Mr. Avinash for AY 2023-24

Particulars	Rs.	Rs.
Income from Salary	4,18,000	2,28,000
Less: Loss from HP set-off against salary	1,90,000	
House Property (Loss)	2,20,000	Nil
Less: Adjusted against LTCG u/s 112	10,000	
Less: Adjusted against salary income [Note 1]	1,90,000	
[Loss of Rs. 20,000 shall be c/f to next year]		
PGBP		
Income from trading business	2,80,000	
Less: B/f loss from trading business of AY 2019-20 [8 year time limit]		

within which set-off is permitted has not expired]	12,000	2,68,000
Income from speculative business BPO	25,000	Nil
Less: Loss from speculative business MNO	12,000	
Less: B/f Loss from speculative business MNO of AY 2020-21	13,000	
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: LTCL on sale of shares (STT not paid)	85,000	
Less: LTCL u/s 112A on sale of listed shares [Note 1]	1,10,000	
Less: Loss from HP set-off LTCG	10,000	Nil
Total Income		4,96,000

Items eligible for carried forward to AY 2023-24

- Loss from HP: Rs. 20,000.
- Loss from speculative business MNO: Rs. 5,000.
- Loss from specified business u/s 35AD: Rs. 45,000.
- Loss from the activity of owning & maintaining race horses: Rs. 4,000



Question 18

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2025. Also, show the items eligible for carry forward.

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000

Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange	1,10,000
(STT paid at the time of acquisition and sale of shares)	
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

(MTP 7 Marks, April'21, Old SM, RTP May '18)

**Solution****Computation of total income of Mr. Praveen for the A.Y.2025-26**

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is	1,10,000	
paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		

Income from betting		45,000
Gross total income		1,15,000
Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

Particulars	₹
(1) Loss from house property (₹2,50,000 – ₹2,00,000)	50,000
(2) Loss from toy business (₹1,30,000 - ₹40,000 - ₹90,000)	Nil
(3) Loss from specified business covered by section 35AD	20,000

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2033-34, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of ₹ 90,000 (₹1,30,000 – ₹40,000 set-off against income from

speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 50,000.

- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 50,000 (LTCG) – ₹ 45,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.



Question 19

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years up to which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2025:

Particulars	Amount ₹
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000

Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	32,000
Short-term capital loss under section 111A	1,10,000
	85,000

Following are the brought forward losses:

- (1) Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2021-22.
- (2) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2019-20. Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2024-25. Assume Mr. Farhan has furnished his return of income on or before the due date specified under section 139(1) in all the above previous year (MTP 7 Marks, March'21)



Solution

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

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	

Less: Brought forward loss from trading business of A.Y. 2016-17 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2021-22 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years has expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Short-term capital loss under section 111A as per section 71(2)	(10,000)	
Gross Total Income		3,86,000

Items eligible for carried forward to A.Y.2026-27

Particulars	₹
Loss from house property As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., up to A.Y. 2033-34, in this case.	20,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
Short-term capital loss under section 111A Short-term capital loss under section 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., up to A.Y.2033-34, in this case, as specified under section 74(1).	75,000



Question 20

Mr. Suresh is Lawyer by profession and his income from profession for the year 2024-25 is ₹ 10,00,000. From the information given by him, you are required to compute his total income for A.Y. 2025-26 and the losses to be carried forward assuming that he files his income tax returns every year before due date.

Particulars	Amount ₹
Income of minor son Raj from company deposit	1,60,000
Income of minor daughter Rashmi (professional dancer) from her dance performances	15,00,000
Interest from Canara bank received by Rashmi on deposit made out of income earned from her dance performances	15,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000
Long-term capital gain from equity shares under section 112A	1,20,000
Long term capital gain under section 112	3,00,000
Short term capital loss under section 111A	5,00,000

Assume that Mr. Suresh does not opt for the provisions of section 115BAC and his income before considering clubbing provisions is higher than that of his wife.

(MTP 6 Marks March 22)



Solution

Computation of Total Income of Mr. Suresh for A.Y. 2025-26

Particulars	₹	₹	₹
Profits and gains from business and profession			
Income from profession		10,00,000	8,00,000
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		2,00,000	
Capital gains			

Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long- term capital gain as per section 74		(4,20,000)	Nil
Income from other sources			
Income of minor son Raj			
Income from company deposit includible in the hands of Mr. Suresh as per section 64(1A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)	1,500	1,58,500	
Income of minor daughter Rashmi			
Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A),	15,000		
since interest income arises out of deposit made and not on account of her special skills	Nil		

Less: Exemption in respect of income of minor child u/s 10(32)	1,500	13,500	1,72,000
Total Income			9,72,000

Losses to be carried forward to A.Y.2026-27

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	5,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,20,000]	1,80,000

Note – Short-term capital loss under section 111A can be set-off against long-term capital gains under section 112 & 112A. In such a case, the losses to be carried forward to A.Y.2026-27 would be as under –

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 5,00,000 – ₹ 4,20,000]	80,000
Short term capital loss (other than above)	6,00,000

**Question 21**

Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2025:

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000

5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) Brought forward loss of textile business of the A.Y. 2022-23	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. She does not want to opt for 115BAC. (MTP 7 Marks April '23, RTP Nov'21)

**Solution****Computation of gross total income of Ms. Aarti for the A.Y.2025-26**

Particulars	₹	₹	₹
Salary Income (computed)		8,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of		2,00,000	6,20,000
Income from House Property			

Net Annual Value of House Property		1,20,000	
Less: Deduction u/s 24			
(a) 30% of NAV	36,000		
(b) Interest on housing loan	3,28,000	3,64,000	
Loss from house property		(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to		2,00,000	
Loss to be carried forward to A.Y. 2026-27 for set-off against income from house property, if any, in that year.		(44,000)	
Profits and gains of business or profession			
Share of profit from firm [Exempt u/s 10(2A)]		-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2026-27]		-	
Income from textile business		3,30,000	
Less: Current year depreciation		53,000	
		2,77,000	
Less: Brought forward loss of textile business		1,90,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income		87,000	Nil
Capital Gains			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	

Less: Balance unabsorbed depreciation of ₹ 98,000 set-off		98,000	
Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @10% on the amount exceeding ₹ 1,00,000]		1,52,000	1,52,000
Long-term capital gains on sale of debentures		1,50,000	
Less: Set-off of long-term capital loss on sale of equity shares (STT not paid) [Since long-term capital gain on sale of unlisted debentures are taxable @20% and long-term term capital gain on sale of listed shares in excess of ₹ 1,00,000 taxable @10%, it is beneficial to set-off long-term loss against LTCG on sale of debentures]		1,50,000	Nil
Income from Other Sources			
Dividend from units of UTI [Taxable in the hands of the unitholders]			1,15,000
Gross Total Income			8,87,000

Losses to be carried forward to A.Y.2026-27	₹
Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	67,000
Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000

**Question 22**

Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2024-25

Particulars	Amount (₹)
Income from Salary	3,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,15,000)
Loss from let out property in Delhi	(75,000)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery tickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000)	96,000
Long term capital gains on sale of house property	1,40,000

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2024-25 are as follow:

Brought forward business loss from manufacturing business	(35,000)
Unabsorbed normal depreciation	(10,000)
Brought forward loss from the activity of owning and maintaining the race horses	(50,000)

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2025-26 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time.

(RTP May '22)

**Solution****Computation of gross total income of Mr. Rajesh for A.Y. 2025-26**

Particulars	Amount (₹)	A m o u n t (₹)
Income from Salary	3,40,000	
Less: Loss under the head "Income from house property" [Loss from house is not allowed to be set off with any other head of income since Mr. Rajesh is opting for section 115BAC]	-	3,40,000
Income from house property		
Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Rajesh is opting for section 115BAC]	-	
Loss from let out property [Carried forward to A.Y. 2026-27]	(75,000)	-
Profit and gains from business or profession		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000

Income from Other Sources		
Winnings from lottery tickets		40,000
Gross Total Income		4,60,000

Losses to be carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Loss from let out property in Delhi	75,000
Loss from the activity of owning and maintaining the race horses	50,000

Notes -

- As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
- As per section 58, no expenditure is allowed from the lottery winnings.

**Question 23**

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.03.2015:

	Particulars	Amount (₹)
(i)	Income from salary (computed)	41,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Interest on loan taken for purchase of above property. Loan was taken from a friend	7,50,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for house property in Mumbai, which is self-occupied. Loan was taken from PNB on 01.01.2000 for purchase of this property.	1,57,000

(vi)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 01.04.18 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vii)	Long-term capital gains on sale of equity shares computed in accordance with section 112A	8,95,000
(viii)	Interest on fixed deposit	73,000
(ix)	Loss from textile business	7,50,000
(x)	Speculation profit	2,30,000
(xi)	Lottery income	75,000
(xii)	Loss incurred by the firm in which she is a partner	1,60,000
(xiii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiv)	Brought forward short-term capital loss on sale of gold	2,75,000
(xv)	Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
(xvi)	Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income of Ms. Geeta for the assessment year 2025-26 and the amount of loss that can be carried forward. For the above solution, you may assume principal repayment of loan as under:

- Loan taken for purchase of house property in Delhi ₹ 2,50,000
- Loan taken for purchase of house property in Mumbai ₹ 50,000
- Loan taken for repair of house properties in Delhi and Mumbai ₹ 75,000

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

(PYP 10 Marks, May'19)

**Solution****Computation of total income of Ms. Geeta for the A.Y.2025-26**

Particulars		₹	₹	₹
Income from salary (computed)				41,20,000
Income from house property				
(i) House property at Delhi (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)		5,00,000		
Less: Deduction u/s 24				
(a) 30% of Annual Value [30% of ₹ 5 lakh]	1,50,000			
(b) Interest on loan				
for purchase of property	7,50,000			
for repairs of property [₹ 1,50,000/2]	75,000			
		9,75,000	(4,75,000)	
(ii) House property at Jaipur (Let out)				
Rent received (taken as Annual Value in the absence of information relating to Fair Rent and Municipal Value)		3,20,000		
Less: Deduction u/s 24				
30% of Annual Value = 30% of ₹ 3,20,000		96,000		
			2,24,000	
(iii) House property at Mumbai (Self-occupied)				
Annual value of self-occupied property		Nil		
Less: Deduction u/s 24(b)				
Interest on loan for purchase and repairs (to be restricted to ₹ 30,000, since loan for purchase was taken prior to 1.4.1999)		30,000	(30,000)	
Loss from house property [(i) + (ii) + (iii)]			(2,81,000)	

As per section 71(3A), loss from house property to be set-off against salary income to the extent of				(2,00,000)
				39,20,000
Profits and gains of business or profession			2,30,000	
Speculation profit (assumed as business income)				
Salary received as partner of firm is taxable in her hands since the entire salary was allowed as deduction in the hands of the firm			50,000	
			2,80,000	
Set-off of loss from textile business to the extent of			(2,80,000)	Nil
Note – Share of loss of ₹ 1,60,000 incurred by the firm in which she is partner cannot be set-off against salary received as partner of firm or any other income, since loss from an exempt source cannot be set-off against profit from a taxable source.				
Capital Gains				
Long-term capital gains on sale of equity shares computed in accordance with section 112A			8,95,000	
Less: Set-off of brought forward short-term capital loss as per section 744				
B/f Short-term capital loss on sale of gold		2,75,000		
B/f Short-term capital loss u/s 111A		25,000	3,00,000	
			5,95,000	

Less: Set-off of balance loss of textile business5 [₹ 7,50,000 – ₹ 2,80,000 – ₹ 73000]			(3,97,000)	1,98,000

4 As per section 74, B/f short-term capital loss can be set-off against long-term capital gain taxable u/s 112A. It is assumed that the eight year period for set-off of losses has not expired. 5 Permitted as per section 71(2)

Particulars	₹	₹
Income from Other Sources		
Interest on fixed deposit	73,000	
Less: Set off balance loss of textile business to the extent of	(73,000)	
	Nil	
Lottery income (assumed as Gross Income)	75,000	75,000
Gross Total Income		41,93,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Life insurance premium paid		
Life insurance premium paid to insure the life of her son allowable as deduction even if he is major, resides abroad and is not dependent on her	15,000	
Repayment of housing loan		
₹ 2,50,000, for house property in Delhi, not allowable since loan is taken from a friend	Nil	
₹ 50,000 for house property in Mumbai, allowable since loan is taken from a bank for purchase of property	50,000	
₹ 75,000, for house properties in Mumbai and Delhi, not allowable since loan is taken for repairs of properties	Nil	

		65,000
Total Income		41,28,000

Loss to be carried forward to A.Y.2025-26:

Particulars	₹
Loss from house property (₹ 2,81,000 - ₹ 2,00,000)	81,000
As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. Such loss can be carried forward for a maximum of eight assessment years.	

**Question 1**

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

- (i) On 1.10.2024, Mr. Harish made a six-month fixed deposit of Rs.10 lakh @9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.
- (ii) On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of Rs.3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.
- (iii) On 1.10.2024, Mr. Rajesh started a six months recurring deposit of Rs.2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025.

**Solution**

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of Rs.45,000 ($9\% \times \text{Rs.10 lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs.4,500.
- (ii) XYZ Bank has to deduct tax at source @10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs.60,750 [$3,00,000 \times 3 \times 9\% \times \frac{9}{12}$], which exceeds the threshold limit of Rs.40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs.60,750 exceeds the threshold limit of Rs.40,000, tax has to be deducted @10% u/s 194A.

- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of Rs.28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of Rs.40,000.

**Question 2**

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2024-25—

- Rs.20,000 on 1.5.2024
- Rs.25,000 on 1.8.2024
- Rs.28,000 on 1.12.2024

On 1.3.2025, a payment of Rs.30,000 is due to Mr. X on account of a contract work.

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

**Solution**

In this case, the individual contract payments made to Mr. X does not exceed Rs.30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2024-25 exceeds Rs.1,00,000 (on account of the last payment of Rs.30,000, due on 1.3.2024, taking the total from Rs.73,000 to Rs.1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of Rs.1,03,000 from the last payment of Rs.30,000 and the balance of Rs 28,970 (i.e., Rs.30,000 – Rs.1,030) has to be paid to Mr. X.

**Question 3**

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

**Solution**

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

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds Rs.35,000. Therefore, payment or aggregate of payments up to Rs.35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

**Question 4**

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- (i) Mr. X, a resident, is due to receive Rs.4.50 lakhs on 30.6.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, for which the sum assured is Rs.4 lakhs and the annual premium is Rs.1,25,000.
- (ii) Mr. Y, a resident, is due to receive Rs.3.95 lakhs on 31.3.2024 on LIC policy taken on 31.3.2012, for which the sum assured is Rs.3.50 lakhs and the annual premium is Rs.30,100.
- (iii) Mr. Z, a resident, is due to receive Rs.95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is Rs.90,000 and the annual premium was Rs.10,000.

**Solution**

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of Rs.4.50 lakhs due on 30.6.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @2% under section 194DA on the amount of income comprised therein i.e., on Rs.75,000 (Rs.4,50,000, being maturity proceeds - Rs.3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of Rs.3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.

- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs.95,000 due on 1.8.2022 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs.1 lakh.



Question 5

Calculate the amount of tax to be deducted at source (TDS) on payment made to Ricky Ponting, an Australian cricketer non-resident in India, by a newspaper for contribution of articles Rs.25,000.



Solution

Under section 194E, the person responsible for payment of any amount to a non- resident sportsman for contribution of articles relating to any game or sport in India in a newspaper shall deduct tax @20%. Further, since Ricky Ponting is a non-resident, health and education cess @4% on TDS would also be added.

Therefore, tax to be deducted = Rs.25,000 x 20.8% = Rs.5,200.



Question 6

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

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

production house.



