

**CA/CMA INTER Super Questions**  
**For MAY/SEP 26 & JAN 27**  
**CA BB [Past RTP, MTP & Exams]**

**Question: 1 Total Income & Tax liability as per Default Tax regime 115BAC or Normal Tax Regime [15 Marks]**

**RTP SEP - 25**

1. Mr. Shobhit, a resident individual aged 54 years, engaged in the manufacture of spare parts of cars. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended 31.3.2026 shows a net profit of ₹57,25,000 after debiting/ crediting the following:

- (i) During the year, Mr. Shobhit purchased plant and machinery for ₹55 lakhs for which he took loan from a scheduled bank. (Date of loan 1.5.2025 and rate of interest 11% p.a.). The asset was acquired on 1.7.2025 and put to use on 1.9.2025. The entire interest amount is debited to the profit and loss account.
- (ii) On 1.4.2025, the production manager working in the factory of Mr. Shobhit took voluntary retirement from the services. Mr. Shobhit paid him ₹8,00,000 as compensation for his services under the Voluntary Retirement Scheme.
- (iii) Mr. Shobhit purchased raw material from M/s Kamal & Sons, a micro enterprise, and M/s Hitesh & Sons, a medium enterprise, for ₹51,000 and ₹75,000, respectively on 15.3.2026. As per the written agreement with them, both the payment has to be made by 10.4.2026. Mr. Shobhit made the payment to M/s Kamal & Sons on 9.4.2025 and to M/s Hitesh & Sons on 15.11.2026.
- (iv) He contributed 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD which is debited to the profit and loss account. Basic salary of the employees aggregate to ₹10 lakhs and dearness allowance is 40% of basic salary and it forms part of retirement benefit.
- (v) Depreciation debited to profit and loss account is ₹27,50,000.
- (vi) He received ₹13,850 as income-tax refund out of which ₹3,850 is interest on refund. The entire amount is credited to profit and loss account.

**Additional Information:**

- (a) Mr. Shobhit purchased a new computer on 31st August, 2025 and was put to use on the same day in his office. The payment was made as under:
  - ₹28,000 paid in cash at the time of purchase of new computer on 31/08/2025
  - ₹25,000 paid by account payee cheque on 05/09/2025 as balance cost of new computer
- (b) WDV (as per the Income-tax Act, 1961) of different assets as on 1.4.2025:
  - Plant and machinery ₹8,00,000;
  - Factory Building ₹6,45,000
- (c) He paid ₹50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is ₹8,00,000 and the policy was taken on 1.4.2015.
- (d) He also paid ₹45,000 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.
- (e) On 1.10.2025, he withdrew ₹1.50 crores in cash from two current accounts maintained by him with PNB Bank of India. There are no other withdrawals during the year.
- (f) Mr. Shobhit had sold a house on 30th March, 2023 and deposited the long term capital gains of ₹25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st July, 2025, he sold another house property in which he resided for ₹1 crore. He earned a long-term capital gain (without indexation benefit) of ₹50,00,000 on sale of this property. On 5th January, 2026, he withdrew the whole money out of his capital gain account and invested ₹60 lakhs on construction of a house in Mumbai. The construction of the house completed on 23rd March 2026. The indexed cost of acquisition of the house property is ₹60 lakhs.

You are required to compute the total income of Mr. Shobhit and also the tax payable by him after TDS/TCS credit, if any, for the A.Y. 2026-27 if he is opting out of the default tax regime.

