



Total Income Questions

Inter - May / June / Sept / Dec 2026 and Jan 2027

Session 1 - <https://youtube.com/live/HuvSIZI9Z1I?feature=share>

Session 2 - <https://youtube.com/live/tYCLUP-SIvo?feature=share>

Total Income Adjustment compilation - https://youtu.be/HHAZki_0qFQ

Telegram Group - <https://t.me/taxation0707>

Few Frequently Asked Questions

Question 1

Bhaiya which sequence should we follow to write the answer? And how many working notes?

Always start with Income from Salary - House property - Capital Gains - PGBP - IFOS. Try to write at least 5/6 working notes

Question 2

Do we get step markings?

Absolutely YES and thus, working notes play a vital role here

Question 3

What if we are unsure about the final answer of Total Income?

Ek chhotasa tip by Bawaa - do not go ahead with tax liability, jump on the next question and keep tax computation at the end - if time permits do that 😊

Question 4

Should we solve Total Income Qs at the start or at the end in the exams?

This is very subjective - but I always recommend punters to solve this question at the end because this Qs is unending.

Please try solving at least 7/8 questions (take from anywhere) on your own as practice and solve 1 question daily. This is very very important because we will need speed while solving this question which will not come by just LOOKING at the question or solving it in rough.



Question 1

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2026:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2019.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2026. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2025-26. Out of 20 employees, 12 were employed on 1st May 2025 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2025 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- (vi) He also sold his vacant land on 01.12.2025 for ₹ 16 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 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 2025-26 and 2001-02 are 376 and 100, respectively.

- (vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2026-27 under default tax regime. **(15 Marks)**



Answer

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

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	
	Less: Municipal taxes paid by him in the P.Y. 2025-26 pertaining to let out portion [₹ 25,000/2]		<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 ₹ 16 lakhs, since stamp duty value of ₹ 17 lakhs does not exceed 110% of actual consideration of ₹ 16 lakhs]		16,00,000	
	Less: Cost of acquisition [₹ 4,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)		<u>4,00,000</u>	12,00,000



Cost of acquisition Higher of - - Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and - Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.			
IV Income from Other Sources			
Interest on savings bank deposits		30,000	
Interest on fixed deposits		<u>40,000</u>	<u>70,000</u>
Gross Total Income			53,92,750
Less: Deduction under Chapter VI-A			
Deduction under section 80JJAA			7,12,800
30% of the employee cost of the new employees employed during the P.Y. 2025-26 for 240 days or more during the P.Y. 2025-26 allowable as deduction			
[30% of ₹ 23,76,000 (12 x 18,000 x 11)] As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
Total Income			46,79,950

Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 46,79,950		
Tax on LTCG on sale of vacant land		
As the asset is a long-term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.		
<u>Tax @20% with indexation</u>		
Sale consideration = ₹ 16,00,000		
Cost of acquisition = ₹ 4,00,000 x 376/100 = ₹ 15,04,000		
Gain = ₹ 96,000		
Tax @20% = ₹ 96,000 x 20% = ₹ 19,200		
<u>Tax @12.5% without indexation</u>		
Tax @12.5% = ₹ 12,00,000 x 12.5% = ₹ 1,50,000		
Tax on LTCG on sale of vacant land @20% with indexation		19,200

**Tax on remaining total income of ₹ 34,79,950**

Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 – ₹ 34,79,950 [@30% of ₹ 10,79,950]	<u>3,23,985</u>	<u>6,23,985</u>
		6,43,185
		<u>25,727</u>
Total tax liability		<u>6,68,912</u>
Tax liability (Rounded off)		<u>6,68,910</u>

Add: Health and education cess@4%

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.



Question 2

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2026:

Trading and Profit & Loss Account

Particulars	₹	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 2025-26:

- (i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (ii) Salary includes ₹ 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.
- (iii) 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.
- (iv) Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque.
- (v) 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.
- (vi) 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 15.07.2025 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".