Solution

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

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



Question 7

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs.60 lakh and Rs.15 lakh, respectively, to Mr. Y on 1.8.2023. He has purchased the house property and the land in the year 2022 for Rs.40 lakh and Rs.10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2023, is Rs.85 lakh and Rs.20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

**Solution**

(i)	Tax implications in the hands of Mr. X
	As per section 50C, the stamp duty value of house property (i.e. Rs.85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, Rs.45 lakh (i.e., Rs.85 lakh – Rs.40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2024-25. Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.
(ii)	Tax implications in the hands of Mr. Y
	In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of Rs.50,000 and 10% of the consideration. Therefore, in this case Rs.25 lakh (Rs.85 lakh – Rs.60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(x) includes only capital assets specified thereunder.
(iii)	TDS implications in the hands of Mr. Y
	Since the sale consideration of house property exceeds Rs.50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs.60,000, being 1% of Rs.60 lakh. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

**Question 8**

Mr. X, a salaried individual, pays rent of Rs.55,000 per month to Mr. Y from June, 2024. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2024?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

**Solution**

Since Mr. X pays rent exceeding Rs.50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @5% of such rent for F.Y. 2023-24 under section 194-IB. Thus, Rs.27,500 [Rs.55,000 x 5% x 10] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of Rs.19,250 [Rs.55,000 x 5% x 7] has to be deducted from rent payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 5%.

In case 1 above, this would amount to Rs.1,10,000 [Rs.55,000 x 20% x 10], but the same has to be restricted to Rs.55,000, being rent for March, 2025.

In case 2 above, this would amount to Rs.77,000 [Rs.55,000 x 20% x 7], but the same has to be restricted to Rs.55,000, being rent for December, 2024.

**Question 9**

XYZ Ltd. makes a payment of Rs.28,000 to Mr. Ganesh on 2.8.2024 towards fees for professional services and another payment of Rs.25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

**Solution**

TDS provisions under section 194J would not get attracted, since the limit of Rs.30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2023-24.

**Question 10**

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

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2024-25
1.	Mr. Ganesh, an individual carrying on retail business with turnover of Rs.2.5 crores in the P.Y.2023-24.	Contract Payment for repair of residential house	Rs.5 lakhs
		Payment of commission to Mr. Vallish for business purposes	Rs.80,000

2.	Mr. Rajesh, a wholesale trader whose turnover was Rs.95 lakhs in P.Y. 2023-24.	Contract Payment for reconstruction of residential house (made during the period January-March, 2025)	Rs.20 lakhs in January, 2025, Rs.15 lakhs in Feb 2025 and Rs.20 lakhs in March 2025.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	Rs.51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	Rs.48 lakhs

**Solution**

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2024-25	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of Rs.2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	Rs.5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed Rs.50 lakh.
		Payment of commission to Mr. Vallish for business purposes		Yes, u/s 194H, since the payment exceeds Rs.15,000, and Mr. Ganesh's turnover exceeds Rs.1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover was Rs.95 lakhs in P.Y.2023-24	Contract Payment for reconstruction of residential house	Rs.55 lakhs	Yes, u/s 194M, since the aggregate of payments (i.e., Rs.55 lakhs) exceed Rs.50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2023-24, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y.2024-25.

3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	Rs.51 lakhs	Yes, u/s 194M, since the payment of Rs.51 lakhs made in March 2025 exceeds the threshold of Rs.50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	Rs.48 lakhs	TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of Rs.48 lakhs does not exceed the threshold of Rs.50 lakhs.

**Question 11**

Mr. Sharma, a resident Indian aged 77 years, gets pension of Rs.52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% on fixed deposit of Rs.20 lakh with the said bank. Out of the deposit of Rs.20 lakh, Rs.2 lakh represents five year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2023-24 is Rs.9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has not opted for section 115BAC.

- (2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Examine.
- (3) Would your answer to Q.2 be different if the fixed deposit of Rs.20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

**Solution****(1) Computation of total income of Mr. Sharma for A.Y.2024-25**

Particulars	Rs.	Rs.
I Salaries		
Pension (52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16(ia)	50,000	5,74,000
II Income from Other Sources		
Interest on fixed deposit (Rs.20 lakh x 8%)	1,60,000	
Interest on savings account	9,500	1,69,500
Gross total income		7,43,500
Less: Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (Rs.2 lakh, restricted to Rs.1.5 lakh)	1,50,000	
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income		5,43,500
Computation of tax liability for A.Y.2025-26		

Tax payable [Rs.43,500 x 20% + Rs.10,000]	18,700
Add: Health and Education Cess @4%	748
Tax liability	19,448
Tax liability (rounded off)	19,450

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of Rs.20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen", consequent to which SBI would not be liable to deduct tax under section 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI- A) exceeds the basic exemption limit.

It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax @10% under section 194-A on interest on fixed deposit, since the same exceeds Rs.50,000.

**Question 12**

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2022-23 was Rs.12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2023-24 was Rs.95 lakh (Rs.20 lakh on 1.6.2023, Rs.25 lakh on 12.8.2023, Rs.22 lakh on 23.11.2023 and Rs.28 lakh on 25.3.2024). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2021-22 was Rs.15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2022-23 was Rs.8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

**Solution**

- (1) Since Mr. Gupta's turnover for F.Y.2022-23 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed Rs.50 lakhs in the P.Y.2023-24, he is liable to deduct tax@0.1% of Rs.45 lakhs (being the sum exceeding Rs.50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2023 and 12.8.2023, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of Rs.50 lakhs.

Tax of Rs.1,700 (i.e., 0.1% of Rs.17 lakhs) has to be deducted u/s 194Q from the payment/ credit of Rs.22 lakh on 23.11.2023 [Rs.22 lakh – Rs.5 lakhs, being the balance unexhausted threshold limit].

Tax of Rs.2,800 (i.e., 0.1% of Rs.28 lakhs) has to be deducted u/s 194Q from the payment/ credit of Rs.28 lakhs on 25.3.2024.

Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the F.Y.2022-23 was only Rs.8 crores, TDS provisions under section 194Q would not be attracted. However, TCS

provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds Rs.10 crores in the F.Y.2022-23 and his receipts from Mr. Gupta exceed Rs.50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2023 and 12.8.2023, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of Rs.50 lakhs.

Tax of Rs.1,700 (i.e., 0.1% of Rs.17 lakhs) has to be collected u/s 206C(1H) on 23.11.2023 (Rs.22 lakh – Rs.5 lakhs, being the balance unexhausted threshold limit).

Tax of Rs.2,800 (i.e., 0.1% of Rs.28 lakhs) has to be collected u/s 206C(1H) on 25.3.2024.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @5%, instead of 0.1%. Accordingly, tax of Rs.85,000 (i.e., 5% of Rs.17 lakhs) and Rs.1,40,000 (5% of Rs.28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2023 and 25.3.2024, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of Rs.17,000 (i.e., 1% of Rs.17 lakhs) and Rs.28,000 (1% of Rs.28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2023 and 25.3.2024, respectively.

**Question 13**

An amount of Rs.40,000 was paid to Mr. X on 1.7.2023 towards fees for professional services without deduction of tax at source. Subsequently, another payment of Rs.50,000 was due to Mr. X on 28.2.2024, from which

tax@10% (amounting to Rs.9,000) on the entire amount of Rs.90,000 was deducted. However, this tax of Rs.9,000 was deposited only on 22.6.2024. Compute the interest chargeable under section 201(1A).

**Solution**

Interest under section 201(1A) would be computed as follows –

Particulars	Rs.
1% on tax deductible but not deducted i.e., 1% on Rs.4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on Rs.9,000 for 4 months	540
	860

- (i) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- (ii) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default under section 201(1) on account of payment of taxes by such payee, interest under section 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.
- (iii) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

**Question 14**

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

**Solution**

Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Tax Liability	75,400
Average Rate of Tax (75,400 / 8,00,000 x 100)	9.425%

Mr. A can deduct Rs 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under-
 Tax on non-monetary perquisites = 9.425% of 1,20,000 = 11,310
 Balance to be deducted from salary Rs 64,090

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

**Question 15**

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

Particulars	Rs.
2023-24	1,05,00,000
2024-25	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2024-25:

Particulars	Rs.
Interest paid to UCO Bank on 15.8.2024	41,000
Contract payment to Raj (2 contracts of Rs.12,000 each) on 12.12.2024	24,000
Shop rent paid (one payee) on 21.1.2025	2,50,000
Commission paid to Balu on 15.3.2025	7,000



Solution

As the turnover of business carried on by Ashwin for F.Y. 2023-24, has exceeded Rs.1 crore, he has to comply with the tax deduction provisions during the financial year 2024-25, subject to, the ex-emptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

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

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

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed Rs.30,000 in a single payment or Rs.1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted @10% under section 194-I as the annual rental payment exceeds Rs.2,40,000.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed Rs.15,000.



Question 16

Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during the financial year 2024-25 as per the provisions of the Income-tax Act, 1961.

Sr. No.	Date	Nature of Payment
(i)	1-10-2024	Payment of Rs.2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN.
(ii)	1-11-2024	Payment of fee for technical services of Rs.25,000 and Royalty of Rs.20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2024	Payment of Rs.25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2025	Payment of Rs.2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2025	Payment of Rs.2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2025	Payment of commission of Rs.14,000 to Mr. Y.



Solution

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

- (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds Rs.30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., Rs.25,000 and royalty Rs.20,000 is less than Rs.30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2022 to M/s. X Ltd. is less than the threshold limit of Rs.30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
- Therefore, there is no liability to deduct tax at source in respect of payment of Rs.2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs.2,50,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed Rs.2,50,000.

- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds Rs.15,000. Since the commission payment made to Mr. Y does not exceed Rs.15,000, the provisions of section 194H are not attracted.



Question 17

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

- (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman Rs.2,60,000 on 27.9.2024.
- (b) Fee paid on 1.12.2024 to Dr. Srivatsan by Sundar (HUF) Rs.35,000 for surgery performed on a member of the family.
- (c) ABC and Co. Ltd. paid Rs.19,000 to one of its Directors as sitting fees on 01-01-2024.



Solution

- (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds Rs.2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

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

Therefore, the amount of tax to be deducted at source:
 = Rs.2,60,000 x 2% = Rs.5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @20% on Rs.2,60,000, by virtue of provisions of section 206AA.

- (b) As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed Rs.1 crore in case of business or Rs.50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds Rs.50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2024 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded Rs.50 lakhs in the P.Y.2024-25. However, since the payment does not exceed Rs.50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs.30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

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

Therefore, the amount of tax to be deducted at source:
= Rs.19,000 x 10% = Rs.1,900



Question 18

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2024-25:

- (1) Payment of Rs.27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2025 for contribution of articles in relation to the sport of cricket.
- (2) Payment made by a company to Mr. Ram, sub-contractor, Rs.3,00,000 with outstanding balance of Rs.1,20,000 shown in the books as on 31-03-2025.
- (3) Winning from horse race Rs.1,50,000 paid to Mr. Shyam, an Indian resident.
- (4) Rs.2,00,000 paid to Mr. A, a resident individual, on 22-02-2025 by the State of Uttar Pradesh on compulsory acquisition of his urban land.



Solution

- (1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source @20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @4% on TDS should also be added.

Therefore, tax to be deducted = Rs.27,000 x 20.80% = **Rs.5,616.**

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

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

Tax to be deducted = Rs.4,20,000 x 1% = **Rs.4,200**

- (3) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed Rs.10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = Rs.1,50,000 x 30% = **Rs.5,000**.

- (4) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs.2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed Rs.2,50,000.



Question 19

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



Solution

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

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

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

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

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

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



Question 20

Mr. Jay having total income of Rs.8,70,000, did not pay any advance tax during the previous year 2023-24. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2024. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2024? Assume that he does not exercise the option under section 115BAC.



Solution

Obligation to pay advance tax arises in every case, where the advance tax payable is Rs.10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest for default in payment of advance tax [under section 234B] and interest for deferment of advance tax [under section 234C] before filing of his return.

Total tax due on returned income of Rs.8,70,000 is Rs.89,960 [(20% of Rs.3,70,000 + Rs.12,500) + cess@4%]

Interest under section 234B

Interest under section 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest under section 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2024 till the time he deposits the whole tax under self- assessment.

Interest will be levied on tax liability of Rs.89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest under section 234B amount to Rs.3,596

Interest under section 234C

Assessee, other than assessee who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year. Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest under section 234C is calculated as under –

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest Rs.100, ignoring fraction)	Period	Interest @ 1%
15th June 2023	15%	13,400	3 months	402
15th September 2023	45%	40,400	3 months	1,212
15th December 2023	75%	67,400	3 months	2,022
15th March 2024	100%	89,900	1 month	899
Total interest under section 234C				4,535

Mr. Jay needs to pay Rs.98,091 as total of tax and interest on or before filing of return in the month of July, 2024.



Question 21

November 2020 RTP

Mr. Nihar maintains saving A/c & current A/c in Mera Bank Ltd. Details of withdrawals on various dates during PY 2023-24 are as follows:

Date of Cash withdrawal	Saving A/c	Current A/c
05.04.2023	15,00,000	-
10.05.2023	-	22,00,000
25.06.2023	20,00,000	-
17.07.2023	-	5,00,000
28.10.2023	35,00,000	-
10.11.2023	-	38,00,000
12.12.2023	25,00,000	-

Is Mera Bank Limited required to deduct TDS on withdrawals made by Mr. Nihar during PY 2023-24? If yes, what would the amount of TDS?

- (a) No, TDS is not required to be deducted as aggregate cash withdrawal on or after 1.9.2023 does not exceed 1 crore.
- (b) No, TDS is not required to be deducted as cash withdrawal does not exceed 1 crore neither in saving A/c nor in current A/c.
- (c) TDS of 60,000 is required to be deducted.
- (d) **TDS of 1,20,000 is required to be deducted.**

**Question 22****May 2022 RTP**

Dr. Sargun, maintained two bank A/c, one current A/c with Canara Bank for her profession & a Saving Bank A/c with SBI. Following are details of her withdrawals from these A/c during PY 2023-24:

Date of withdrawals	Canara Bank	SBI
25.04.2023	25,00,000	
27.04.2023		15,50,000
31.08.2023	29,00,000	
01.09.2023	14,20,000	
05.09.2023		14,00,000
07.10.2023	18,21,000	
11.12.2023	26,23,000	
12.02.2024	7,56,000	
25.03.2024		16,13,000

She furnished her ROI for AY 2023-24 & AY 2022-23 on/before due date u/s 139(1). However, for AY 2021-22 & AY 2020-21, she has furnished her ROI belatedly. Is any TDS u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank & SBI? If yes, at what rate & what amount?

- (a) TDS on 33,79,000 @ 5% by Canara Bank & no tax is deductible by SBI.

- (b) TDS on 20,20,000 @ 5% by Canara Bank & no tax is deductible by SBI.

- (c) **TDS on 20,20,000 @ 2% by Canara Bank & no tax is deductible by SBI.**

- (d) TDS on 75,00,000 @ 5% & on 20,20,000 @ 2% by Canara Bank & TDS @5% on 25,63,000 by SBI.

**Question 23****May 2022 RTP**

- (a) Examine & explain TDS implications in following cases along with reasons thereof, assuming that the deductees are residents & having a PAN which they have duly furnished to the respective deductors.
- Mr. Kunal received a sum of 10,20,000 on 28.02.2023 as pre-mature withdrawal from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
 - Indian Bank sanctioned & disbursed a loan of 12 crores to B Ltd. on 31.12.2022. B Ltd. paid a sum of 1,20,000 as service fee to Indian Bank for processing the loan application.
 - Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2022 to February, 2023) at Mumbai where he pays a monthly house rent of 32,000 for those 5 months, totaling to 1,60,000. Rent is paid by him on 1st day of the relevant month.
- (b) Mr. Subhash engaged in business of trading of electrical appliances. His turnover for FY 2020-21 & FY 2022-23 was 12 crore & 9.5 crore, respectively. During the PY, XYZ Ltd. placed order for purchase of electric appliances for 55 lakhs on 01.08.2022. He again placed order for 35 lakhs on 01.11.2022. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.

**Solution****(a) TDS implications**

- On pre-mature withdrawal from EPF: No tax is deductible u/s 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.
- On payment of service fee to bank: Even though service fee is included in definition of interest u/s 2(28A), no tax is deductible at source u/s 194A, since service fee is paid to a banking company.
- On payment of rent by a salaried individual: Mr. Agam, a salaried individual, is not liable to deduct TDS @5% u/s 194-IB on Rs. 1,60,000 (being rent for 5 months from October 2022 to February 2023) from the rent of Rs. 32,000 payable on 1st day of every month, since monthly rent < Rs. 50,000.

- (b) As per section 206(1H), tax is required to be collected at source @0.1% on the sale consideration exceeding 50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds 10 crores during the FY immediately preceding the FY in which sale of goods is carried out.