Answer -

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

Particulars		₹	₹	₹
<b>I</b>	<b>Income from business or profession</b>			
	Net profit as per profit and loss account			
	<b>Add: Items of expenditure not allowable while computing business income</b>		57,25,000	
	- Depreciation as per books of accounts	27,50,000		
	- Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset as first put to use not allowable as deduction. Accordingly, interest of ₹2,01,667 [ $₹55,00,000 \times 11\% \times 4/12$ ] has to be added back, since the same is debited to the profit and loss account]	2,01,667		
	- Compensation on voluntary retirement [Only 1/5 <sup>th</sup> of the compensation paid is allowable in the current year. The remaining are allowable in the four succeeding years in equal installments. Hence, 4/5 <sup>th</sup> of ₹8 lakh debited to profit and loss account has to be added back]	6,40,000		
	- Payment to M/s Kamal & Sons, a micro enterprise, for purchase of raw material [Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was within the time specified in the written agreement which is within 45 days from 15.3.2026]	Nil		
	- Payment to M/s Hitesh & Sons, a medium enterprise, for purchase of raw material [Allowable, as section 43B which mandates allowability of expenditure on actual payment basis is not applicable on medium enterprise and Mr. Shobhit follows mercantile system of accounting]	Nil		
	- Excess Contribution towards employees' pension scheme [Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as deduction u/s 36(1)(iva). Accordingly, disallowance is required to be made since contribution made is not within the prescribed limit. Disallowance u/s 40A(9) = 2,00,000 (20% of ₹10 lakh) - 14% of ₹14,00,000 (₹10 lakh + ₹4 lakh) = ₹4,000]	4,000		
			35,95,667	

Particulars		₹	₹	₹
	<b>Less: Items of income to be treated separately under the respective head of income</b>		93,20,667	
	- Income-tax refund including interest on refund of ₹3,850		13,850	
			93,06,817	
	<b>Less: Allowable expenditure Normal depreciation on</b>			
	(i) Opening WDV			
	- Factory Building ₹6,45,000 @10%	64,500		
	- Plant & Machinery ₹8,00,000 @15%	1,20,000		
	(ii) Computer acquired on 31.8.2025 for ₹25,000 @40% [Since payment of ₹28,000 made in cash in a day to a person exceeds ₹ 10,000, the same would not be included in the actual cost of computer. Hence, only actual cost of ₹25,000 is eligible for depreciation]	10,000		
	(iii) On Plant & Machinery acquired on 1.5.2025 for ₹57,01,667 @15% [₹ 55,00,000 plus ₹2,01,667, being the amount of interest on loan taken for purchase of this plant and machinery from the date on which capital was borrowed till the date on which asset as first put to use shall be capitalized]	8,55,250	10,49,750	
	Additional depreciation on Plant & Machinery acquired on 1.5.2025 for ₹57,01,667 @20%		11,40,333	71,16,734
<b>II</b>	<b>Capital Gains</b>			
	Sale consideration		1,00,00,000	
	Less: cost of acquisition		50,00,000	
	Long term capital gains [Indexation benefit is not available since the property is transferred after 23.7.2024]		50,00,000	
	Less: Exemption u/s 54 [Since ₹35 lakhs is invested in construction of house within the stipulated time limit.]		35,00,000	15,00,000
	Capital gain of ₹25 lakhs in capital gain account scheme is not taxable in P.Y. 2025-26, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹35 lakhs invested in construction of house is eligible for exemption u/s 54 against the long-term capital gain on sale of house property during the P.Y.2025-26]			
	<b>Income from Other Sources</b>			
<b>III</b>	Interest on income-tax refund			3,850
	<b>Gross Total Income</b>			<b>86,20,584</b>
	Less: Deduction under Chapter VI-A			
	<b>Deduction u/s 80C</b>			

Particulars	₹	₹	₹
- Life insurance premium of his father [Not allowable as deduction, since not covered within the meaning of term "person" in case of an individual, though he is dependent on him]		Nil	
- 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" and the premium does not exceed 10% of the ₹ 5,00,000, being the sum assured]		45,000	45,000
<b>Total Income</b>			<b>85,75,584</b>
<b>Total Income (Rounded off)</b>			<b>85,75,580</b>

**Computation of tax payable by Mr. Shobhit for A.Y. 2026-27**

Particulars	₹	₹
<b>Tax on LTCG (Lower of following)#</b>		1,00,000
Tax @12.5% on LTCG of ₹15 lakhs on sale of house property (without indexation benefit)	1,87,500	
Tax @20% on LTCG of ₹5 lakhs on sale of house property (with indexation benefit)	1,00,000	
<b>Tax at slab rate on balance income of ₹70,75,580</b>		
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 - ₹70,85,580 [@ 30% of ₹60,75,580]	18,22,674	
		19,35,174
		20,35,174
<i>Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹1 crore</i>		2,03,517
		22,38,691
<i>Add: Health and education cess@4%</i>		89,548
Tax liability		23,28,239
<i>Less: TDS u/s 194N @ 2% on ₹50 lakhs, being the cash withdrawals exceeding ₹1 crore</i>		1,00,000
<b>Tax payable</b>		<b>22,28,239</b>
<b>Tax payable (Rounded off)</b>		<b>22,28,240</b>

#As per proviso to section 112, in this case while calculating tax liability, assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.