- (vii) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000 excluding depreciation on warehouse building.
- (viii) 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. 2026-27 in a most beneficial manner. **(15 Marks)**

Answer

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2026-27

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)		<u>24,000</u>
		52,99,050
Less: Depreciation allowable as per Income-tax Act, 1961	65,000	
Depreciation on building [₹ 20 lakhs x 10%]	<u>2,00,000</u>	<u>2,65,000</u>
Profits and gains from business or profession		50,34,050
Income from Other Sources		
Interest on income-tax refund		<u>4,570</u>
Gross Total Income		50,38,620
Less: Deduction under section 80GGC [Contribution to Political Party] [Not allowable under default tax regime]		<u>Nil</u>
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 ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	



₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 – ₹ 50,38,620 [@30% of ₹ 26,38,620]	<u>7,91,586</u>	
		10,91,586
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		<u>1,09,159</u>
		12,00,745
Less: Marginal relief (See computation below)		<u>82,125</u>
		11,18,620
Add: Health and education cess@4%		<u>44,745</u>
Total tax liability		<u>11,63,365</u>
Total tax liability (Rounded off)		<u>11,63,370</u>

Computation of marginal relief

Particulars		₹
(A)	Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	12,00,745
(B)	Tax payable on total income of ₹ 50 lakhs as per section 115BAC	
		<u>10,80,000</u>
(C)	Excess tax payable (A-B)	<u>1,20,745</u>
(D)	Marginal relief (₹ 1,20,745 – ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs)	82,125

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Computation of total income of Mr. Amit for A.Y. 2026-27 under optional tax regime

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 u/s 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. 2026-27
under optional tax regime**

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		<u>7,84,249</u>
Total tax liability (rounded off)		7,84,250

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2026-27

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>	<u>18,00,000</u>



Adjusted Total Income	<u>49,38,620</u>
Alternative Minimum Tax@18.5%	9,13,645
Add: Health and education cess@4%	<u>36,546</u>
Total tax liability	<u>9,50,191</u>
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. 2026-27 and pays tax under optional tax regime. 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
	<u>1,65,940</u>



Question 3

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, 2026 is as follows:

Profit & Loss Account for the year ending March 31, 2026

Particulars	Amount (₹)	Particulars	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
Meetings, Seminars and conferences	1,70,000	Dividend from an Indian company (gross)	11,00,000
Purchase of car (for official use) on 01.07.2025	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 1-10-2025 to 30-09-2026.
- She has paid ₹ 1,00,000 towards advance tax during the P.Y. 2025-26.

Compute Total Income and tax liability as per the most beneficial taxation scheme for Ms. Farah for the A.Y. 2026-27. **(15 Marks)**



Answer

**Computation of Total Income of Ms. Farah for the A.Y.2026-27
under default tax regime under section 115BAC**

Particulars	₹	₹	₹
Income from house property			
Gross Annual Value ⁶		90,000	
Less: Municipal taxes paid		<u>9,000</u>	
Net Annual Value (NAV)		81,000	
Less: Deduction under section 24(a) – 30% of NAV = 30% of ₹ 81,000		<u>24,300</u>	56,700
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 1.4.2026 to 30.9.2026 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	
		<u>29,67,500</u>	



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%		<u>45,000</u>	
			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]			<u>-</u>
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 ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [i.e., ₹ 4,00,000@5%]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [i.e., ₹ 4,00,000@10%]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [i.e., ₹ 4,00,000@15%]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [i.e., ₹ 4,00,000@20%]	80,000	
₹ 20,00,001 – ₹ 24,00,000 [i.e., ₹ 4,00,000@25%]	1,00,000	
₹ 24,00,001 – ₹ 28,64,200 [i.e., ₹ 4,64,200 @30%]	<u>1,39,260</u>	4,39,260
Add: Health and Education cess@4%		<u>17,570</u>
Tax Liability		4,56,830



**Computation of total income and tax payable by Ms. Farah
for the A.Y.2026-27 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	<u>5,000</u>
	<u>52,000</u>
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%]	<u>5,43,660</u>
	6,56,160
Add: Health and Education cess@4%	<u>26,246</u>
Tax Liability	<u>6,82,406</u>
Tax Liability (Rounded off)	<u>6,82,410</u>

Note – Since the tax liability under default tax regime under section 115BAC is lower than the tax liability 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. 2026-27.