Since, section 206C(1H) is applicable w.e.f. 1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of 50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Since the threshold of 50 lakhs is with respect to the PY, calculation of receipt of sale consideration for triggering TCS u/s 206C(1H) shall be computed from 1st April, 2020.

Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding 50 lakhs, TCS is required to be collected at source @0.1%, on amount of 35 lakhs, being the amount of consideration received.

**Question 24****May 2018 RTP**

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the PY 22-23:

- Income of Rs. 8,10,000 from wholesale cloth business, whose A/c are audited u/s 44AB.
- Income from other sources Rs. 2,70,000.
- Tax deducted at source Rs. 25,000.
- Advance tax paid Rs. 1,03,000 during PY 2022-23.
- Return of income filed on 11.12.2023.

Calculate the interest payable u/s 234B. Assume that ROI would be processed on the same day of filing of return. What are the consequences for delay in furnishing ROI?

**Solution****Computation of interest payable u/s 234B by Mr. Sachal**

Particulars	Rs.
Tax on total income of Rs. 10,80,000 [Business income of Rs. 8,10,000 + Income from other sources of Rs. 2,70,000]	1,36,500
Add: HEC @ 4%	5,460
Tax on total income	1,41,960

Less: Tax deducted at source	(25,000)
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest u/s 234B is leviable since advance tax paid < 1,05,264 being 90% of assessed tax	
Number of months from 1st April, 2023 to 11th December, 2023	9
Interest u/s 234B @ 1% p.m. or part for 9 months on Rs. 13,960 [i.e., difference b/w assessed tax of Rs. 1,16,960 & advance tax of Rs. 1,03,000]	1256

Consequences for delay in filing return of income on or before the due date:

Interest u/s 234A & fee u/s 234F would be attracted for filing ROI beyond due date specified u/s 139(1).

Interest u/s 234A: Since Mr. Sachal's accounts are audited u/s 44AB, the due date for filing of return for AY 2023-24 is 30.10.2023. Mr. Sachal has filed his return on 11.12.2023 i.e., interest u/s 234A will be payable for 3 months (from 1.10.2023 to 11.12.2023) @ 1% p.m. or part of month on the amount of tax payable on total income - TDS & advance tax paid = i.e., Rs. 13,960. Interest u/s 234A = Rs. 13,960 x 1% x 3 = Rs. 419.

Fee for late filing of return u/s 234F: Since Mr. Sachal has furnished his ROI after due date & his total income > Rs. 5 lacs, a fee of Rs. 5,000 will be payable.

**Question 25****May 2019 RTP**

Mr. Narayan is engaged in the retail business of groceries. During PY 2022-22, his turnover was Rs.1.65 crores. Out of this, receipt of Rs. 1.30 crore represents online transactions & Rs. 35 Lacs cash transactions. He opted for

paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during PY 2022-22. Is he liable to pay advance tax & if so, what is the minimum amount of advance tax to be paid & the due date for payment of such advance tax?

**Solution**

Advance tax liability in the hands of Mr. Narayan opting for presumptive taxation: As per section 211, eligible assessee, opting for computation of profits or gains of business on presumptive basis i.r.o an eligible business referred to in section 44AD, shall be required to pay advance tax of whole amount in one instalment on/before 15th March of PY. Thus, Mr. Narayan is required to pay advance tax by 15.03.2023. However, any amount paid by way of advance tax on/before 31st March shall also be treated as advance tax paid during that PY on/before 15th March 2023.

Advance tax liability = Business Income = (8% of 35 Lacs) + (6% of 130 Lacs) = Rs. 10,60,000.

I.r.o the amount of turnover received by A/c payee cheque/bank draft or use of ECS through a bank A/c, assessee can declare 6% (instead of 8%) of such turnover as presumptive income u/s 44AD. Since Mr. Narayan does not have any other income during PY 2020-21, business income would be the total income.

Tax liability		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 to Rs. 5,00,000 @ 5%	12,500	
Rs.5,00,001 to Rs. 10,00,000 @ 20%	1,00,000	
Above Rs. 10,00,001 @ 30%	18,000	1,30,500
Add: Health & Education cess @ 4%		5,220
Total Tax Payable		1,35,720

He required pay Rs. 1,35,720 as minimum amount of advance tax by 15th March 2023.

**Question 26****November 2022 RTP**

Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During PY 2022-22, total turnover of his business was 105 lakhs (out of which 15 lakhs was received by way of A/c payee cheques & balance in cash). Mr. Ayaansh does not opt to pay tax as per section 115BAC. What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of A/c audited.

**Solution****(A) Computation of Advance tax under Presumptive Income scheme as per section 44AD:**

Total turnover of Mr. Ayaansh, a dealer of garments, is 105 lakhs. Since his total turnover from such business is less than 200 lakhs & he does not wish to get his books of A/c audited, he can opt for presumptive tax scheme u/s 44AD.

Profits & gains from business computed u/s 44AD:

Particulars	Amount
6% of 15 lakhs, being turnover effected through A/c payee cheque	90,000
8% of 90 lakhs, being cash turnover	7,20,000
Total	8,10,000

An eligible assessee opting for computation of profits & gains of business on presumptive basis u/s 44AD i.r.o. eligible business is required to pay advance tax of the whole amount on or before 15th March of FY.

(B) Computation of tax liability of Mr. Ayaansh as per normal provisions of Act:

Particulars	Amount	Amount
Total Income		8,10,000
Tax on 8,10,000		
Up to 2,50,000	Nil	
2,50,001 – 5,00,000 @5%	12,500	
5,00,001 – 8,10,000 @20%	62,000	74,500
Add: Health & Education cess @4%		2,980
Tax liability		77,480

Accordingly, he is required to pay advance tax of 77,480 on/before 15th March of the FY. However, any amount by way of advance tax on/before 31st March of the FY shall also be treated as advance tax paid during the FY ending on that day for all purposes of the Act.

**Question 27****November 2022 RTP**

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

- Mr. Tandon received a sum of 1,75,000 as pre-mature withdrawals from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- Rs. 42,000 has been credited as interest on RD by a banking company to A/c of Mr. Hasan (aged 63 years).
- Ms. Kaul won a lucky draw prize of 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

- (d) Finance Bank Ltd. sanctioned & disbursed a loan of 10 crores to Borrower Ltd. on 31.3.2023. Borrower Ltd. paid a sum of 1,00,000 as service fee to Finance Bank Ltd. for processing loan application.
- (e) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2022 to February, 2023) at Hyderabad where he pays a monthly house rent of 52,000 for those three months, totalling to 1,56,000. Rent is paid by him on the first day of the relevant month.

**Solution**

- (a) **Deduction of tax from accumulated balance of RPF withdrawn by employee [Section 192A]:**

The trustees of the Employees' Provident Fund Scheme, 1952; Or Any person authorised under the scheme to make payment of accumulated balance due to employees, shall deduct income-tax thereon at the time of payment of accumulated balance due to the employee @ 10%. However, no tax shall be deducted if, though he has not rendered such continuous service of 5 years, the service has been terminated by reason of the employee's ill health. Hence, no TDS shall be deducted.

- (b) **Interest other than interest on securities [Section 194A]:**

As per section 194A(3)(i), no tax is to be deducted at source on payment of interest on time deposits by a banking company if aggregate amount paid/credited to A/c of senior citizen during FY, does not exceed 50,000. Since, payment to Mr. Hasan (senior citizen) is 42,000, therefore no tax shall be deducted.

Note: 'Time deposits' means deposits (including RD) repayable on expiry of fixed periods.

- (c) **Winnings from lottery, crossword puzzle, card game, etc. [Section 194B]:**

The person responsible for paying to any person any income by way of winnings from any lottery or crossword puzzle, card game & other game of any sort in an amount exceeding 10,000 shall, deduct income-tax thereon at the time of payment of such income @ 30%. Hence, M/s. Maximus Retail Ltd. shall have to deduct tax @ 30% on 21,000 = 6,300.

Note: 'Lottery' includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called.

- (d) **TDS on payment of processing fee to a banking company [Section 194A]:**

Section 194A clearly provides that no TDS shall be deducted on payment of interest (which includes processing fee also) by a person to a banking company. Hence, in given case no TDS shall be deducted on payment of processing fee to Finance Bank Limited by Borrower Limited.

- (e) **TDS on payment of rent by certain Individuals or HUF [Section 194-IB]:**

Any person, being individual/HUF, responsible for paying to a resident any income by way of rent @ 5%. Tax is to be deducted:

- at the time of credit of rent, for last month of PY or last month of tenancy, if property is vacated during the year, as the case may be to the A/c of payee or
- at the time of payment thereof (i.e., rent of last month) in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.

However, no tax is required to be deducted at source under this section where rent does not exceed 50,000 for a month or part of a month during PY. Since, in the given case monthly rent is 52,000, tax shall be deducted @ 5% on 1,56,000 i.e., 7,800 at the time of payment of rent in the last month of tenancy.

**Question 28****November 2016**

Determine Advance Tax liability with due dates for PY 2022-23 of Mr. Barun

Estimated tax liability for FY 2022-23	65,000
TDS for this year	5,000

**Solution**

Determination of Advance Tax Liability of Mr. Barun

Particulars			Amount
Estimated tax liability for FY 2022-22			65,000
Less: TDS`			5,000
Tax payable			60,000
Instalment	Cumulative Amount payable	Calculation	Amount
15.6.2022	15% of advance tax liability	9,000	9,000
15.9.2022	45% of advance tax liability	27,000 - 9,000	18,000
15.12.2022	75% of advance tax liability	45,000 - 9,000 - 18,000	18,000
15.3.2023	100% of the advance tax liability	60,000 - 9,000 - 18,000 - 18,000	15,000

**Question 29****May 2017**

S, a resident individual aged 54, furnishes income details as under:

- Wholesale cloth business, whose turnover is 150 lakhs, for which A/c are audited u/s 44AB. Income from such business 8,10,000.
- IFOS is Rs. 2,70,000.

- TDS is Rs. 25,000.
- Advance tax paid Rs. 1,03,000 on 14.03.2023.
- ROI will be filed on 11.12.2023.

Assessee is willing to pay, requisite self-assessment tax. Calculate interest payable u/s 234B of Income-Tax Act, 1961. Assume, ROI would be processed on the same day of filing of return.

**Solution**

Particulars	Amount	Amount
Income from cloth business	8,10,000	
Income from other sources	2,70,000	
Total Income		10,80,000
Tax on Rs. 10,80,000		1,36,500
Add: Health & education cess @ 4%		5,460
Total tax payable		1,41,960
Less: TDS		(25,000)
Assessed Tax (rounded off)		1,16,960
Less: Advance Tax paid on 14.03.2023		(1,03,000)
Balance tax payable		13,960

Computation of Interest u/s 234B: Interest on 13,960 for 9 months @ 1% p.m.

Note: As advance tax paid is less than 90% of assessed tax, interest shall be payable u/s 234B – Rs 1,251

**Question 30**

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

- (i) Ms. Sarla received a sum of Rs. 92,000 on 30th September 2023 towards

maturity proceeds of LIC taken on 1st October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.

- (ii) Mr. Rohit transferred a residential house property to Mr. Arun for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.
- (iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2023-24:
 - (1) Rs. 22,000 towards fee for professional services
 - (2) Rs. 18,000 towards royalty.
- (iv) Payment of Rs. 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.
- (v) ABC Private Limited pays Rs. 12,000 to Ms. Deepika, its director, on 1.5.2023 towards sitting fee which is not taxable u/s 192.
- (vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call center. On 18-03-2024, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2024 by Jigar Limited.
- (vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. (MTP 7 Marks, April'21, PYP 7 Marks, May '19)



Solution

- (i) On payment of LIC maturity proceeds - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and

consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.

- (ii) On payment of sale consideration for purchase of residential house property - Since the sale consideration of house As per amendment tax is to be deducted at source if consideration or SDV is Rs 50,00,000 or more since SDV is Rs 55,00,000 TDS u/s 194-IA will be applicable @ 1% of consideration or SDV whichever is higher. TDS of Rs 55,000 will be cut.
- (iii) On payment of fee for professional services and royalty – Under section 194J, the threshold limit of Rs. 30,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold Rs. 30,000 specified thereunder.
- (iv) On payment for purchase of bag according to specifications - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).

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

- (v) On payment of sitting fees to the director - ABC Private Limited is required to deduct tax at source @10% on sitting fees of Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a director.
- (vi) On payment of call center service charges- Since Rashi Limited is engaged only in the business of operation of call center, Jigar Limited is required deduct tax at source@2% on the amount of Rs. 70,000 u/s 194J on 18.3.2024 i.e., at the time of credit of call center service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2024.
- (vii) On payment of prize winnings of Rs. 21,000
Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of Rs. 21,000 payables to the customer, since the winnings exceed Rs. 10,000.

**Question 31**

Mention the significant differences between TDS and TCS.

(MTP 3 Marks, Oct'20) (RTP May '18)

**Solution****Significant Differences between TDS and TCS**

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants license or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.

(3)

Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier.
However, in case of payment of salary, payment in respect of life insurance policy etc., tax is required to be deducted at the time of payment.

Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier.
However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

**Question 32**

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2023-24:

- (1) Payment of ₹ 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2023 for contribution of articles in relation to the sport of cricket.
- (2) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2024.
- (3) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (4) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land. (MTP 4 Marks, March'19, Old SM)

**Solution**

- (1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source@20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess@4% on TDS should also be added.

Therefore, tax to be deducted = ₹ 27,000 x 20.80% = ₹ 5,616.

- (2) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

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

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

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

- (4) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000. In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

**Question 33**

An amount of ₹ 50,000 was paid to Mr. Rakesh on 1.9.2022 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 60,000 was due to Mr. Rakesh on 31.1.2023, from which tax@10% (amounting to ₹ 11,000) on the entire amount of ₹ 1,10,000 was deducted. However, this tax of ₹ 11,000 was deposited only on 22.7.2023. Compute the interest chargeable under section 201(1A).

(MTP 3 Marks Oct 22)

**Solution**

Interest under section 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 5,000 for 5 months	250
1½% on tax deducted but not deposited i.e. 1½% on ₹ 11,000 for 6 months ²	990
	1,240

² As per TRACES, interest is computed for 7 months

**Question 34**

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2023-24:

- Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- Income from other sources ₹ 2,70,000.
- Tax deducted at source ₹ 25,000.
- Advance tax paid ₹ 1,03,000 during the P.Y. 2023-24.

Return of income filed on 11-12-2024. Calculate the interest payable under section 234B of the income- tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. (RTP May '18)

**Solution****Computation of interest payable under section 234B by Mr. Sachal**

Particulars	₹
Tax on total income of ₹ 10,80,000 [Business income of ₹ 8,10,000 +	1,36,500
Income from other sources of ₹ 2,70,000]	
Add: Education cess and SHEC@3% (4% as per amendment)	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹ 1,03,000	
paid is less than ₹ 1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2024 to 11th December, 2024, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9	1,251
months on ₹ 13,900 [i.e., difference between assessed tax of ₹ 1,16,960 and advance tax of ₹ 1,03,000 paid, being ₹ 13,960 which	
is rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962]	

Consequences for delay in filing return of income on or before the due date Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sachal's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2024- 25, in his case, is 31.10.2024. Mr. Sachal has filed his return on 11.12.2024 i.e., interest under section 234A will be payable for 2 months (from 1.11.2024 to 11.12.2024) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., ₹ 13,960 rounded off to ₹ 13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = ₹ 13,900 x 1% x 2 = ₹ 278

Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2024 and his total income exceeds ₹ 5 lakhs, a fee of ₹ 5,000 will be payable by him.

**Question 35**

Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2023-24.

Estimated tax liability for the financial year 2023-24	₹ 85,000
Tax deducted at source for this year	₹ 15,000

- Would your Answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?
- What would be your Answer if, instead of section 44AD, he is eligible for

and has opted for presumptive tax provisions under section 44AE? (RTP Nov '18)

(Same concept different figures MTP 4 Marks, March'19, RTP May '18)



Solution

Determination of Advance Tax Liability of Mr. Shikhar

Particulars		₹
Estimated tax liability for the financial year 2023-24		85,000
Less: Tax deducted at source		15,000
Tax payable		70,000
Due Date of installment	Amount payable	₹
On or before 15th June, 2023	Not less than 15% of advance tax liability	10,500
On or before 15th September, 2023	Not less than 45% of advance tax liability less amount paid in earlier installment(s)	21,000 (₹ 31,500, being 45% of ₹ 70,000 - ₹ 10,500)
On or before 15th December, 2023	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15th March, 2024	Whole of the advance tax liability less amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire

advance tax liability in one installment on or before 15.3.2024, without attracting interest under section 243C.