**RTP JAN - 26**

2. Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account u/s 44AB. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended on 31.3.2026 shows a net profit of ₹51,42,000 after debiting/ crediting the following:

- (i) During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees was amounted to ₹1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2026.

- (ii) Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹2,50,000 which is reasonable to the extent of ₹1,50,000.
- (iii) He purchased goods worth ₹30,000 from Vishnu & Co., a micro enterprise, on March 01, 2026. According to the written agreement between them, the payment was to be made by 05th April 2026. However, he made payment to Vishnu & Co on 15th April 2026.
- (iv) Depreciation as per profit and loss account is ₹13,66,000.

**Additional Information:**

- (a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2026.  
Vaibhav claimed the entire interest amount of ₹6,00,000 as an expense while computing his business income.
- (b) Depreciation as per Income-tax Rules, 1962 is ₹12,00,000.
- (c) He contributed ₹50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹1.5 lakhs.
- (d) He employed 90 new employees during the P.Y. 2025-26, the details of whom are as follows:

No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
20	1.4.2025	Regular	24,000
25	1.5.2025	Casual	24,500
30	1.8.2025	Regular	26,000
15	1.9.2025	Casual	23,500

The regular employees participate in recognized provident fund while the casual employees do not.

- (e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2015, for ₹1,80,000. Later on, in F.Y. 2023-24, he started sculpture business and converted these capital assets into stock-in-trade for his business. Fair market value at the time of conversion was ₹3,50,000. Subsequently, he sold the stock-in-trade on June 10, 2025, for ₹5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

You are required to compute the total income and tax liability of Mr. Vaibhav for the A.Y. 2026-27 if he opts out of the default tax regime.

CII for F.Y. 2014-15: 240; F.Y. 2023-24: 348; F.Y. 2025-26: 376

**Answer –**

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

Particulars		₹	₹	₹
<b>I</b>	<b>Income from business or profession</b>			
	Net profit as per profit and loss account		51,42,000	
	<b>Add: Items of expenditure not allowable while computing business income</b>			
	- Depreciation as per books of accounts	13,66,000		
	- Payment for professional services [Since the tax was deducted on time, but such tax has not been paid on or before the due date specified in section 139(1), ₹30,000 [₹1,00,000 x 30%] has to be disallowed in F.Y. 2025-26 u/s 40(a)(ia) and has to be added back]	30,000		
	- Payment for renovation of office [Unreasonable payment made to brother for renovating his office has to be added back as per section 40A(2)]	1,00,000		

Particulars		₹	₹	₹
II	- Payment to M/s Vishnu & Co, a micro enterprise, for purchase of raw material [Not Allowable as per section 43B(h) since payment was made to a micro enterprise and the same was not within the time specified in the written agreement]	30,000		
	- Conversion of interest into loan [Conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted into loan shall be allowed as deduction only in the year in which the converted loan is actually paid.] Accordingly, only ₹ 30,000 shall be allowed as deduction in P.Y. 2025-26 [₹6 lakhs/20 installments]	5,70,000		
	- Payment received from sale of stock-in-trade converted from capital assets [Sale consideration	1,50,000	22,46,000	
	- FMV as on date of conversion]			
	Less: Depreciation as income- tax Rules, 1962		73,88,000	
	<b>Capital Gains</b>		12,00,000	61,88,000
	Sale consideration		3,50,000	
	Less: Indexed cost of acquisition [₹1,80,000 x 348/ 240]		2,61,000	
	Long term capital gains [Indexation benefit is available since the property is transferred before 23.7.2024]			89,000
	<b>Gross Total Income</b>			<b>62,77,000</b>
Less: Deduction under Chapter VI-A				
<b>Deduction u/s 80C</b>				
- Investment in five-year deposit				
<b>Deduction u/s 80CCD(1B)</b>				
- Contribution in NPS		1,50,000		
<b>Deduction u/s 80JJAA (See working note below)</b>				
<b>Total Income</b>		50,000	19,28,000	
		17,28,000		
			<b>43,49,000</b>	