Question 4

Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) Depreciation ₹ 15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- (iv) Dividend income from Indian companies ₹ 15,00,000 Additional information –
 - (i) Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2025 which was put to use on 1.1.2026. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
 - (ii) Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2025 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2026 has been paid on 31.3.2026 and the same has been debited to profit and loss account.
 - (iii) Advance tax paid during the year is ₹ 17,50,000
 - (iv) Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
 - (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2020.
 - (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
 - (vii) On 1.7.2025, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable after adjusting TDS/TCS/advance tax, if any, by Mr. Rishabh for the A.Y. 2026-27, in the manner so that he can make maximum tax savings.



Answer

Computation of total income of Mr. Rishabh for A.Y. 2026 -27 (under default tax regime under section 115BAC)

Particulars	₹	₹	₹
I Income from business or profession Net profit as per profit and loss account 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 ₹ 1,53,125 [₹ 50,00,000 x 10.5% x 3.5/12] has to be added		82,45,000	
back, since the same is debited to the profit and loss account] (ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	5,00,000	<u>6,53,125</u>	
		88,98,125	



Less: Items of income to be treated separately under the respective head of income			
(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
(ii) Dividend from Indian companies	15,00,000		
(iii) Short term capital gains on transfer of listed equity shares	<u>10,00,000</u>	<u>25,15,550</u>	
		63,82,575	
Less: Depreciation on interest on loan capitalized to plant and machinery			
₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
Normal depreciation @15% x 50% on such interest		11,484	
		63,71,091	
Add: Additional depreciation on newly plant and machinery [Not allowable under default tax regime] [₹ 65,00,000 x 20% x 50%]		<u>6,50,000</u>	
			70,21,091



II Capital Gains			
Short term capital gains on transfer of listed equity shares			10,00,000
III Income from Other Sources			
Interest on income-tax refund		4,550	
Dividend from Indian companies		<u>15,00,000</u>	<u>15,04,550</u>
Gross Total Income			95,25,641
Less: Deductions under Chapter VI-A			
- Deduction under section 80C [Not allowable under default tax regime]			Nil
- Deduction under section 80D [Not allowable under default tax regime]			Nil
Total Income			<u>95,25,641</u>
Total Income (Rounded off)			<u>95,25,640</u>

Computation of tax payable under default tax regime

Particulars	₹	₹
Tax on total income of ₹ 95,25,640		
Tax on STCG of ₹ 10,00,000 @20% u/s 111A		2,00,000
Tax on remaining total income of ₹ 85,25,640		
Upto ₹ 4,00,000	Nil	
₹ 4,00,001 - ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 - ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 - ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 - ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 - ₹ 24,00,000 [@25% of ₹ 4 lakhs]	1,00,000	
₹ 24,00,001 - ₹ 85,25,640 [@30% of ₹ 61,25,640]	<u>18,37,692</u>	<u>21,37,692</u>
		23,37,692
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		<u>2,33,769</u>
		25,71,461



Add: Health and education cess@4%		<u>1,02,858</u>
Total tax liability		26,74,319
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		<u>8,24,319</u>
Tax payable (rounded off)		8,24,320

Computation of total income of Mr. Rishabh under optional tax regime for A.Y. 2026-27