This benefit would, however, not be available if he is eligible for and has opted for presumptive tax provisions under section 44AE, in which case he has to pay his advance tax in four installments as indicated above, failing which interest under section 234C would be attracted.



Question 36

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

S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2023-24 (Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2023 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
(B)	Mr. Rahul, a wholesale trader of spices whose turn-over was ₹ 5 crores F.Y.2022-23	Contract payment for construction of office go down during January to March 2024 to Mr. Achilles, an individual	50,00,000

(C)	Mr. Golu, an individual carrying garment trading business with turnover of ₹95 lakhs in F.Y. 2022-2023	Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2023	1,20,000
(D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial Year 2023- 24. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

(PYP 8 Marks, July'21)

**Solution**

- (i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹ 50,00,000. Therefore, TDS u/s 194M would be
 $= ₹ 52,50,000 \times 5\% = ₹ 2,62,500$.
- (ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2022-23, being the financial year immediately preceding F.Y.2023-24 in which such sum is paid, exceeds ₹ 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual.
 Therefore, TDS u/s 194C would be =
 $₹ 50,00,000 \times 0.75\% \text{ 1\%} = ₹ 50,000 \times \text{1\%} = ₹ 50,000$

- (iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹ 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹ 50 lakhs

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2022 -23 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2022-23. Further, Mr. Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹ 50 lakhs during the P.Y. 2023-24.

- (iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ₹ 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹ 1 crore (₹ 1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y.2023-24, the bank is required deduct tax at source @ 2% of such sum. Therefore, TDS u/s 194N would be = $₹ 20,00,000 \times 2\% = ₹ 40,000$.

**Question 37**

Rahil & Co., a partnership firm is having a car dealership show-room. They have purchased cars for ₹ 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹ 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations.

(PYP 2 Marks, Nov'18)

**Solution**

(From AY 2022-23 Section 194Q applies to any buyer who is responsible for paying any sum to any resident seller for purchase of any goods of the value or aggregate of value exceeding ₹ 50 lakhs in any previous year. The buyer, at the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier, is required to deduct an amount equal to 0.1% of such sum exceeding ₹ 50 lakhs as income tax. Hence this section would become applicable to Rahil & Co if T/O was more than 10 crores and if the AY was 22-23.)

**Question 38**

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2024-25.

- (i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2024 by sum of ₹ 4,90,000 for the sale of product R, made during the month February, 2024. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹ 60,000 directly to XY on 21st February, 2024.
- (ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹ 26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
- (iii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2023-24 as under

BILL NO.	DATE	AMOUNT ₹
1	30-04-2023	27,000
57	30-06-2023	25,000
105	30-09-2023	28,000
151	30-12-2023	32,000

(PYP 6 Marks, May'22, MTP 6 Marks Oct '23)

**Solution**

- (i) AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O on ₹ 5,50,000 (i.e., ₹ 4,90,000 credited on 28.2.2023 plus deemed payment of ₹ 60,000 on 21.2.2024, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2024 is facilitated by AB Ltd. through its e-commerce platform.

Hence, TDS u/s 194O = 1% on ₹ 5,50,000 = ₹ 5,500

- (ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C.

Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the Question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

- (iii) In this case, the individual contract payments (through the bills dated 30.4.2023, 30.6.2023 and 30.9.2023) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2023, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000. Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2023.

Hence, TDS u/s 194C = ₹ 2,240.

**Question 39**

Answer the following:

- (A) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2023, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of ₹ 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.

- (B) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him:

₹ 25,00,000/- on 10th August, 2023 and ₹ 30,00,000 on 22nd November, 2023. Determine the amount of tax to be deducted/ collected at source, if any.

Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.

- (C) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement. (PYP 7 Marks May '23)

**Solution**

- (i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax @10% of the value of such benefit or perquisite, if the same exceeds ₹ 20,000.

However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.

Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.

- (ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.

In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹50 lakhs during the P.Y.2023- 24.

Accordingly, ₹ 2,75,000, being 5% of ₹ 55,00,000 [₹25,00,000 + ₹ 30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ₹ 1 crore in P.Y. 2022-23], she is not required to deduct tax at source under section 194C. In

such case also, she is required to deduct tax at source of ₹ 2,75,000 under section 194M.

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

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

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

Alternative answer

- In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2022-23, she would be required to deduct tax at source @1% under section 194C amounting to ₹ 55,000 (since payment is made to Mr. Suresh, an individual) of ₹ 55,00,000.

- (iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source

@2% on ₹ 7,20,000 [₹ 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ₹ 60,000 paid every month exceeds the threshold of ₹ 30,000.

Therefore, nationalised bank is required to deduct tax at source of ₹ 1,200 per month amounting to ₹ 14,400 for the year.

**Question 1**

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, interest of Rs.2,88,000 was credited to his Non-resident (External) Account with SBI. Rs.30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned Rs.3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred Rs.3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

**Solution**

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. Rs.2,50,000 (for A.Y. 2025-26).

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

Particulars	Rs.
Income from other sources	
Interest earned from Non-resident (External) Account Rs.2,88,000 [Exempt under	
section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction u/s 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of 3,000 under section 80TTA. Accordingly, his total income would be 30,000. However, in both regimes, total income of 33,000, before giving effect to deductions under Chapter VI-A, would be considered

Since the total income of Mr. Paras for A.Y.2025-26, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of Rs.2,50,000, he is not required to file return of income for A.Y.2026-27.

Note: In the above solution, interest of Rs.2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect, inter alia, to the deductions under Chapter VI-A, would be Rs.3,21,000 (Rs.30,000 + Rs.2,88,000 + Rs.3,000), which is higher than the basic exemption limit of Rs 3,00,000 or Rs.2,50,000. Consequently, he would be required to file return of income for A.Y.2026-27

If he has incurred expenditure of Rs.3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

**Question 2**

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

**Solution**

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

**Question 3**

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2025 audited under section 44AB. Her total income for the assessment year 2025-26 is Rs.6,35,000. She wants to furnish her return of income for assessment year 2025-26 through a tax return preparer. Can she do so?

**Solution**

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2025-26 through a Tax Return Preparer.

**Question 4**

State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of Rs.160 lakhs (Rs.100 lakhs received in cash) for the year ended 31.03.2025, whether or not opting to offer presumptive income under section 44AD, is 31st October, 2025.

**Solution****(a) Disagree**

The return of income of LLP should be verified by a designated partner. Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for

filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A does not opt for presumptive taxation provisions under section 44AD, he has to get his accounts audited under section 44AB, since his turnover exceeds Rs 1 crore, in which case, the due date for filing return would be 31st October, 2025.



Question 5

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2025 for A.Y 2025-26 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 21-12-2025, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2026?



Solution

Since Mr. Vineet has income only under the heads “Salaries”, “Income from house property” and “Income from other sources”, he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2025-26 under section 139(1), in his case, is 31st July, 2025. Since Mr. Vineet had submitted his return only on 12.9.2025, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed

by him under section 139(4) in December 2025, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2025.

However, he cannot revise return had he discovered this omission only on 21-03-2026, since it is beyond 31.12.2025.



Question 6

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

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.



Solution

- (i) **True** : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- (ii) **False** : Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.



Question 7

Explain the term “return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

**Solution**

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

**Question 8**

Mr. Aakash has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents

S. No.	Transaction
1.	Payment of life insurance premium of Rs.45,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs.1,00,000 to a five-star hotel for stay for 5 days with family, out of which Rs.60,000 was paid in cash
3.	Payment of Rs.80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of Rs.95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

**Solution**

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs.45,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed Rs.50,000 in the F.Y.2024-25.
2.	Payment of Rs.1,00,000 to a five-star hotel for stay for 5 days with family, out of which Rs.60,000 was paid in cash	Yes, since the amount paid in cash exceeds Rs.50,000
3.	Payment of Rs.80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds Rs.50,000. Mode of payment is not relevant in this case.

4.	Payment of Rs.95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds Rs.50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

**Question 9****November 2017**

Mr. Sachin filed his ROI on 30.09.2025 related to AY 2025-26. In October 2025, his tax consultant found that the interest on FD was omitted in the tax return.

(a) What is the time limit for filing a belated return? (b) Can Mr. Sachin file a revised return?

**Solution**

- (a) As per sec 139(4), any person who has not furnished ROI within the time allowed to him u/s 139(1) may furnish ROI for any PY at any time before 3 months prior to the end of relevant AY or before completion of the assessment whichever is earlier. Therefore, in the given question, Mr. Sachin can file his belated return on or before 31.12.2025.
- (b) As per sec 139(5), if any person having furnished a return u/s 139(1) or belated return u/s 139(4), discover any omission/wrong statement, he may furnish a revised return at any time before 3 months prior to the end of the relevant AY or before completion of assessment, whichever is earlier. Hence Mr. Sachin can revise his return on/before 31.12.2025.

**Question 10****May 2014 and November 2016**

Mr. X submits his ROI on 12.09.2025 for AY 2025-26 consisting of Income u/h 'HP' & 'IFOS'. On 21.12.2025, he realized that he had not claimed deduction u/s 80 TTA i.r.o. his interest on Savings Bank A/c. He wants to revise his ROI since one year has not elapsed from the end of relevant AY.

**Solution**

- Since Mr. X has income only u/h 'HP' & 'IFOS', he does not fall under the category of a person whose A/c are required to be audited.
- Therefore, the due date of filing return for AY 2025-26 u/s 139(1) is 31st July, 2025.
- Since Mr. X had submitted his return only on 12.09.2025, the said return is a belated return u/s 139(4).
- U/s 139(5), any Return filed u/s 139(1) or u/s 139(4) can be revised before 3 months prior to the end of relevant AY or completion of assessment whichever is earlier.
- Therefore, Mr. X can revise ROI filed by him u/s 139(4), to claim deduction u/s 80TTA.

**Question 11****May 2017**

By whom should the return of income be signed in the case of following persons:

- (a) Political Party; (b) Company which is being wound up;
(c) HUF, when karta is unable to sign ; (d) Scientific research association;

**Solution**

As per section 140, Return should be signed by the authorised person, as given below:

- (a) Political Party: In the case of a political party, Return can be signed by Chief Executive Officer.
- (b) Company which is being wound up: If company is in liquidation, ROI can be signed by Official liquidator.
- (c) HUF when karta is unable to sign: By any other adult member (male/female) of such family.

**Question 12****May 2018 RTP**

Ms. Geetha submits her ROI on 29.09.2025 for AY 2024-26 consisting of income u/h Salaries, Income from HP & bank interest. On 21.12.2025, she realized that she had not claimed deduction u/s 80D i.r.o. medical insurance premium of Rs. 15,000 paid for her mother. She wants to revise her ROI. Can she do so?

Would your answer be different if she discovered this omission on 21.03.2026?

**Solution**

- Since Ms. Geetha has income only u/s Salaries, Income from HP & Income from other sources, she does not fall under the category of a person whose A/c are required to be audited under the Income-tax Act, 1961. Therefore, due date of filing return for AY 2025-26 u/s 139(1), in her case, is 31st July, 2025.
- Since Ms. Geetha had submitted her ROI on 29.09.2025, the said return is a belated return u/s 139(4).

- As per section 139(5), a return furnished u/s 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, belated return u/s 139(4) can also be revised.
- Therefore, Ms. Geetha can revise the ROI filed by her u/s 139(4) on/ before 31.12.2025 to claim deduction u/s 80D, since time limit for filing revised ROI is 3 months prior to the end of the AY, which is 31.12.2025.
- However, she cannot revise return had she discovered this omission only on 21.03.2026, since it is beyond 31.12.2025

**Question 13****November 2018 RTP**

Mr. Atharv filed his ROI on 30th September 2024 related to AY 2025-26. In October 2024, his tax consultant found that interest on FD was omitted in ROI. Can Mr. Atharv file a revised return? Assume that the due date for furnishing return of income in his case, was 31st July 2025 & assessment was not completed till the month of October 2025.

**Solution**

- As per section 139(5), if any person, having furnished a return u/s 139(1), within the due date or a belated return u/s 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time:
 - (a) before 3 months prior to end of the relevant AY or
 - (b) before the completion of assessment, whichever is earlier.
- For AY 2025-26, belated return has to be furnished before 31st December 2025 or before completion of assessment, whichever is earlier.
- Since Mr. Atharv has filed his return after 31.7.2025, being due date of filing return of income u/s 139(1) in his case, but before 31.12.2025 or

completion of assessment, it is a belated return

- Thus, Mr. Atharv can file a revised return, since he has found an omission in belated return filed by him for AY 2025-26 & assessment is yet to be completed.

**Question 14****May 2020 RTP**

Arun's GTI of PY 2024-25 is Rs. 2,45,000. He deposits Rs. 45,000 in PPF. He pays electricity bills aggregating to Rs. 1.20 Lacs in PY 2024-25. Which of the statements is correct?

- Arun is not required to file his ROI u/s 139(1) for PY 2024-25, since his total income before giving effect to deduction u/s 80C does not exceed the basic exemption limit.
- Arun is not required to file his ROI u/s 139(1) for PY 2024-25, since his electricity bills do not exceed Rs. 2,00,000 for the PY 2024-25.
- Arun is not required to file his ROI u/s 139(1) for PY 2024-25, since neither his total income before giving effect to deduction u/s 80C exceeds BEL nor his electricity bills exceed Rs. 2 lacs for PY 2024-25
- Arun is required to file his ROI u/s 139(1) for PY 2024-25, since his electricity bills exceed Rs. 1 lac for PY 2024-25.**

**Question 15****Nov 2021 RTP**

Can Mr. Raghuram file his ROI for AY 2025-26 belatedly u/s 139(4) in PY 2026-27, if he has failed to file said return on/ before the due date of filing ROI for AY 2025-26, due to inadvertent reasons? Also, specify the consequences of non-filing of return within the due date u/s 139(1).

**Solution**

If any person fails to furnish return within the time allowed to him u/s 139(1), he may furnish belated return for any PY at any time –

- before 3 months prior to the end of relevant AY; or
- before the completion of the assessment, whichever is earlier.

The last date for filing ROI for AY 2025-26 is 31st Dec 2023. Thereafter, Mr. Raghuram cannot furnish his belated return in PY 2026-27. Since PY 2024-25 begins on 1st April, 2026, Mr. Raghuram cannot file his ROI for AY 2025-26 u/s 139(4) in PY 2026-27.

Consequences for non-filing return of Income within the due date u/s 139(1): Discussed Above.

**Question 16****May 2019**

Discuss the provisions of section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer

**Solution****Refer Rapider****Question 17**

Elaborate the conditions, non-fulfilment of which would render ROI filed by an assessee not maintaining regular books of A/c, defective.

**Solution****Refer Rapider****Question 18**

- Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2025-26 on or before the due date of filing such return of income.

- (a) Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?
- (b) What are the consequences of non-filing the return within the due date under section 139(1)?
- (ii) To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply?

**Solution**

- (i) If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time
- (a) 3 months prior to the end of the relevant assessment year, or
- (b) before the completion of the assessment, whichever is earlier.
- The last date for filing return of income for A.Y.2025-26, therefore, is

31st December 2025. Thereafter, Mr. Sudarshan cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of

furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1). However, such fee cannot exceed 1,000, if the total income does not exceed 5,00,000.

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year,
- (iv) not a citizen of India

**Question 19**

Examine whether the following persons are required to file return of income for A.Y.2025-26, giving brief reasons for your answer -

- (i) Mr. Albert, aged 31 years, whose turnover from business is 70 lakhs for the P.Y.2024-25 and whose total income computed as per books of account is 2 lakhs. This is the first year of his business. He has no other income. He is not claiming any deduction under Chapter VI-A or section 10AA
- (ii) Mr. Ashish, aged 42 years, has gross receipts of 5 lakhs from profession and profits and gains of 2.50 lakhs (computed) from profession for the P.Y. 2024-25. In addition, he has interest of 4 lakhs on fixed deposits and 50,000 from savings bank account.