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

Particulars	₹	₹
<b>Tax @20% on LTCG of ₹89,000 on sale of Sculptures</b> [Since the property is transferred before 23.7.2024]		17,800
<b>Tax at slab rate on balance income of ₹42,60,000</b>		
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	

Particulars	₹	₹
₹10,00,001 - ₹42,60,000 [@ 30% of ₹32,60,000]	9,78,000	10,90,500
<i>Add:</i> Health and education cess@4%		11,08,300
Tax liability		44,332
<b>Tax liability (Rounded off)</b>		<b>11,52,632</b>

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

Particulars	₹	₹
<b>Total Income</b>		43,49,000
<i>Add:</i> Deduction u/s 80JJAA		17,28,000
<b>Adjusted Total Income</b>		60,77,000
Alternate Minimum Tax @18.5%		11,24,245
<i>Add:</i> Surcharge @10% since adjusted total income exceeds ₹50 lakhs but does not exceed ₹1 crore		1,12,425
		12,36,670
<i>Add:</i> Health and education cess@4%		49,467
Tax liability		12,86,137
<b>Tax liability (Rounded off)</b>		<b>12,86,140</b>

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@10% and cess@4%. Therefore, tax liability as per section 115JC is ₹12,86,140.

**AMT Credit to be carried forward u/s 115JEE**

	₹
Tax liability u/s 115JC	12,86,140
<i>Less:</i> Tax liability under the regular provisions of the Income-tax Act, 1961	11,52,630
	<b>1,33,510</b>

**Working Note**

**Computation of Deduction u/s 80JJAA**

Particulars	₹
<b>Additional employee cost</b> = ₹24,000 × 12 × 20 = ₹57,60,000	17,28,000
<b>Deduction u/s 80JAA = 30% of ₹57,60,000</b>	
Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 30 regular employees employed on 1.8.2025 also do not qualify as additional employees since their monthly emoluments exceed ₹25,000.	
Therefore, only 20 employees employed on 1.4.2025 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2025-26 is deemed to be the additional employee cost.	

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3. 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 u/s 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		₹	₹	₹
<b>I</b>	<b>Income from house property</b>			
	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.]		—	
	NAV		3,50,000	
	Less: Deduction u/s 24			
- 30% of NAV	1,05,000			
- interest on housing loan	80,000	1,85,000		
<b>II</b>	<b>Income from business or profession</b>			1,65,000
	Net profit as per profit and loss account		20,00,000	
	<b>Add: Items of expenditure not allowable while</b>			

Particulars		₹	₹	₹
	<b>computing business income</b>			
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure by virtue of section 40A(3), since such amount exceeds ₹10,000 and paid in cash]	25,000		
	- 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 u/s 40(a)(ia)]	33,000		
	- Insurance deposited with LIC of India for the maintenance of her mother [Personal expenses not allowable u/s 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 u/s 43B(h) is not applicable on payment to a medium enterprise. Accordingly, allowable on due basis during the P.Y. 2025-26]	-		
			2,93,000	
			<b>22,93,000</b>	
	<b>Less: Items credited but not taxable or taxable under other heads</b>			
	- 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]			
III	<b>Capital Gains</b>			
	Long term capital gain on sale of gold bracelet since it is held for more than 24 months			
	Sale consideration			
	<i>Less:</i> Cost of acquisition <i>Less:</i> Cost of improvement			
	Long term capital gains			
IV	<b>Income from other sources</b>		5,00,000	
	- Gross interest received from saving bank account		40,000	
			50,000	20,23,000