Particulars	₹	₹
Gross Total Income as per default tax regime		95,25,641
Less: Additional depreciation on plant and machinery		
- On interest which is capitalised	15,313	
- On cost of plant and machinery [₹ 65 lakhs x 20% x 50%]	<u>6,50,000</u>	<u>6,65,313</u>
Gross Total Income as per normal provisions of the Act		88,60,328
- Deduction under section 80C	40,000	
Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured]		
- Deduction under section 80D	<u>25,000</u>	<u>65,000</u>
Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]		
Total Income		<u>87,95,328</u>
Total Income (Rounded off)		87,95,330



Computation of tax payable under optional tax regime

Particulars	₹	₹
Tax on total income of ₹ 87,95,330		
Tax on short term capital gains on transfer of listed equity shares @20% u/s 111A		2,00,000
Tax on other Income of ₹ 77,95,330		
Upto ₹ 2,50,000	<i>Nil</i>	
₹ 2,50,001 – ₹ 5,00,000 [<i>@5% of ₹ 2.50 lakh</i>]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [<i>@20% of ₹ 5,00,000</i>]	1,00,000	
₹ 10,00,001- ₹ 77,95,330 [<i>@30% of ₹ 67,95,330</i>]	<u>20,38,599</u>	<u>21,51,099</u>
		<u>23,51,099</u>
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		<u>2,35,110</u>
		25,86,209
Add: Health and education cess@4%		<u>1,03,448</u>
Total tax liability		26,89,657
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		<u>8,39,657</u>
Tax payable (rounded off)		8,39,660

Since tax payable as per section 115BAC is lower than the tax payable as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh to pay tax under default tax regime under section 115BAC for A.Y. 2026-27.



Question 5

Mr. Ashok, aged 61 years, a resident individual, engaged in a wholesale business of stationary products provides the following information for the year ended 31.3.2026. He is also a partner in UVW & Co., a partnership firm.

S. No.	Particulars	₹	₹
(i)	Interest on capital 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) (Net of TDS)		90,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		1,35,000
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2025-26 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 (For two half years; payment for one half year made on 12.7.2025 and for the other on 31.12.2026)	7,000	
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2025) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2025 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2021. He received arrears of rent in respect of the said property in October, 2025.		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. 2026-27 assuming he opts out from the provisions of section 115BAC. **(15 Marks)**

Answer

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

Particulars	₹	₹
Income from house property		
Arrears of rent (Taxable under section 25A even if Mr. Ashok is not the owner of the house property in the P.Y.2025-26)	1,35,000	
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	<u>8,000</u>	
	7,27,500	
Less: Depreciation allowable (Note 1)	<u>1,96,800</u>	
	5,30,700	



Income from firm			
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable [₹ 90,000/90 x 100]	<u>1,00,000</u>	<u>2,20,000</u>	7,50,700
Income from other sources			
Interest on bank fixed deposit (Gross) [₹ 1,35,000 x 100/90]		1,50,000	
Interest on saving bank account		13,300	
Interest on income-tax refund		<u>1,400</u>	<u>1,64,700</u>
Gross total income			10,09,900
Less: Deduction under Chapter VI-A (Note 3)			<u>2,65,000</u>
Total Income			<u>7,44,900</u>

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

Particulars	₹
Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000
₹ 5,00,001 – ₹ 7,44,900 [i.e., ₹ 2,44,900@20%]	<u>48,980</u>
	58,980
Add: Health and Education cess@4%	<u>2,359</u>
Tax liability	<u>61,339</u>
Tax liability (Rounded off)	<u>61,340</u>



(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			<u>10,200</u>	
					<u>1,96,800</u>

- (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	<u>70,000</u>	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		<u>50,000</u>
Total deduction		<u>2,65,000</u>



Question 6

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026.