- (iii) M/s. ABC & Co., a law firm, whose gross receipts from profession for the P.Y.2024- 25 is 9 lakhs.
- (iv) XYZ (P) Ltd. which has incurred expenditure of an amount of 95,000 towards consumption of electricity in the F.Y.2024-25.
- (v) Mr. Vallish, aged 58 years, who has deposited 50 lakhs in his savings bank account with SBI on 28th March, 2025. The said sum was received as a gift from his son, Mr. Rishi, aged 30 years, who is employed in a company. Mr. Vallish used the said sum to purchase a fiat for 30 lakhs on 25th April, 2025 for self- residence. The balance money was transferred to a 1-year fixed deposit on 28th April, 2025. Mr. Vallish does not maintain any other bank account. He is not in receipt of any other source of income other than interest on this fixed deposit.
- (VI) Mr. Ravi Prakash, a resident Indian aged 52 years, gifted a sum of 30 lakhs to his wife Mrs. Sudha on the occasion of her 50th birthday. Out of the said sum, Mrs. Sudha purchased a car for 29,52,000 inclusive of RTO charges of 2,15,000, insurance of 51,575, extended warranty of 25,255 and accessories charges of 35,460 during the P.Y. 2024-25. These charges were shown separately in the invoice. Mrs. Sudha's furnished her Aadhaar No. to the dealer. She is a housewife and does not have any income except rental income of ₹25,000 p.m. in respect of a house property gifted to her by her father.

Mr. Ravi Prakash is of the opinion that his wife is not required to furnish return of income, since her total income does not exceed the basic exemption limit. Examine.



Solution

Requirement of filing return of income

- (i) Yes, Mr. Albert is required to file his return of income for A.Y.2025-26. As per section 139(1)(b), an individual is required to file his return if his total income, without giving effect to deductions under, inter alia. Chapter VI-A and section 10AA, exceeds the basic exemption limit. In this case, Mr. Albert's total income of 2,00,000 is lower than the basic exemption limit of 2,50,000 or ₹ 3,00,000. However, such person referred to in section 139(1)(b) who is not required to file his return on account of his total income being lower than the basic exemption limit would be required to file return of income if, inter alia, his turnover in business exceeds 60 lakhs. In this case, since Mr. Albert's turnover from business for the P.Y.2024-25 is ₹ 70 lakhs, he has to file return of his income for A.Y.2025-26.
- (ii) Yes, Mr. Ashish is required to file his return of income for A.Y.2025-26. Mr. Ashish's total income for A.Y.2025-26 without giving effect to Chapter VI-A deductions is 7 lakhs [2.50 lakhs from profession +4 lakhs interest on fixed deposits + 0.50 lakhs interest on savings bank account), which exceeds the basic exemption limit of ₹ 2,50,000. Hence, he is required to file his return of income for A.Y.2025-26 as per section 139(1)(b).
- Note-** The threshold limit of 10 lakhs for gross receipts in profession has to be looked into only in a case where an individual referred to in section 139(1)(b) is not required to file his return of income thereunder i.e., only if Ashish's total income without giving effect to Chapter VI-A deductions is lower than the basic exemption limit.
- (iii) Yes, M/s. ABC & Co. is required to file its return of income for A.Y.2025-26.

As per section 139(1)(a), a firm is compulsorily required to file its return of income. The threshold limit of 10 lakhs for gross receipts in profession is relevant only for a person other than a company or a firm.

- iv) Yes, XYZ (P) Ltd. is required to file its return of income for A.Y.2025-26. As per section 139(1)(a), a company has to mandatorily file its return of income. The condition of filing of return of income where expenditure towards consumption of electricity exceeds 1 lakh applies to a person other than a company or a firm.
- v) Yes, Mr. Vallish is required to file his return of income for A.Y.2025-26. Gift of 50 lakhs received from son is not taxable under section 56(2)(x) in the hands of Mr. Vallish, since his son is his relative, and gifts from a relative are excluded from the applicability of section 56(2)(x). The only income of Mr. Vallish for the P.Y.2024-25 would be interest on savings account for a period of 4 days from 28th March, 2025 to 31st March, 2025 on 50 lakhs, which would be lower than the basic exemption limit. As per section 139(1)(b), an individual is required to file his return if his total income exceeds the basic exemption limit. In this case, Mr. Vallish's total income is lower than the basic exemption limit of 2,50,000 or 3,00,000.

However, such person referred to in section 139(1)(b) who is not required to file his return on account of his total income being lower than the basic exemption limit would be required to file return of income if, inter alia, the deposit in his savings account is 50 lakhs or more during the previous year.

Since a deposit of 50 lakhs has been made in the savings account of Mr. Vallish in the P.Y.2024-25, he is required to file his return of income for A.Y.2025-26

- (vi) Mrs. Sudha's income from house property would be 2,10,000 (3,00,000 less 30% of net annual value). Since this is her only source of income, her gross total income/total income for A.Y. 2025-26 would be 2,10,000, which is lower than the basic exemption limit. Hence, she is not required to file her return of income for A.Y.2025-26 as per section 139(1)(b), since her gross total income/total income does not exceed the basic exemption limit of 2,50,000.

However, proviso of section 139(1) provides that a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if he/she fulfills such other conditions as may be prescribed under Rule 12AB.

Rule 12AB, inter alia, prescribes that any person other than a company or a firm, who is not required to furnish a return u/s 139(1), has to file income-tax return in the prescribed form and manner on or before the due date if, the aggregate of tax deducted at source and tax collected at source during the previous year, in case of such person, is 25,000 or more.

Accordingly, it has to be examined whether, in Mrs. Sudha's case, the requirement to file return for A.Y. 2025-26 arises due to TDS/TCS, in her case, exceeding 25,000 in the P.Y.2025-26.

As per section 206C(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding 10 lakhs, has to collect tax from the buyer 1% of the sale consideration.

Accordingly, dealer of the car is required to collect tax at source of 26,247 @1% on ex-showroom price i.e., ₹ 26,24,710 (₹ 29,52,000 - ₹ 2,15,000 -

₹ 51,575 - ₹ 25,255 - ₹ 35,460) from Mrs. Sudha, being the buyer of the car.

Hence, as per the seventh proviso to section 139(1) read with Rule 12AB, Mrs. Sudha is required to mandatorily file her return of income for A.Y.2025-26, even though her gross total income/total income does not exceed the basic exemption limit, since tax collected at source during the P.Y. 2024-25, in her case is 26,247 which exceeds the threshold of ₹25,000.



Question 20

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- Belated return filed under section 139(4).
- Return already revised once under section 139(5).
- Return of loss filed under section 139(3).

(Old & New SM) (MTP 3 Marks, March'18, PYP 4 Marks May '22)



Solution

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- A belated return filed under section 139(4) can be revised.
- A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed

time.

- A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).



Question 21

Mr. Salish, a resident individual aged 54, furnishes his income & other details for the P.Y. 2024-25:

- Income of Rs.8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.
- Income from other sources Rs.2,70,000.
- Tax deducted at source Rs. 25,000.
- Advance tax paid Rs.1,03,000 during the P.Y. 2024-25.

Return of income filed on 11-12-2025. Calculate the interest payable under section 234B of the Income- tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case. Assume that 115BAC is not opted. (MTP 5 Marks, April'19)



Solution

Computation of interest payable under section 234B by Mr. Salish

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 +	1,36,500
Income from other sources of Rs.2,70,000]	
Add: Health and education cess@4%	5,460
Tax on total income	1,41,960
Less: Tax deducted at source	25,000
Assessed Tax	1,16,960
90% of assessed tax	1,05,264

Advance tax paid	1,03,000
Interest under section 234B is loveable since advance tax of Rs.1,03,000 paid is less than Rs.1,05,264, being 90% of assessed tax	
Number of months from 1st April, 2025 to 11th December, 2024, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months	1,251
on Rs.13,900 [i.e., difference between assessed tax of Rs.1,16,960 and	
advance tax of Rs.1,03,000 paid, being Rs.13,960 which is rounded off to	
Rs.13,900 under Rule 119A of Income-tax Rules, 1962]	

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Salish's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2025-26, in his case, is ~~30.09.2025~~ **31.10.2025**. Mr. Salish has filed his return on 11.12.2025 i.e., interest under section 234A will be payable for **32** months (from 1.11.2025 to 11.12.2025) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., Rs. 13,960 rounded off to Rs. 13,900 under Rule 119A of Income-tax Rules, 1962 Interest u/s 234A = Rs. 13,900 x 1% x 2 = Rs.417 **Rs 278**

Fee for late filing of return under section 234F

~~Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2020 and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000~~

will be payable by him.

(If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000.) Since Mr. Sailesh has furnished his return of income after the due and his total income exceeds Rs.5 lakhs, a fee of Rs. 5,000 will be payable by him.



Question 22

Mr. Prince, a senior citizen, has reported a Total Income ₹ 1,90,000. He has claimed exemption of ₹ 50,000 under section 54EC in respect of long term capital gain on sale of house property and deductions under Chapter VI-A amounting to ₹ 1,50,000 for the previous year 2024-25. Is he liable to file his return of income under section 139(1) for the Assessment year 2025-26? If so why? (MTP 3 Marks March 22, RTP May '19)



Solution

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, inter alia, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of ₹ 3,90,000 before giving effect to the exemption under section 54EC and deduction of ₹ 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 3,00,000 applicable in his case.



Question 23

Mr. Ram furnished his return of income for the A.Y. 2025 -26 on 20.07.2025. Due to missing information for payment of taxes in the return of income, the Assessing Officer considers it defective under section 139(9) of the Income-tax Act, 1961.

- (i) What are the consequences if defect is not rectified within the time allowed?
- (ii) Specify the remedies available if not rectified within time allowed by the Assessing Officer? (MTP 3 Marks March '23)

**Solution**

- i. If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- ii. The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

**Question 24**

Mr. X would like to furnish his updated return for the A.Y. 2025-26. In case he furnished his updated return of income, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2027
(ii) as on 28.2.2028
(iii) as on 31.5.2028

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. (MTP 3 Marks April '23)

**Solution**

Mr. X may furnish an updated return of his income for A.Y. 2025-26 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2028.'

Accordingly, Mr. X can furnish updated return for A.Y. 2024-25 as on 31.3.2027 and on 28.2.2028. However, he cannot furnish such return as on 31.5.2027, since such date falls after 31.3.2028.

Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5) i.e., 31st December 2025 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2026
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year i.e., 31.3.2025 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2028.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.2027 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2028 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

**Question 25**

Mr. Aakash has undertaken certain transactions during the F.Y.2024 -25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –(RTP May '23)

S.No.	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

**Solution**

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Opening a current account with HDFC Bank	Yes, quoting of PAN is mandatory on opening of a current account by a person with bank.
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000	Yes, since the amount for sale of unlisted shares exceeds ₹ 1,00,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh	Since the purchase is of two wheeler motor vehicle, quoting of PAN is not mandatory
4.	Purchase of a professional laptop of ₹ 3 lakhs	Yes, since the amount paid exceeds ₹ 2,00,000

**Question 26**

Who is authorized to verify the return of income of the following assessee?

- HUF whose Karta is absent from India
- Company where the company is being wound up
- Local authority
- Individual who is mentally incapacitated from attending to his affairs (RTP Nov '23)

**Solution**

Person authorized to verify return of income

S.No.	Assessee	Authorised Persons
(a)	HUF whose karta is absent from India	Any other adult member of the HUF
(b)	Company where the company is being wound up	Liquidator

(c)	Local authority	The principal officer
(d)	Individual who is mentally incapacitated from attending to his affairs	His guardian or any other person competent to act on his behalf

**Question 27**

Mr. Sitaram is engaged in the business of trading of cement having turnover of ₹ 10 crores during the financial year 2024-25. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income? (PYP 4 Marks Dec '21)

**Solution**

Since Mr. Sitaram's turnover from business of trading of cement is ₹ 10 crores which exceeds ₹ 1 crore, being the threshold limit for tax audit under section 44AB, he is subjected to tax audit.

Accordingly, Mr. Sitaram, is required to furnish the following particulars along with his return of income -

- the report of audit referred to in section 44AB.
- the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.

**Question 28**

Due to some inconsistent information provided in the return of income furnished under Section 139(1), the Assessing Officer considers it defective under Section 139(9) of the Income-tax Act, 1961.

- How, the Assessing Officer would deal with the issue?
- What are the consequences if defect is not rectified within the time allowed?

Specify the remedies available if not rectified within time allowed by the Assessing Officer? (PYP 4 Marks May'22)

**Solution**

- (i) Where the Assessing Officer considers that the return of income furnished by the assessee is defective,
- he may intimate the defect to the assessee and
 - give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.
- The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.
- (ii) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- (iii) The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

**Question 29**

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30 th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- (i) What is the last date for linking Aadhar with PAN?
- (ii) What is the consequence for him if he has linked the Aadhar with PAN on 31 st August 2023?
- (iii) Are there any exceptions provided under section 139AA from quoting of Aadhar number? (PYP 4 Marks Nov '22)

**Solution**

Every person who has been allotted PAN as on 1st July, 2018, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority on or before 31st March, 2023.

Since, Mr. A fails to link his Aadhar number with PAN on or before 31.3.2023, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2023, he would be liable to pay fee of ₹ 1,000 as per section 234H.

Yes, the following are the exceptions -

An individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India

**Question 30**

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished. (PYP 4 Marks May'23)

**Solution**

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

- (a) an updated return has been furnished by him for the relevant assessment year
- (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;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.

- (d) an updated return is a loss return
- (e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- (f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

Note – Any three of the above circumstances can be mentioned.

**Question 1**

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2024 and came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 01.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025:

- From parents of husband ₹ 51,000
 - From married sister of husband ₹ 11,000
 - From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)
- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the A.Y. 2025-26 if she opts out of the default tax regime under section 115BAC.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

**Solution**

- (a) Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:
- (i) He/she has been in India during the previous year for a total period of 182 days or more, or
 - (ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he/she

is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2025-26 has to be determined on the basis of her stay in India during the P.Y.2024-25 and in the preceding four previous years.

Her stay in India during the P.Y.2024-25 and in the preceding four years are as under:

P.Y. 2024-25		
01.04.2024 to 19.09.2024	-	172 days
27.03.2025 to 31.03.2025	-	<u>5 days</u>
Total		<u>177 days</u>
Four preceding previous years		
P.Y. 2023-24 [1.4.2023 to 31.3.2024]	-	16 days
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y. 2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y. 2020-21 [1.4.2020 to 31.3.2021]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the A.Y.2025-26.

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

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025 @ ₹ 25,000/- p.m.	2,75,000	

Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)			
Less: Municipal taxes	Nil		
Net Annual Value (NAV)	2,75,000		
Less: Deduction under section 24			
30% of NAV	82,500		
Interest on loan	97,500	1,80,000	95,000
Income from other sources			
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.			
- ₹ 50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil		
- ₹ 11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil		
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000	
Total income			2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2025-26 under normal provisions of the Act

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	884
Total tax liability (rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
 - If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable under section 56(2)(x).
 - Since Miss Charlie is a non-resident for the A.Y. 2025-26, rebate under section 87A would not be available to her, even though her total income does not exceed ₹ 5 lakhs.
- (b) Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000 If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2024-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2024-25.



Question 2

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2025 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		

To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
1.4.2024 Opening W.D.V. - ₹ 5,00,000
7.12.2024 Acquired (cost) by cheque - ₹ 2,00,000
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2024, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2024-25.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2025 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.