Particulars	₹	₹	₹
		15,000	4,10,000
- 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
<b>Gross Total Income</b>			<b>26,88,000</b>
Less: Deduction under Chapter VI-A			
<b>Deduction u/s 80C</b>			
Housing loan repayment [Not allowed under default tax regime]		-	
<b>Deduction u/s 80DD</b>			
Deposit with life insurance Corporation of India for the maintenance of her mother [Not allowed under default tax regime]		-	
<b>Deduction u/s 80TTA</b>			
Interest on saving bank account [Not allowed under default tax regime]		-	-
<b>Total Income</b>			<b>26,88,000</b>

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

Particulars	₹	₹
<b>Tax @12.5% on LTCG of ₹4,10,000 on sale of gold bracelet</b>		51,250
<b>Tax at slab rate on balance income of ₹22,78,000</b>		
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
<b>Tax liability</b>		<b>3,33,580</b>

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

Particulars	₹
<b>Gross Total Income as per default tax regime</b>	<b>26,88,000</b>
Less: Contribution to notified approved research association for scientific research [Allowable as deduction u/s 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
<b>Gross Total Income as per optional tax regime</b>	<b>23,38,000</b>

Particulars	₹
Less: Deduction under Chapter VI-A	
<b>Deduction u/s 80C</b>	
Housing loan repayment	75,000
<b>Deduction u/s 80DD</b>	
Deposit with life insurance Corporation of India for the maintenance of her mother	1,25,000
<b>Deduction u/s 80TTA</b>	
Interest on saving bank account	10,000
<b>Total Income as per optional tax regime</b>	<b>21,28,000</b>

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

Particulars	₹	₹
<b>Tax @12.5% on LTCG of ₹4,10,000 on sale of gold bracelet</b>		51,250
<b>Tax at slab rate on balance income of ₹17,18,000</b>		
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
<b>Tax liability (Rounded off)</b>		<b>3,94,320</b>

**JAN 26 Exams**

4. Mr. Niraj, a resident individual aged 55 years, is an interior designer. He had also started a business of publishing of books on interior designing on 1st April, 2022 for providing in depth knowledge to the builders and home buyers. His total turnover and gross receipt from the business and profession was ₹16 crore during the financial year 2025-26. The net profit as per the profit and loss account after debiting/crediting the following items was ₹1.27 crore:

- He purchased an annual publication on interior design from the local market for ₹8,500 on 10th May, 2025 and paid whole of the amount in cash. He claimed depreciation @40% on the publication.
- Employee benefit expenses include a provision for gratuity of ₹8 lakh made as per the actuarial report, out of which ₹2 lakh has been paid on 30th December 2025, ₹3 lakh has been paid on 31st January, 2026 and ₹3 lakh has been paid on 30th April, 2026 before the due date of filing return of income.
- Depreciation includes ₹50,000 charged on installation of solar lighting system on 10th November, 2025 at the factory premises which is used in the publishing of books on interior designing. The cost of installation was ₹4 lakh. He also received subsidy of ₹1 lakh from the Government of India for the installation of solar lighting system.

**Additional Information:**

- Mr. Niraj paid ₹20 lakh as tuition fees from his own sources, including ₹2 lakh as development fees, to a foreign university for his son's postgraduate course. He has also paid ₹4 lakh as interest on an education loan of ₹35 lakh taken during the financial year 2025-26 from a bank for MBA course pursued by his daughter.
- Mr. Niraj by oversight did not record depreciation of ₹1,500 on designer equipment in the books of account and, considering the amount insignificant, decided not to claim it.
- He had transferred ₹50,000 to his wife, Mrs. Sunita, in financial year 2023-24 without any consideration. This amount was given by Mrs. Sunita as a loan to Mr. Samrat. Mrs. Sunita earned ₹20,000 as interest during previous year 2024-25, which she also lent to Mr. Samrat. During the financial year 2025-26, Mrs. Sunita received interest at 20% p.a. on ₹70,000.