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2026

Particulars	₹	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 (It is not compensatory nature)	49,000	By Dividend From Domestic Companies (Gross)	1,05,000
To GST Paid	7,70,000	By Winning from Lotteries (Net of TDS)	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 2025-26:

- (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 26.12.2025. 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 31.03.2026 was ₹ 1,40,000 and the balance was paid in November 2026.
- (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 2025 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) Deprecation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	₹
Opening WDV (as on 01.04.2025)	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)(ia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). **(15 Marks)**



Answer

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

	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	<u>2,00,000</u>	
		(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	
	- 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	<u>Capital Gains</u>		
	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	<u>Income from Other Sources</u>		
	Dividend from Domestic Companies	1,05,000	
	Winning from lotteries (₹ 73,500/70 x 100)	<u>1,05,000</u>	<u>2,10,000</u>
	Gross Total Income		94,97,500
	Less: Deduction under Chapter VI-A		
	<u>Deduction under section 80C</u>		
	Principal repayment of housing loan	50,000	
	<u>Deduction under section 80EE</u>		
	Interest on housing loan of ₹ 60,000 [₹ 2,60,000 – ₹ 2,00,000, allowed u/s 24(b)] allowable under section 80EEA	60,000	
	<u>Deduction under section 80G</u>		
	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

<i>Add:</i> Surcharge @10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		<u>2,57,950</u>
		28,37,450
<i>Add:</i> 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 7

Mr. Yuvaan, a resident individual, aged 45 years, is engaged in manufacturing of textile business, as a proprietor. He follows mercantile system of accounting. The net profit as per profit and loss account after debiting/crediting the following items was ₹ 20,00,000:

- (i) ₹ 25,000 paid to creditor for goods in cash.
- (ii) Gross interest received from saving bank account ₹ 15,000.
- (iii) Contribution to notified approved research association for scientific research ₹ 1,10,000.
- (iv) He paid a job charges for the value addition on the fabrics ₹ 1,10,000 without deduction of tax to job worker by an account payee cheque.
- (v) Normal depreciation of ₹ 4,50,000 as per Income-tax Rules, 1962 including depreciation on ₹ 15 lakhs, being the cost of new machinery purchased and put to use on 01-09-2025.
- (vi) Subsidy of 20% on new machinery under technology upgradation fund Scheme from the Central Government which was credited to profit and loss account.
- (vii) Insurance expenses include ₹ 50,000 deposited with life insurance Corporation of India for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.
- (viii) General expenses include revenue expenditure incurred for promoting family planning amongst its employees of ₹ 75,000.
- (ix) On 01-03-2026, Mr. Yuvaan purchased raw material for ₹ 30,000 from Kanha & Co., a medium enterprise as per MSMED Act, 2006, for which the payment was made on 18-04-2026. There was no agreement for payment period between them.

Additional Information:

- (a) Mr. Yuvaan repaid housing loan principal and interest of ₹ 75,000 and ₹ 80,000 respectively, availed for purchase of let-out house property.
- (b) He received rent of ₹ 3,50,000 from his let-out house property. The municipal taxes of ₹ 40,000 for this house was paid by him on 30-04-2026.



- (c) He received ₹ 75,000 by pre-mature withdrawals from deposit including interest ₹ 5,000, in post office time deposit, eligible for deduction under Section 80C.
- (d) He sold a gold bracelet on 01-05-2025 for ₹ 5,00,000, which was acquired for ₹ 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹ 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2025-26:376)

Required:

Compute the total income and tax liability of Mr. Yuvaan for the assessment year 2026-27 under default tax regime and optional tax regime.

The turnover of the business for the financial year 2024-25 is ₹ 250 lakhs and for F.Y. 2025-26 is ₹ 300 lakhs.



Answer

Computation of total income of Mr. Yuvaan for A.Y. 2026-27 under default tax regime