Solution

Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	

	Less: Standard deduction u/s 16(ia)		75,000	15,000		on ₹ 2,00,000@7.5% (On equipments acquired during the year in December 2024, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)	15,000	90,000	
II	Income from house property								
	Gross Annual Value (GAV)		27,000						
	Less: Municipal taxes paid		2,000						
	Net Annual Value (NAV)		25,000						
	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500				2,72,450	
III	Income from profession					Add: Items of expenditure not allowable while computing business income			
	Net profit as per Income and Expenditure account		4,40,400			(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
	Less: Items of income to be treated separately					(ii) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(i) Rent received (taxable under the head "Income from house property")	27,000				(iii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500							
	(iii) Winning from game show on T.V. (net of TDS) – taxable under the head "Income from other sources"	35,000							
	(iv) Income tax refund	5,450	77,950			IV			
			3,62,450			Income from other sources			
	Less: Allowable expenditure					(a) Interest on income-tax refund		450	
	Depreciation on clinic equipments on ₹ 5,00,000@15%	75,000				(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
						(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950
						Gross Total Income			5,47,900

Less: Deductions under Chapter VI- A:			
(a) Section 80C [Not allowed under default tax regime]			Nil
(b) Section 80D [Not allowed under default tax regime]			Nil
(c) Section 80E [Not allowed under default tax regime]			Nil
Total income			5,47,900

**Computation of total income of Dr. Niranjana for A.Y. 2025-26
under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income as per default tax regime		5,47,900
Add: Standard deduction of Rs. 25,000, being the excess amount allowed u/s 115BAC		25,000
Less: Items of expenditure allowable while computing business income under normal provisions of the Act		
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
Gross Total Income as per normal provisions of the Act		4,22,900
Less: Deductions under Chapter VI-A:		
(a) Section 80C - Tuition fee paid to university for full time education of her daughter	1,00,000	

(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)	28,000	
(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
Total income		2,39,900

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

**Question 3**

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

Expenditure	₹	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:	58,85,850	
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled	13,000	Taxation services	15,40,300	
		Consultancy	12,70,000	55,98,300

Assistants		Dividend on shares of X Ltd., an Indian company (Gross)	10,524
Office rent	12,24,000	Income from UTI (Gross)	7,600
Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers	15,800
Meeting, seminar and conference	31,600	Rent received from residential flat let out	85,600
Purchase of car (for official use)	80,000		
Repair, maintenance and petrol of car	4,000		
Travelling expenses	5,25,000		
Municipal tax paid in respect of house property	3,000		
Net Profit	9,28,224		
	57,17,824		57,17,824

Other Information:

- Allowable rate of depreciation on motor car is 15%.
 - Value of benefits received from clients during the course of profession is ₹ 10,500.
 - Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
 - Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2024 to 30-09-2025.
 - Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
 - The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
 - Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
 - She invested an amount of ₹ 10,000 in National Saving Certificate.
 - She has paid ₹ 70,000 towards advance tax during the P.Y. 2024-25.
- Compute the total income and tax payable by Ms. Purvi for the A.Y. 2025-26 in a most beneficial manner.

**Solution**

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-

Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 - ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 - ₹ 10,11,940 @ 15%	1,791	51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		53,863
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(17,949)
Tax Payable/ (Refundable) (rounded off)		(17,950)

**Computation of total income and tax payable
under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944

Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
Net profit as per Income and Expenditure account		
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,41,224
		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524

Less: Depreciation on motor car @15% (See Note (i) below)

9,32,200
12,000
9,20,200

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

**Question 4**

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2025 revealed the following information:

- The net profit was ₹ 11,20,000.
- The following incomes were credited in the profit and loss account:
 - Income from UTI ₹ 22,000 (Gross)
 - Interest on debentures ₹ 17,500 (Gross)
 - Winnings from horse races ₹ 15,000 (Gross)
- It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
Opening stock ₹ 8,000. Closing stock ₹ 12,000.
- ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.

- Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
 - Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2025 for distribution of the company's product to the warehouses.
 - Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
 - Drawings of ₹ 10,000 debited in the books.
 - Investment in NSC ₹ 15,000 debited in the books.
- Compute the total income of Mr. Y for the assessment year 2025-26 under optional tax regime as per normal provisions of the Act.

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

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:**1. Computation of profits and gains of business or profession**

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	

Motor car expenses attributable to personal use not allowable ($\text{₹ } 78,000 \times \frac{1}{4}$)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance under section 40A(3))
- Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

**Question 5**

Balamurugan furnishes the following information for the year ended 31-03-2025:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
Long term capital gain u/s 112 taxable @20%	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

**Solution**

**Computation of total income of Balamurugan
for the year ended 31.03.2025**

Particulars	₹	₹
Salaries	2,70,000	2,70,000
Less: Loss from house property (Cannot be set off against income under any other head)	-	
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		35,000
Capital Gains		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		

Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

Computation of tax liability for A.Y.2025-26

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B

has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.



Question 6

Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2024) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articulated clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	
		Motor car (acquired in Jan. 2025 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000

Books bought on 1.07.2024 (annual publications by A/c payee cheque)	20,000
Computer acquired on 1.11.2024 by A/c payee cheque (for professional use)	30,000
Domestic drawings	2,72,000
Public provident fund subscription	
Motor car maintenance	10,000
Closing balance (31.3.2025) Cash on hand and at Bank	19,15,000
62,50,000	62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.

**Solution****Computation of total income of Mr. Rajiv for the A.Y.2025-26**

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan 50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of ₹ 88,000)	44,000	62,000	(2,000)
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		

Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
Less: Depreciation		26,02,000	
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid		18,000	1,62,000
Total income			23,30,500

**Question 7**

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2025-26. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- House Insurance ₹ 860
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
- Siddhant received a gift of ₹ 30,000 each from four friends.
- He contributed ₹ 50,000 to Public Provident Fund.

**Solution**

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions under section 24		
(i) 30% of NAV ₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] ₹ 24,000	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		

Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,29,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,29,890

Particulars	₹
Tax on total income [5% of ₹ 2,29,890 (₹ 5,29,890 - ₹ 3,00,000)]	11,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	11,495
Tax liability	Nil

Computation of total income and tax liability of Siddhant for the A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890

Add: Standard Deduction [Rs. 25,000 being excess amount allowed under section 15BAC]	25,000
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant	1,500
Gross total income (under the normal provisions of the Act)	5,53,390
Less: Deductions under Chapter VI-A	
Under section 80C [Contribution to PPF]	50,000
Total Income	5,03,390

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2025;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

**Question 8**

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2025:

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lakhs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2024 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default

tax regime under section 115BAC.

**Solution**

**Computation of Total Income of Mr. Ramdin for the A.Y.2025-26
under normal provisions of the Act**

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lakhs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		

Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754

Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
 $= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$
 $= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.

4. Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D = ₹ 5,99,160 - ₹ 1,47,870 = ₹ 4,51,290.

**Question 9**

From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income and tax payable for the assessment year 2025-26, assuming that he opts out of the default tax regime under section 115BAC.

- Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2025.
- Mr. X has deposited ₹ 1,00,000 in public provident fund.

**Solution**

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

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000

Gratuity:

Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

- (3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 26 = 390 days

Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 x ₹ 24,500/30 = ₹ 3,18,500



Question 10

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2025:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land on 15.5.2024 at Mumbai taxable	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares on 23.4.2024 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2025-26 and tax thereon assuming both exercised the option to shift out of the default tax regime.

**Solution**

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I)	Salaries Pension recd from State Govt. ₹ 60,000 Less: Standard deduction u/s 16(ia) ₹ 50,000 Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	10,000
		-	-
		-	10,000
(II)	Income from house property Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) Less: Deduction u/s 24(a)@30%	60,000	30,000
		18,000	9,000
		42,000	21,000
(III)	Capital gains Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000

	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction u/s 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction u/s 80D – Mediclaim premium paid	-	25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2025-26		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2025-26		

Tax on STCG @15% of ₹ 1,00,000 [i.e., ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
		2,500
Add: Health and Education cess@4%	920	100
Total tax liability	23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land on 15.5.2024, is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares on 23.4.2024 in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000

(i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.

- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2025-26.

**Question 11**

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2023-24, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

**Solution**

**Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under default tax regime under section 115BAC)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on ₹ 1,38,50,000		38,45,000
Add: Surcharge@15%		5,76,750
		44,21,750
Add: Health and Education cess@4%		1,76,870
Total tax liability		45,98,620

Notes:

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

**Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under the regular provisions of the Income-tax Act, 1961)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD		
[See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		64,00,000
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 64,00,000		17,32,500
Add: Surcharge @ 10% (since the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 cr)		1,73,250
		19,05,750
Add: Health and Education cess@4%		76,230
Total tax liability		19,81,980

**Computation of adjusted total income of Mr. X
for levy of Alternate Minimum Tax**

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	

Less: Depreciation under section 32 On building @10% of ₹65 lakhs	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2025-26.**

Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,81,980
	10,82,470

Notes:

- (1) Deduction under section 10AA in respect of Unit in SEZ =

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

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = ₹ 16,00,000$$

- (2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction under section 35AD.



Question 12

November 2020

Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During PY 2021-22, he earned salary of 1,65,00,000 & LTCG on sale of listed equity shares amounting to 1,06,500. He earned interest of 4,82,778 on saving A/c. Further, he has provided following other information for filing his ROI:

He does not receive HRA from his employer. Mr. A took a loan from SBI on

27th October 2019 for repairing his house (self-occupied) at Delhi & paid interest on such borrowings of 80,000 & 1,50,000 towards principal amount during PY 2021-22.

Mr. A has made following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: 13,500 (by cheque) Medical premium for his parents: 17,670 (by cheque) Medical premium for self & his wife: 21,000 (by cheque) He also incurred 6,400 towards preventive health check-up of his wife in cash. He deposited 1,00,000 towards PPF. He also deposited 50,000 & 2,50,000 towards Tier I & Tier II NPS A/c, respectively.

He has paid 5,30,000 as advance tax. His employer has deducted TDS of 51,89,000. He is of the opinion, balance amount of tax, if any he will pay on 27 July 2022 (i.e., before due date for filing of ROI). From the details given above, choose most appropriate option to the questions given below:

- 1. Compute amount of deduction available to Mr. A under Chapter VI-A for AY 2023-24:**
 - (a) Rs. 2,04,070
 - (b) Rs. 2,42,670
 - (c) Rs. 2,52,670
 - (d) **Rs. 2,02,670**
- 2. Assuming Mr. A pays rent of 65,000 p.m. for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate & amount of TDS?**
 - (a) Yes, Mr. A is liable to deduct TDS @ 5% amounting to 3,250 every month i.e., at the time of payment of such rent
 - (b) Yes, Mr. A is liable to deduct TDS @ 10% amounting to 6,500 every month i.e., at the time of payment of such rent
 - (c) **Yes, Mr. A is liable to deduct TDS @ 5% amounting to 39,000 in the month of March 2020**

- (d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of A/c audited u/s 44AB

3. What would be the amount of net tax payable for AY 2023-24 in hands of Mr. A?

- (a) Tax payable of Rs. 78,230
- (b) Tax payable of Rs. 60,290
- (c) **Tax payable of Rs. 49,530**
- (d) Tax payable of Rs. 67,470

4. Compute amount of interest chargeable u/s 234B on account of short payment of advance tax:

- (a) Rs. 1,980
- (b) **Nil**
- (c) Rs. 3130
- (d) Rs. 2410



Question 13

November 2020

Ms. Chanchal, aged 45, provides following data of her gross receipts for PY 2020-21 & PY 2021-22. She is engaged in agency business along with providing services as tarot card reader.

	Receipts from business	Receipts from profession	Total Gross Receipts
PY 2020-21	78,00,000	43,00,000	1,21,00,000
PY 2021-22	85,00,000	47,00,000	1,32,00,000

During PY 2021-22, she paid an amount of 1,20,000 to a contractor for polishing her old furniture. She has taken services from renowned interior designers for her self-occupied residential HP for which she paid Rs. 2,50,000. Further on 28.05.2021 she sold one commercial property for Rs. 50,00,000. The value adopted for stamp duty was 52,00,000. It was purchased for 40,00,000 on 28.04.2019. Brought forward LTCL from unlisted shares of FY 2020-21 is 7,80,000. During the year, Ms. Chanchal incurred a loss of 70,00,000 while trading in agricultural commodity derivatives (no CTT paid).

- Is Ms. Chanchal liable to tax audit under Income-tax Act, 1961 for PY 2021-22?
 - Yes, as the total gross receipts exceeds 1,00,00,000
 - No, as the gross receipts from business or profession are below the specified threshold limits.**
 - Yes, as the gross receipts from business exceed 50,00,000
 - Yes, as the gross receipts from profession exceed 25,00,000
- What is the total amount of tax to be deducted by Ms. Chanchal for PY 2021-22?
 - Rs. 1200
 - Rs. 26200
 - Nil
 - Rs. 27400**
- What is the amount & nature of Capital gain chargeable to tax in hands of Ms. Chanchal?
 - 10,00,000 & STCG
 - 12,00,000 & STCG
 - 7,50,000 & LTCG**
 - 9,50,000 & LTCG
- What is the amount of losses which can be c/f to AY 2023-24, assuming that business income is 45,00,000 & income from profession is 25,00,000 for PY 2021-22?
 - 7,80,000 u/s 74
 - 70,00,000 u/s 73
 - 30,000 u/s 74**
 - 70 Lacs**

**Question 14****May 2021 – RTP**

Mr. Sarthak, aged 38 years, working in Nobita Pvt. Ltd. as Senior Finance Manager. His yearly pay slip for FY 2021-22 is as follows:

Earnings	Total	Deduction	Total
Basic Pay	6,34,068	Employee's contribution to PF	1,14,132

Dearness allowance	1,26,814	Profession tax	2,400
HRA	3,17,040	Income-tax	2,32,830
Transport Allowance	19,200	Net Pay	13,03,848
Personal Allowance	5,09,088		
Children Education Allowance for 2 children	12,000		
Medical Allowance	15,000		
Bonus	20,000		
Total Earnings	16,53,210		16,53,210

- His employer also contributes equivalent amount of contribution towards PF.
- Dearness allowance forms part of retirement benefits.
- He has intimated to his company that he would opt for 115BAC for AY 2023-24. Consequently, he has not submitted any investment proof to company.
- He has paid 55,212 towards Medclaim premium for his parents (aged above 65 years) by A/c payee cheque.
- He has purchased a house of 28,00,000 & taken a loan of Rs. 21 Lacs from HDFC. He is paying EMI of Rs. 22,835. Possession of house received on 01.04.2021. He himself is occupying this house. Total principal & interest paid for full year is 55,037 & 2,18,983 respectively as per interest certificate received from bank for FY 2021-22.
- He has 3 children, studying in Sandalwood International School. Following are the components of school fees paid for Academic Session 2021-22:

School Fees Component	Child 1	Child 2	Child 3	Total
Tuition fees	30,000	37,000	40,000	1,07,000
Admission fees	20,000	-	-	20,000
Books, stationery & uniform	8,000	12,000	15,000	35,000
Infrastructure Fund	25,000	30,000	35,000	90,000
Commute cost	8,000	8,000	8,000	24,000
Activity Fees	6,000	7,000	8,000	21,000
Total Fees	97,000	94,000	1,06,000	2,97,000

- (g) He has invested 5000 in HDFC ULIP & taken a LIC policy for his wife for 10,000.
- (h) He has invested 12,500 & 25,000 towards NPS Tier I A/c & Tier II A/c, respectively.
- (i) He has also donated 50,000 in PM Cares fund created for relief from COVID-19 pandemic in India.
- (j) He has invested 40,000 in listed equity shares of Shaktimaan Power Solution Ltd. on 01.03.2021 at 200 per share & sells 100 shares at 350 per share on 01.11.2021. STT is paid both at the time of sale & purchase of these shares. Based on the above facts, choose the most appropriate answer to Q Nos. (1) to (5):
- What would be amount of income chargeable to tax u/h Salaries in hands of Mr. Sarthak for AY 2023-24?
 (a) 16,53,210 (b) 16,21,236
 (c) **16,76,036** (d) 16,71,236

- Whether TDS by Nobita Pvt Ltd. on salary paid to Mr. Sarthak based on intimation submitted by him, is correct?
 (a) Yes, the amount of 2,32,830 deducted as tax at source is correct.
 (b) **No, the correct amount of tax to be deducted at source is 2,49,920.**
 (c) No, the correct amount of tax to be deducted at source is 2,42,800.
 (d) No, the correct amount of tax to be deducted at source is 2,41,300.
- What would be the total income (without rounding off) of Mr. Ram for AY 2023-24, assume that he does not opt for section 115BAC?
 (a) **11,73,736** (b) 11,76,699
 (c) 11,61,699 (d) 11,58,736
- What would be tax liability of Mr. Sarthak for the AY 2021-22, if he does not opt for section 115BAC?
 (a) 1,66,530 (b) **1,68,870**
 (c) 1,71,210 (d) 1,67,450
- Assuming for the purpose of answering this question only that no contribution is made by Mr. Sarthak & his employer towards PF, what amount of deduction is available to Mr. Sarthak under Chapter VI-A for PY 2021-22, if he does not opt for section 115BAC?
 (a) 2,62,500 (b) **2,59,537**
 (c) 2,50,000 (d) 2,04,500

**Question 15****November 2021**

Mr. Animesh, an Indian citizen, age 61 years, has set-up his business in Canada & is residing in Canada since 2009. He owns a House in Canada, half of which is used by him for his residence & half is given on rent (converted into Rs. is 12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2018 for 42,00,000. SDV of the flat was

35,00,000. He has taken a loan from Canara Bank in India of Rs. 34,00,000 for purchase of this flat. Interest on such loan for PY 2020-21 was Rs. 3,14,000 & principal repayment was Rs. 80,000. Mr. Animesh has given this flat on monthly rent of Rs. 32,500 since April, 2019.