- (d) His 17-year old daughter received ₹5 lakh for acting in a mythological TV show. The total income of Mrs. Sunita is ₹25 lakh (computed).
- (e) He sold a large printing machine, the only asset in the block, which was originally acquired for ₹3 lakh on 2nd October 2023 and depreciated at 15% per annum. The machine was sold on 1st July 2025 for ₹2 lakh.
- (f) During the previous year, he recruited 5 new regular employees on 1st June 2025, each receiving a monthly salary of ₹20,000 and 10 new regular employees joined on 1st July 2025, each receiving a monthly salary of ₹26,000. All the salaries were paid to employees by an account payee cheque and they participate in recognised provident fund.
- (g) Royalty of ₹4.9 lakh was paid to Mr. Joy, a non-resident, on 30th June 2024 for the use of his brand 'Neo Home' without deduction of tax at source. The tax was subsequently deducted and paid in the financial year 2025-26.

Compute the total income of Mr. Niraj and determine his tax liability for the assessment year 2026-27 under both the default tax regime and the optional tax regime. Also, advise Mr. Niraj which regime is more beneficial to him.

**Answer –**

**Computation of total income and tax liability of Mr. Niraj for A.Y. 2026-27 under default tax regime u/s 115BAC**

	Particulars	₹	₹	₹
I	<b>Profits and gains from business or profession</b>			
	Net profit as per profit and loss account		1,27,00,000	
	<b>Add: Items of expenditure not allowable while computing business income</b>			
	- Depreciation on books [Depreciation is allowed @40% on books since the payment made in cash is less than ₹10,000.]	-		
	- Provision for gratuity [Provision of ₹8 lakhs for gratuity based on actuarial report is not allowable as deduction. However, actual gratuity of ₹5 lakhs paid during the P.Y. 2025-26 is allowable as deduction. Hence, the difference of ₹3 lakhs has to be added back.]	3,00,000		
	- Depreciation on solar lighting system	50,000	3,50,000	
			1,30,50,000	
	<b>Less:</b> 100% of royalty paid to non-resident [100% of ₹4.9 lakhs of royalty paid to non-resident during the P.Y. 2024-25 without deducting the tax would have been disallowed while computing business income for P.Y.2024-25. Since the tax has been deducted and deposited in P.Y.2025-26, ₹4.9 lakhs would be allowable as deduction in the A.Y.2026-27 as per the proviso to section 40(a)(i)]		4,90,000	
			1,25,60,000	
	<b>[Note – If it is assumed that the subsidy of</b>			

	Particulars	₹	₹	₹
	<p>₹1 lakh received from the Government mentioned in point (iii) has also been credited to the profit and loss account, the same has to be reduced while computing business income. In such case, total income and tax liability under default tax regime would be ₹1,21,42,750 and ₹39,86,060, respectively and total income and tax liability under optional tax regime would be ₹1,17,12,750 and ₹39,78,290, respectively.]</p> <p><b>Less:</b> Depreciation as per the Income-tax Rules, 1962</p> <p><b>Normal depreciation</b></p> <p>Depreciation on solar lighting system [₹3 lakhs @40% x 50%, since it is put to use for less than 180 days] [Subsidy received from Government for the asset would not form part of actual cost of asset.]</p> <p>Depreciation on designer equipment [Deduction for depreciation is compulsory]</p> <p><b>Additional depreciation</b></p> <p>Additional depreciation on solar lighting system used at factory premises [Not allowable under default tax regime]</p>	60,000	61,500	1,24,98,500
<b>II</b>	<p><b>Capital Gains</b></p> <p>Short term capital gain on transfer of printing machine [Since the block cease to exist]</p> <p>Full value of consideration</p> <p>Less: WDV as on 1.4.2025</p>		2,00,000 1,65,750	34,250
	<p><b>Cost of machinery</b></p> <p>Less: Depreciation for P.Y. 2023-24 @15%</p> <p>Less: Additional depreciation for P.Y. 2023-24 @20%</p> <p>WDV as on 1.4.2024</p> <p>Less: Depreciation for P.Y. 2024-25 @15%</p> <p>WDV as on 1.4.2025</p>	3,00,000 45,000 <u>60,000</u> 1,95,000 <u>29,250</u> 1,65,750		
<b>III</b>	<p><b>Income from Other Sources</b></p> <p>Interest on amount transferred to wife, Mrs. Sunita [₹50,000 x 20%] [As per section 64(1)(iv), interest on amount transferred to spouse is to be included in the total income of transferor. Income from the accretion of transferred asset is not to be clubbed in the income of transferor.]</p> <p>Income of minor daughter for acting in mythological TV Show [Not to be clubbed</p>		10,000	10,000