Particulars		₹	₹	₹
I	Income from house property			
	Rent received (GAV)		3,50,000	
	Less: Municipal taxes [Will be allowed only in the year of actual payment. Since it was paid on 30.4.2026 i.e., after the end of the relevant previous year, it will be allowed only in P.Y. 2026-27.]		<u>-</u>	
	NAV		3,50,000	
	Less: Deduction under section 24			
	- 30% of NAV	1,05,000		
- interest on housing loan	<u>80,000</u>	1,85,000		
			1,65,000	
II	Income from business or profession			
	Net profit as per profit and loss account		20,00,000	
	Add: Items of expenditure not allowable while computing business income			
- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure by virtue of	25,000			



	section 40A(3), since such amount exceeds ₹ 10,000 and paid in cash]			
-	Contribution to notified approved research association for scientific research [Not allowable under default tax regime]	1,10,000		
-	Job charges without deduction of tax [30% of ₹ 1,10,000] [Mr. Yuvaan's turnover for the P.Y. 2024-25 exceeds ₹ 1 crore, hence, he is liable to deduct tax at source u/s 194C on Job charges of ₹ 1,10,000. Since he has not deducted tax at source on ₹ 1,10,000, 30% would be disallowed under section 40(a)(ia)]	33,000		
-	Insurance deposited with LIC of India for the maintenance of her mother [Personal expenses not allowable under section 37]	50,000		
-	Revenue expenditure incurred for promoting family planning [Allowable only in case of company and not allowable for non-corporate assessee]	75,000		
-	Purchases made from Kanha & Co., a medium enterprise [Disallowance under section 43B(h) is not applicable on	-	2,93,000	



	payment to a medium enterprise. Accordingly, allowable on due basis during the P.Y. 2025-26]			
			22,93,000	
	Less: Items credited but not taxable or taxable under other heads			
	- Gross interest received from saving bank account	15,000		
	- Subsidy on new machinery [Subsidy on new machinery has to be reduced from actual cost of machinery]	3,00,000	3,15,000	
			19,78,000	
	<i>Add:</i> Depreciation claimed on subsidy received for new machinery [₹ 15 lakhs x 20% x 15%]		45,000	
	<i>Less:</i> Additional depreciation on new machinery [Not allowable under default tax regime]		-	20,23,000
III	Capital Gains			
	Long term capital gain on sale of gold bracelet since it is held for more than 24 months			
	Sale consideration		5,00,000	
	<i>Less:</i> Cost of acquisition		40,000	
	<i>Less:</i> Cost of improvement		50,000	
	Long term capital gains			4,10,000
IV	Income from other sources			
	- Gross interest received from saving bank account		15,000	



- Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mr. Yuvaan]	75,000	90,000
Gross Total Income		26,88,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Housing loan repayment [Not allowed under default tax regime]	-	
Deduction under section 80DD		
Deposit with life insurance Corporation of India for the maintenance of her mother [Not allowed under default tax regime]	-	
Deduction under section 80TTA		
Interest on saving bank account [Not allowed under default tax regime]	-	-
Total Income		26,88,000

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

Particulars	₹	₹
Tax @12.5% on LTCG of ₹ 4,10,000 on sale of gold bracelet		51,250
Tax at slab rate on balance income of ₹ 22,78,000		



Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 - ₹ 22,78,000 [@ 25% of ₹ 2,78,000]	69,500	2,69,500
		3,20,750
Add: Health and education cess@4%		12,830
Tax liability		3,33,580

**Computation of total income of Mr. Yuvaan for A.Y. 2026-27
under optional tax regime**

Particulars	₹
Gross Total Income as per default tax regime	26,88,000
Less: Contribution to notified approved research association for scientific research [Allowable as deduction under section 35(1)(ii) under optional tax regime]	1,10,000
Less: Additional depreciation on new machinery [(₹ 15,00,000 - ₹ 3,00,000) x 20%]	2,40,000
Gross Total Income as per optional tax regime	23,38,000
Less: Deduction under Chapter VI-A	
Deduction under section 80C	
Housing loan repayment	75,000
Deduction under section 80DD	
Deposit with life insurance Corporation of India for the maintenance of her mother	1,25,000
Deduction under section 80TTA	
Interest on saving bank account	10,000
Total Income as per optional tax regime	21,28,000