Annual property tax of Delhi flat is Rs. 40,000 which is paid by Mr. Animesh, whenever he comes to India to meet his parents.

Mr. Animesh visited India for 124 days during the PY 2020-21. Before that he visited India in total for 366 days during the period 1.4.2016 to 31.3.2020.

He had a house in Ranchi which was sold in May 2017. In respect of this house, he received arrears of rent of Rs. 2,96,000 in February 2021 (not taxed earlier).

He also derived some other incomes during the FY 2020-21 which are as follows:

- Profit from business in Canada: Rs. 2,75,000.
- Interest on bonds of a Canadian Co. Rs. 6,20,000 out of which 50% was received in India.
- Income from Apple Orchid in Nepal given on contract & the yearly contract fee of Rs. 5,00,000 for PY 2021-22, was received by Animesh in Nepal.
- Mr. Animesh has sold 10,000 listed shares @ Rs. 480 per share of A Ltd., an Indian company, on 15.9.2020, which he acquired on 05.04.2016 @ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.
- On 31.01.2018, the shares of A Ltd. were traded on a recognized stock exchange as under: Highest price - 300 per share; Average price - 290

per share; Lowest price - 280 per share.

Based on the above facts, choose the most appropriate answer to Q. Nos. (1) to (5)

1. What would be the residential status of Mr. Animesh for the AY 2021-22?
 (a) ROR in India (b) **RNOR**
 (c) NR (d) Deemed resident
2. What would be amount of income taxable u/h HP in the hands of Mr. Animesh for AY 2021-22?
 (a) 2,52,200 (b) **1,38,200**
 (c) 9,78,200 (d) 10,92,200
3. What amount of capital gain would arise in the hands of Mr. Animesh on transfer of shares of A Ltd?
 (a) **18,00,000** (b) 19,00,000
 (c) 20,00,000 (d) 38 Lacs
4. What would be total income of Mr. Animesh for the AY 2021-22, if he does not opt to pay tax u/s 115BAC?
 (a) 22,82,200 (b) 22,68,200
 (c) 22,48,200 (d) **21,68,200**
5. What would be the tax liability of Mr. Animesh for AY 2021-22?
 (a) 1,82,950 (b) 1,87,110
 (c) **1,80,350** (d) 1,84,510



Question 16

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2025:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		66,66,000

Following are the further information relating to the financial year 2024-25:

- Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- Salary includes 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.
- Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque.

- Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and 12,750 towards interest for delay in deposit of tax.
- Mr. Amit had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2024 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000 excluding depreciation on warehouse building.
- Interest on loans includes an amount of ₹ 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2025-26 in a most beneficial manner. (15 Marks)



Solution

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2025-26

Particulars	₹
Net profit as per profit and loss account	50,85,000
Less: Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	<u>30,000</u>
	50,55,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)	2,500

- Payment made to political party by cheque (See Note 2)	1,00,000
- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 3)	5,300
- Depreciation as per books.	1,07,250
- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	52,99,050
Less: Depreciation allowable as per Income-tax Act, 1961	65,000
Depreciation on building [X 20 lakhs x 10%]	<u>2,00,000</u>
	2,65,000
Profits and gains from business or profession	50,34,050
Income from Other Sources	
Interest on income-tax refund	4,570
Gross Total Income	50,38,620
Less: Deduction under section 80GGC [Contribution to Political Party] [Not allowable]	Nil
Total Income	50,38,620

Notes —

- (1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.

- (4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,38,620		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 — ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 — ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 — ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 — ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 — ₹ 50,38,620 [@30% of ₹ 35,38,620]	<u>10,61,586</u>	
		12,01,586
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		<u>1,20,159</u>
		13,21,745
Less: Marginal relief (See computation below)		<u>93,125</u>
		12,28,620
Add: Health and education cess@4%		<u>49,145</u>
Total tax liability		<u>12,77,765</u>
Total tax liability (Rounded off)		<u>12,77,770</u>

Computation of marginal relief

Particulars	₹
(A) Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B) Tax payable on total income of ₹ 50 lakhs as per, section 115BAC	<u>11,90,000</u>
(C) Excess tax payable (A-B)	<u>1,31,745</u>

(D)	Marginal relief (₹ 1,31,745 — ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs)	93,125

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Computation of total income of Mr. Amit for A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [%20 lakhs x 10%]		<u>2,00,000</u>
		52,38,620
Less: Warehousing charges		<u>22,50,000</u>
Gross Total Income excluding profits and gains from specified business under section 35AD		29,88,620
Profits and gains from specified business under section 35AD		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD (See Note 1)	<u>20,00,000</u>	<u>2,50,000</u>
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
Total Income as per regular provisions of the Act		31,38,620

Notes —

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

- (2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

Computation of tax liability of Mr. Amit for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 31,38,620		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 — ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 — ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 — ₹ 31,38,620 [@30% of ₹ 21,38,620]	<u>6,41,586</u>	7,54,086
Add: Health and education cess@4%		<u>30,163</u>
Total tax liability		7,84,249
Total tax liability (rounded off)		7,84,250

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2025-26

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,38,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [20 lakhs x 10%]	<u>(2,00,000)</u>	18,00,000
Adjusted Total Income		49,38,620
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		<u>36,546</u>
Total tax liability		9,50,191
Total tax liability (rounded off)		9,50,190

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income

and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 9,50,190.

Since the tax liability of Mr. Amit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2025-26 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	1,65,940



Question 17

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2018.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2025. This industrial undertaking fulfills all the conditions of section 10AA of the

Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.

- He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1st May 2024 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
 - He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
 - He also sold his vacant land on 01.12.2024 for ₹ 15 lakhs. The stamp duty value of land at the time of transfer was ₹ 16 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.
- The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100, respectively.
- He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2025-26 under default tax regime.



Solution

Computation of total income of Mr. Sunil for A.Y. 2025-26 under default tax regime under section 115BAC

	Particulars	₹	₹	₹
I	Income from house property Let out portion [First floor] Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	

Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 25,000/2]		<u>12,500</u>	
Net Annual Value (NAV)		2,82,500	
Less: Deduction u/s 24			
(a) 30% of ₹ 2,82,500	84,750		
(b) Interest on housing loan [₹ 1,50,000/2]	<u>75,000</u>	<u>1,59,750</u>	
		1,22,750	
Self-occupied portion[Ground Floor]			
Annual Value		Nil	
[No deduction is allowable in respect of municipal taxes paid]			
Less: Interest on housing loan [Not allowable under section 115BAC]		<u>Nil</u>	
		Nil	
Income from house property			1,22,750
II Profits and gains of business or profession			
Income from SEZ unit			40,00,000
III Capital Gains			
Long-term capital gains on sale of land (since held for more than 24 months)			
Full Value of Consideration [Actual consideration of ₹ 15 lakhs, since stamp duty value of ₹ 16 lakhs does not exceed 110% of actual consideration of ₹ 15 lakhs]		15,00,000	
Less: Cost of acquisition [₹ 4,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)		<u>4,00,000</u>	11,00,000
Cost of acquisition			
Higher of -			
- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.			
IV Income from Other Sources			
Interest on savings bank deposits		30,000	
Interest on fixed deposits		<u>40,000</u>	<u>70,000</u>
Gross Total Income			52,92,750
Less: Deduction under Chapter VI-A			
Deduction under section 80JJAA			<u>7,12,800</u>
30% of the employee cost of the new employees employed during the P.Y. 2024-25 for 240 days or more during the P.Y. 2024-25 allowable as deduction [30% of ₹ 23,76,000 (12 x 18,000 x 11)]			
As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
Total Income			45,79,950

Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 45,79,950		
Tax on LTCG on sale of vacant land		
As the asset is a long term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.		
<u>Tax @20% with indexation</u>		
Sale consideration = 15,00,000		
Cost of acquisition = 4,00,000 x 363/100 = 14,52,000		
Gain = 48,000		
Tax @20% = 48,000 x 20% = 9,600		
<u>Tax @12.5% without indexation</u>		
Tax @12.5% = 11,00,000 x 12.5% = 1,37,500		
Tax on LTCG on sale of vacant land @20% with indexation		9,600
Tax on remaining total income of ₹ 34,79,950		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]	5,93,985	
		7,33,985
		7,43,585

Add: Health and education cess@4%

29,743

Total tax liability

7,73,328

Tax liability (Rounded off)**7,73,330**

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

**Question 18**

Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- Depreciation ₹ 15,40,000
- Short term capital gains on 01.05.2024 on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- Dividend income from Indian companies ₹ 15,00,000.
Dividend received from each company is less than ₹ 5,000.

Additional information –

- Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
- Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has

been paid on 31.3.2025 and the same has been debited to profit and loss account.

- (iii) Advance tax paid during the year is ₹17,50,000
- (iv) Ayush purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
- (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.
- (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2024, Mr. Ayush withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.



Solution

Computation of total income of Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

	Particulars	₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	

Add: Items of expenditure not allowable while computing business income

- (i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,75,000 [$₹ 50,00,000 \times 10.5\% \times 4/12$] has to be added back, since the same is debited to the profit and loss account] 1,75,000
- (ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value] 5,00,000

6,75,000

89,20,000

Less: Items of income to be treated separately under the respective head of income

(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
(ii) Dividend from Indian companies	15,00,000		
(iii) Short term capital gains on transfer of listed equity shares	<u>10,00,000</u>	<u>25,15,550</u>	
		64,04,450	
Less: Depreciation on interest on loan capitalised to plant and machinery			
₹ 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
Normal depreciation @15% x 50% on such interest	13,125		
Additional depreciation @20% x 50% on such interest	<u>17,500</u>	<u>30,625</u>	
[Since plant & machinery was put to use for less than 180 days in P.Y. 2024-25, it is eligible for 50% of the rate of depreciation]			
II Capital Gains			63,73,825
Short term capital gains on transfer of listed equity shares			10,00,000
III Income from Other Sources			
Interest on income-tax refund		4,550	
Dividend from Indian companies		<u>15,00,000</u>	<u>15,04,550</u>
Gross Total Income			88,78,375

Less: Deductions under Chapter VI-A			
- Deduction under section 80C Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured]	40,000		
- Deduction under section 80D Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]	25,000	<u>65,000</u>	
Total Income			88,13,375
Total Income (Rounded off)			88,13,380

Computation of tax payable by Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [₹ 10,00,000 x 15%]		1,50,000
Tax on other Income of ₹ 78,13,380		

Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 78,13,380 [@30% of ₹ 68,13,380]	<u>20,44,014</u>	<u>21,56,514</u>
		23,06,514
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,30,651
		25,37,165
Add: Health and education cess@4%		<u>1,01,487</u>
Total tax liability		26,38,652
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	<u>18,50,000</u>
Tax payable		<u>7,88,652</u>
Tax payable (Rounded off)		7,88,650



Question 19

Ms. Farah, aged 40 years, is an advocate (Taxation). She keeps her books of accounts on accrual basis. Her profit & loss account for the year ended on March 31, 2025 is as follows:

Profit & Loss Account for the year ending March 31, 2025

	Amount (₹)		Amount (₹)
Staff salary	40,10,000	Fees Earned from:	
Rent	9,00,000	Taxation services	50,00,000
Administrative expenses	6,50,000	Appeals	16,00,000

Incentives to office staff	2,00,000	Consultancy	15,00,000	81,00,000
Meetings, Seminars and conferences	1,70,000	Dividend from an Indian company (gross)		11,00,000
Purchase of car (for official use) on 01.07.2024	3,00,000	Interest on deposit certificates issued under gold monetization scheme, 2015		25,000
Repairs and Maintenance of car	35,000	Honorarium received for valuation of answer papers		50,000
Travelling Expenses	5,00,000	Rent received in respect of house property		90,000
Municipal tax paid in respect of house property	9,000			
Net profit	<u>25,91,000</u>			
	93,65,000			93,65,000

Other information:

- Administrative expenses include ₹ 50,000 paid to a tax consultant in cash for assisting Ms. Farah in one of the professional assignments.
- The traveling expenses include expenditure incurred on foreign professional tour of ₹ 50,000 which was within the RBI norms.
- Ms. Farah paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting ₹ 47,000. She also paid ₹ 8,500 by cash towards preventive health check-up for herself and her spouse.
- Repairs and maintenance of car is for the period from 1-10-2024 to 30-09-2025.

(v) She has paid ₹ 1,00,000 towards advance tax during the P.Y. 2024-25. Compute Total Income and Net tax payable as per the most beneficial taxation scheme for Ms. Farah for the A.Y. 2025-26.

**Solution**

Computation of Total Income of Ms. Farah for the A.Y.2025-26 under default tax regime under section 115BAC

Particulars	₹	₹	₹
Income from house property			
Gross Annual Value ¹		90,000	
Less: Municipal taxes paid		<u>9,000</u>	
Net Annual Value (NAV)		81,000	
Less: Deduction under section 24(a)		<u>24,300</u>	56,700
– 30% of NAV = 30% of ₹ 81,000			
Profits and gains of business or profession			
Net profit as per Profit and loss account		25,91,000	
Add: Expenses debited but not allowable			
(i) Purchase of car [Amount paid for purchase of car is not allowable since it is a capital expenditure]	3,00,000		
(ii) Municipal tax paid in respect of house property [allowable as deduction under the head "Income from house property"]	9,000		

(iii) Payment made to tax consultant in cash [disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000]	50,000		
(iv) Travel expenditure on foreign professional tour [Since it is incurred in connection with professional work, the same is allowable as deduction. As it has already been debited to profit and loss account, no further adjustment is required]	-		
(v) Repair and maintenance of car [Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 17,500 is not allowable as deduction, since Ms. Farah is following the accrual system of accounting]	17,500		
		3,76,500	
			29,67,500
Less: Income credited but not taxable under this head:			
(i) Dividend from an Indian company (taxable under the head "Income from Other Sources")	11,00,000		

(ii) Interest on deposit certificates issued under gold monetization scheme, 2015 (taxability or otherwise to be considered under the head "Income from Other Sources")	25,000		
(iii) Honorarium for valuation of answer papers	50,000		
(iv) Rent received in respect of house property	90,000	12,65,000	
		17,02,500	
Less: Depreciation on car @15%		45,000	
			16,57,500
Income from Other Sources			
Dividend from an Indian company		11,00,000	
Interest on deposit certificates issued under gold monetization scheme, 2015 [Exempt under section 10(15)]			
Honorarium for valuation of answer papers		50,000	11,50,000
Gross Total Income			28,64,200
Less: Deduction under Chapter VI-A [Deduction under section 80D would not be allowable]			-
Total Income			28,64,200

Computation of tax payable under default tax regime under section 115BAC

Particulars	₹
Tax on total income of ₹ 28,64,200	
Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000@5%]	20,000
₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000@10%]	30,000
₹ 10,00,001 – ₹ 12,00,000 [i.e., ₹ 2,00,000@15%]	30,000
₹ 12,00,001 – ₹ 15,00,000 [i.e., ₹ 3,00,000@20%]	60,000
₹ 15,00,001 – ₹ 28,64,200 [i.e., ₹ 13,64,200 @30%]	<u>4,09,260</u>
	5,49,260
Add: Health and Education cess@4%	<u>21,970</u>
Tax Liability	5,71,230
Less: Advance Tax paid	1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 x 10%]	<u>1,10,000</u>
Tax payable	<u>3,61,230</u>

Computation of total income and tax payable by Ms. Farah for the A.Y.2025-26 under regular provisions of the Act

Particulars	₹
Gross Total Income	28,64,200
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same under regular provisions of the Act]	
Less: Deductions under Chapter VI-A	
Section 80D	
Medical insurance premium paid online for parents, being senior citizens	47,000

Payment made in cash of ₹ 8,500 for preventive health check-up for self and spouse restricted to	5,000	52,000
Total Income		28,12,200
Tax on total income of ₹ 28,12,200		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 – ₹ 28,12,200 [i.e., ₹ 18,12,200 @30%]	5,43,660	
		6,56,160
Add: Health and Education cess@4%		26,246
Tax Liability		6,82,406
Less: Advance Tax paid		1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 x 10%]		1,10,000
Tax payable		4,72,406
Tax payable (Rounded off)		4,72,410

Note – Since the tax payable under default tax regime under section 115BAC is lower than the tax payable under the regular provisions of the Act, it would be beneficial for Ms. Farah to pay tax under default tax regime under section 115BAC for A.Y. 2025-26.



Question 20

Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2025

- (i) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000.

- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹140 lakhs from export turnover which have been received in India in convertible foreign exchange on or before 30.9.2025. Profit from this industry is ₹ 20 lakhs.
- (iii) He was holding 30% equity shares in TSP (P) Ltd., an Indian company. Company allotted shares to shareholders on 1st October, 2020. The paid up share capital of company is ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. He sold all these shares on 30th April, 2024 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Amit has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.
- (iv) Received ₹ 30,000 as savings bank deposits.
- (v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.
- (vi) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.
- (vii) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Amit under normal provisions for the A.Y. 2025-26.

**Solution****Computation of total income of Mr. Amit for A.Y. 2025-26**

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24		59,400	
	(a) 30% of ₹ 1,98,000		1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			
	Income from SEZ unit			20,00,000
III	Capital Gains			
	On transfer of 60,000 shares (2,00,000 x 30%)			
	Sales consideration [60,000 x ₹ 60 per share]		36,00,000	

Less: Cost of acquisition [60,000 x 40]

24,00,000

Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)

12,00,000

IV Income from Other Sources

Royalty from artistic book

2,88,000

Less: Expenses incurred for earning royalty

40,000

2,48,000

Interest on savings bank deposits

30,000

2,78,000

Gross Total Income

36,16,600

Less: **Deduction u/s 10AA** [Not available, since he commenced operation in P.Y. 2021-22]

-

Less: **Deduction under Chapter VI-A**

Deduction under section 80C

Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)

28,000

Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Amit

39,000

Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Amit

-

67,000

Deduction under section 80QQB Royalty [$\text{₹ } 2,88,000 \times 15/18 = \text{₹ } 2,40,000$, restricted to amount brought into India in convertible foreign exchange $\text{₹ } 2,30,000$ minus $\text{₹ } 40,000$ expenses already allowed as deduction while computing royalty income]	1,90,000	
Deduction under section 80TTA Interest on savings bank account, restricted to $\text{₹ } 10,000$	10,000	
		2,67,000
Total Income		33,49,600

Computation of tax liability of Mr. Amit for A.Y.2025-26 under the normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 33,49,600		
Tax on LTCG of ₹ 10,75,000, being the sum exceeding ₹ 1.25 lakh @10% u/s 112A		1,07,500
Tax on remaining total income of ₹ 21,49,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 21,49,600 [@30% of ₹ 11,49,600]	3,44,880	4,57,380
		5,64,880
Add: Health and education cess@4%		22,595
Total tax liability		5,87,475
Tax liability (rounded off)		5,87,480

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2025-26

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	33,49,600
Add: Deduction u/s 80QQB	1,90,000
Adjusted Total Income	35,39,600
Alternative Minimum Tax@18.5%	6,54,826
Add: Health and education cess@4%	26,193
AMT liability	6,81,019
AMT liability (Rounded off)	6,81,020

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 6,81,020.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	6,81,020
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	5,87,480
	93,540



Question 21

Mr. Ashok, aged 61 years, a resident individual, engaged in a wholesale business of stationary products provides you the following information for the year ended 31.3.2025. He is also a partner in UVW & Co., a partnership firm.

S. No.	Particulars	₹	₹
(i)	Interest on capital received from UVW & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2024-25 including interest of ₹ 1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2024 and for the other on 31.12.2025)		
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2024) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	

(ix)	Motor car acquired on 31.12.2024 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2021. He received arrears of rent in respect of the said property in October, 2024.		1,35,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid by way of A/c payee cheque for self	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income and tax liability of Mr. Ashok for the A.Y. 2025-26 assuming he opts out from the provisions of section 115BAC.



Solution

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

Particulars	₹	₹
Income from house property		
Arrears of rent	1,35,000	
(Taxable under section 25A even if Mr. Ashok is not the owner of the house property in the P.Y.2024-25)		
Less: Deduction@30%	<u>40,500</u>	94,500
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	6,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		

- Depreciation as per books	34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return of income (₹ 7,000/2)	3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000	22,000	
- 20% of car expenses for personal use	8,000	
	7,27,500	
Less: Depreciation allowable (Note 1)	1,96,800	
	5,30,700	
Income from firm		
Share of profit from the firm is exempt under section 10(2A)	-	
Interest on capital from partnership firm 1,20,000 (Note 2)		
Salary as working partner fully taxable 1,00,000	2,20,000	7,50,700
Income from other sources		
Interest on bank fixed deposit (Gross) [₹ 49,500 x 100/90]	55,000	
Interest on saving bank account	13,300	
Interest on income-tax refund	1,400	69,700
Gross total income		9,14,900
Less: Deduction under Chapter VIA (Note 3)		2,65,000
Total Income		6,49,900

Computation of tax liability of Mr. Ashok for the A.Y.2025-26

Particulars	₹
Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000
₹ 5,00,001 – ₹ 6,49,900 [i.e., ₹ 1,49,900@20%]	29,980
	39,980
Add: Health and Education cess@4%	1,599
Tax liability	41,579
Tax liability (Rounded off)	41,580

Notes:**(1) Depreciation allowable under the Income-tax Rules, 1962**

		Opening WDV/ Actual cost	Rate		Depreciation
Block 1	Computers	2,40,000	40%		96,000
	Computer printer	1,50,000	40%		60,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days]	40,800
	Less: 20% disallowance for personal use			10,200	
					1,96,800

- (2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Ashok.

(3) **Deduction under Chapter VI-A**

Particulars	₹	₹
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
		1,30,000
Under section 80D		
Health insurance premium taken for himself is fully allowable as deduction, since he is a senior citizen		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTB		
Interest on deposits in case of senior citizen, restricted to		50,000
Total deduction		2,65,000



Question 22

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025.

**Manufacturing, Trading and Profit & Loss Account
for the year ended 31.03.2025**

Particulars	₹	Particulars	₹
To Opening Stock	4,97,000	By Sales	3,04,50,000
To Purchase of Raw Materials	1,20,43,500	By Closing Stock	14,00,000
To Manufacturing Wages & Expenses	40,63,500		
To Gross Profit	1,52,46,000		
Total	3,18,50,000	Total	3,18,50,000
To Administrative Charges	20,30,000	By Gross Profit	1,52,46,000
To SGST Penalty Paid		By Dividend From Domestic Companies	1,05,000
(It is not compensatory nature)	49,000	By Winning from	
To GST Paid	7,70,000	Lotteries (Net of TDS) (TDS 31,500)	73,500
To General Expenses	3,85,000	By Profit on Sale of Shares	3,15,000
To Miscellaneous Expenses	10,53,500		
To Loss on Sale of Shares	1,40,000		
To Interest to Bank for term loan	4,20,000		
To Depreciation	14,00,000		
To Net Profit	94,92,000		
Total	1,57,39,500	Total	1,57,39,500

Following are the further information relating to Financial Year 2024- 2025:

- (i) Administrative Charges include ₹ 46,000 paid as commission to brother of the assessee. The Commission amount at the market rate in ₹ 36,000.
- (ii) The assessee paid ₹ 33,000 in cash to a Transport Carrier on 26.12.2024. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on this payment.)
- (iii) Bank Term Loan Interest actually paid upto 31.03.2025 was ₹ 1,40,000 and the balance was paid in October 2025.
- (iv) Miscellaneous Expenses include ₹ 10,000 contributed to Prime Minister's Relief Fund by account payee cheque.
- (v) Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.
- (vi) Profit on Sale of Shares represents shares sold in December 2024 and held for 2 years & Securities Transaction Tax was paid on it.
- (vii) Housing Loan Principal repaid during the year was ₹ 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was ₹ 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is ₹ 45 lakhs, loan value ₹ 25 lakhs and sanction date 31.03.2020). These amounts were not dealt with in the Profit and Loss Account given above.
- (ix) Depreciation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	₹
Opening WDV (as on 01.04.2024)	84,00,000
Additions During the year (Used for more than 180 Days)	14,00,000
Total Additions during the year	28,00,000
Note: Ignore Additional Depreciation u/s 32(1)(iia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

**Computation of total income and tax liability of Mr. Sahil
for A.Y. 2025-26**

	Particulars	₹	₹
I	<u>Income from house property</u>		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b)		
	Interest on housing loan of ₹ 2,60,000 restricted to ₹ 2,00,000	2,00,000	
		(2,00,000)	
II	<u>Profits and gains of business or profession</u>		
	Net Profit	94,92,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head		
	- Commission paid to brother [Commission paid to a related person/relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	
	- Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators]	Nil	
	- Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]	2,80,000	



Solution

- Contribution to Prime Minister's Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]	10,000	
- SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]	49,000	
- Loss on sale of shares	1,40,000	
- Depreciation as per books of account	<u>14,00,000</u>	
	1,13,81,000	
Less: Incomes credited to profit and loss account but not taxable as business income		
- Dividend from Domestic Companies	1,05,000	
- Winnings from lotteries	73,500	
- Profit on sale of shares	<u>3,15,000</u>	
	1,08,87,500	
Less: Depreciation allowable as per Income-tax Rules, 1962		
- On Plant & Machinery [@15% on ₹ 98,00,000, being opening WDV of ₹ 84 lakhs and additions put to use for more than 180 days of ₹ 14 lakhs + @7.5% on ₹ 14,00,000, being additions put to use for less than 180 days]	<u>15,75,000</u>	
Business Income	93,12,500	
Less: Set off of loss from house property as per section 71(3A)	<u>2,00,000</u>	
		91,12,500

III Capital Gains		
Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	3,15,000	
Less: Set off of short term capital loss as per section 70(2)	<u>1,40,000</u>	1,75,000
IV Income from Other Sources		
Dividend from Domestic Companies	1,05,000	
Winning from lotteries (₹ 31,500 + ₹ 73,500)	<u>1,05,000</u>	
		2,10,000
Gross Total Income		94,97,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Principal repayment of housing loan	50,000	
Deduction under section 80EE		
Interest on housing loan of ₹ 60,000 [₹ 2,60,000 – ₹ 2,00,000, allowed u/s 24(b)] allowable under section 80EEA	60,000	
Deduction under section 80G		
Contribution to Prime Minister's Relief Fund	<u>10,000</u>	<u>1,20,000</u>
Total Income		<u>93,77,500</u>
Tax Liability		
Tax on LTCG of ₹ 50,000 exceeding ₹ 1.25 lakhs] u/s 112A @12.5%		6,250
Tax on winning from lotteries of ₹ 1,05,000 @30%		31,500
Tax on balance income of ₹ 90,97,500 at slab rate		

Upto ₹ 2,50,000	Nil	
From ₹ 2,50,001 to ₹ 5,00,000 @5%	12,500	
From ₹ 5,00,001 to ₹ 10,00,000 @20%	1,00,000	
From ₹ 10,00,001 to ₹ 90,97,500 @30%	<u>24,29,250</u>	<u>25,41,750</u>
		25,79,500
Add: Surcharge @10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		<u>2,57,950</u>
		28,37,450
Add: Health and education cess @4%		<u>1,13,498</u>
Tax Liability		<u>29,50,948</u>
Tax liability (Rounded off)		<u>29,50,950</u>



Question 23

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹ 8 lakhs as on April 1, 2024. The Statement of Profit and Loss for the previous year ended on March 31, 2025 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.
- General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2025.
- Expenditure of ₹ 75,000, was paid to a scientific research association approved under section 35. Out of ₹ 75,000, ₹ 50,000 was utilised

towards the purchase of land by the research association.

- He let out first floor of his commercial building to Mr. Aman on April 1, 2024 and received rent of ₹ 35,000 per month. Municipal taxes ₹ 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹ 10,000 (relating to ground floor) was debited to the statement of profit and loss.
- He sold a piece of land for ₹ 44 lakhs on 12th April, 2024. He had acquired the land for 40 lakhs on 1st January, 2023. The gain of ₹ 4,00,000 is credited to the statement of profit and loss.

(CII for F.Y. 2021-22:317; F.Y. 2024-25:363)

Additional Information:

- Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹ 49,000 on March 10, 2025. However, the payment to M/s. Paul Industries was made on April 5, 2025 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹ 1,34,000 in cash on April 5, 2025 for purchase of raw material on March 31, 2025. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- Mr. Raman acquired a registered trademark on July 15, 2024 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2025. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- Mr. Raman bought a car for personal use on 12th April, 2021 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2024. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.
- He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2024.

- (v) He has paid tuition fees of ₹ 25,000 for the education of his daughter to a college.
- (vi) During the year, Mr. Raman has incurred ₹ 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and ₹ 4,500 was for his parents who are super senior citizens.
- (vii) Donation paid to a registered political party by way of cheque ₹ 20,000.
- Compute the total income and tax liability of assessment year 2025-26 of Mr. Raman under both the regimes.

**Solution**

**Computation of total income and tax liability of Mr. Raman for
A.Y. 2025-26 under default tax regime**

	Particulars	₹	₹
I	Income from house property		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [₹ 35,000 x 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @30% of NAV	1,26,000	
			2,94,000
II	Profits and gains of business or profession		
	Net Profit	9,25,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income		

-	Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil
-	Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000
-	Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹ 66,000/2]	33,000
-	Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000
-	Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil
-	Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2025 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2025]	49,000

- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2025 i.e., within 15 days from 31.3.2025. However, since the payment is made in cash on 5.4.2025, ₹ 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2025-26 as per section 40A(3A)]	Nil	
	14,70,000	
Less: Incomes credited to profit and loss account but not taxable as business income		
- Rent received for let out portion	4,20,000	
- Gain on sale of land	4,00,000	
	6,50,000	
Less: Depreciation		
- On trademark [₹ 2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
- On Car [₹ 5,40,000 x 15%]	81,000	
- On new Plant & machinery [₹ 2,50,000 x 15%]	37,500	
- On Building [% 8,00,000 x 10%]	80,000	
Additional depreciation		
- On new Plant & machinery [Not allowable under default tax regime]	Nil	
Income from Business		4,26,500

III Capital Gains		
Full value of consideration	44,00,000	
Less: Cost of acquisition	40,00,000	
Short term capital gains on land [Since land is held for less than 24 months]		4,00,000
Gross Total Income		11,20,500
Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
Total Income		11,20,500
Tax Liability		
Up to ₹ 3,00,000	Nil	
From ₹ 3,00,001 to ₹ 7,00,000 @5%	20,000	
From ₹ 7,00,001 to ₹ 10,00,000 @10%	30,000	
From ₹ 10,00,001 to ₹ 11,20,500 @15%	18,075	
		68,075
Add: Health and education cess @4%		2,723
Tax Liability		70,798
Tax Liability (Rounded off)		70,800

**Computation of total income and tax liability of Mr. Raman for
A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹
Gross Total Income as per default tax regime		11,20,500
Less: Additional depreciation on new Plant & machinery [₹ 2,50,000 x 20%]		50,000
Less: Contribution to scientific research association approved u/s 35		75,000

Gross Total Income as per normal provisions of the Act		9,95,500
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Tuition fees to a college for daughter's education	25,000	
Deduction under section 80D		
Preventive health check-up for self and parents restricted to	5,000	
Deduction under section 80GGC		
Donation to a registered political party since the payment is made otherwise than by cash	20,000	
		50,000
Total Income as per normal provisions of the Act		9,45,500
Tax Liability		
Up to ₹ 3,00,000	Nil	
From ₹ 3,00,001 to ₹ 5,00,000 @5%	10,000	
From ₹ 5,00,001 to ₹ 9,45,500 @20%	89,100	
		99,100
Add: Health and education cess @4%		3,964
Tax Liability		1,03,064
Tax Liability (Rounded off)		1,03,060