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

Particulars	₹	₹
Tax @12.5% on LTCG of ₹ 4,10,000 on sale of gold bracelet		51,250
Tax at slab rate on balance income of ₹ 17,18,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 - ₹ 17,18,000 [@ 30% of ₹ 7,18,000]	2,15,400	3,27,900
		3,79,150
<i>Add: Health and education cess@4%</i>		15,166
Tax liability		3,94,316
Tax liability (Rounded off)		3,94,320



Question 8

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motorbikes, 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, 2025. The Statement of Profit and Loss for the previous year ended on March 31, 2026 shows a net profit of ₹ 11.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- (i) Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.
- (ii) 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.
- (iii) Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2026.
- (iv) 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.
- (v) He let out first floor of his commercial building to Mr. Aman on April 1, 2025 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.
- (vi) He sold a piece of land for ₹ 44 lakhs on 12th April, 2025. He had acquired the land for 40 lakhs on 1st January, 2024. The gain of 4,00,000 is credited to the statement of profit and loss.

(CII for F.Y. 2021-22:317; F.Y. 2025-26:376)

Additional Information:

- (i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹ 49,000 on March 10, 2026. However, the payment to M/s. Paul Industries was made on April 5, 2026 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, 2026 for purchase of raw material on March 31, 2026. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- (ii) Mr. Raman acquired a registered trademark on July 15, 2025 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2026. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.



- (iii) 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 01.04.2025. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.
- (iv) 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, 2025.
- (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 2026-27 of Mr. Raman under both the regimes. (15 Marks)

Answer

Computation of total income and tax liability of Mr. Raman for A.Y. 2026-27 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)	<u>Nil</u>	
	Net Annual Value	4,20,000	
	Less: Deduction @30% of NAV	<u>1,26,000</u>	
			2,94,000
II	Profits and gains of business or profession		
	Net Profit	11,25,000	
	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	Nil	



delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]		
- 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 5.4.2026 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2026]	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 5.4.2026 i.e., within 15 days from 31.3.2026. However, since the payment is made in cash on 5.4.2026, ₹ 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2026-27 as per section 40A(3A)]	Nil	
	16,70,000	
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	<u>4,00,000</u>	
	8,50,000	



	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]	<u>Nil</u>	
	Income from Business		6,26,500
III	Capital Gains		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	<u>40,00,000</u>	
	Short term capital gains on land [Since land is held for less than 24 months]		<u>4,00,000</u>
	Gross Total Income		13,20,500
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		<u>Nil</u>
	Total Income		13,20,500
	Tax Liability		
	Up to ₹ 4,00,000	Nil	
	From ₹ 4,00,001 to ₹ 8,00,000 @5%	20,000	
	From ₹ 8,00,001 to ₹ 12,20,500 @10%	40,000	
	From ₹ 12,00,001 to ₹ 13,20,500 @15%	<u>18,075</u>	
			78,075
	Add: HEC @4%		3,123
	Tax Liability		81,198
	Tax Liability (Rounded off)		81,200

**Computation of total income and tax liability of Mr. Raman for
A.Y. 2026-27 under normal provisions of the Act**

	Particulars	₹	₹
	Gross Total Income as per default tax regime		13,20,500



Less: Additional depreciation on new Plant & machinery [₹ 2,50,000 x 20%]		50,000
Less: Contribution to scientific research association approved u/s 35		<u>75,000</u>
Gross Total Income as per normal provisions of the Act		11,95,500
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	<u>20,000</u>	50,000
Total Income as per normal provisions of the Act		11,45,500
Tax Liability		
Up to ₹ 3,00,000	Nil	
From ₹ 3,00,001 to ₹ 5,00,000 @5%	10,000	
From ₹ 5,00,001 to ₹ 10,00,000 @20%	1,00,000	
From ₹ 10,00,001 to ₹ 11,45,500 @30%	<u>43,650</u>	
		1,53,650
Add: Health and education cess @4%		<u>6,146</u>
Tax Liability		<u>1,59,796</u>
Tax Liability (Rounded off)		<u>1,59,800</u>