Particulars	₹	₹	₹
since it is from her skills and talent]			
<b>Gross Total Income</b>			1,25,42,750
<i>Less: Deduction under Chapter VI-A</i>			
Deduction u/s 80E [Not allowable under default tax regime]		-	
Deduction u/s 80JJAA [₹20,000 x 10 x 5 x 30%]		3,00,000	3,00,000
<b>Total Income</b>			<b>1,22,42,750</b>
<b>Tax on ₹1,22,42,750</b>			
₹4,00,000 – ₹8,00,000 [₹4 lakhs @5%]		20,000	
₹8,00,000 – ₹12,00,000 [₹4 lakhs @10%]		40,000	
₹12,00,000 – ₹16,00,000 [₹4 lakhs @15%]		60,000	
₹16,00,000 – ₹20,00,000 [₹4 lakhs @20%]		80,000	
₹20,00,000 – ₹24,00,000 [₹4 lakhs @25%]		1,00,000	
₹ 24,00,000–₹1,22,42,750 [₹98,42,750 @30%]		29,52,825	
			32,52,825
<i>Add: Surcharge @15% [Since total income exceeds ₹1 crore but does not exceed ₹2 crores]</i>			4,87,924
			37,40,749
<i>Add: HEC@4%</i>			1,49,630
<b>Tax liability</b>			<b>38,90,379</b>
<b>Tax liability (Rounded off)</b>			<b>38,90,380</b>

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

Particulars	₹	₹
<b>Total Income as per default tax regime u/s 115BAC</b>		1,22,42,750
<i>Less: Deduction u/s 80C for tuition fees</i>		-
[Not allowed since it is paid to a foreign university]		
<i>Less: Deduction u/s 80E for interest on education loan for his daughter</i>	4,00,000	4,00,000
		1,18,42,750
<i>Less: Additional depreciation on solar lighting system [₹3 lakhs x 20% x 50% since it is put to use for less than 180 days]</i>		30,000
<b>Total Income as per optional tax regime</b>		<b>1,18,12,750</b>
<b>Tax on ₹1,18,12,750</b>		
₹2,50,000 – ₹5,00,000 [₹2.50 lakhs @5%]	12,500	
₹5,00,000 – ₹10,00,000 [₹5 lakhs @20%]	1,00,000	
₹10,00,000 – ₹1,18,12,750 [₹1,08,12,750 @30%]	32,43,825	
		33,56,325

Particulars	₹	₹
Add: Surcharge @15% [Since total income exceeds ₹1 crore but does not exceed ₹2 crores]		5,03,449
Add: HEC@4%		38,59,774 1,54,391
<b>Tax liability</b>		<b>40,14,165</b>
<b>Tax liability (Rounded off)</b>		<b>40,14,170</b>
AMT liability of Mr. Niraj would be ₹26,80,070 (18.5% of ₹1,21,12,750 + surcharge @15% + HEC @4%) on adjusted total income of ₹1,21,12,750 (₹1,18,12,750 + ₹3,00,000, being deduction u/s 80JJAA).		
Since the tax liability of Mr. Niraj under default tax regime u/s 115BAC is lower than the tax liability computed under normal provisions, it would be beneficial for him to pay tax u/s 115BAC for A.Y. 2026-27.		

**MTP MAY 26**

5. Mr. Ayush, a resident individual, aged 62 years, is a qualified medical practitioner. He runs his own clinic. Income & Expenditure A/c of Mr. Ayush for the year ending 31.3.2026 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	7,20,000	By Consultation Fees	74,28,000
To Administrative Exp.	11,64,000	By Salary received from True Care Hospitals (P) Ltd.	10,80,000
To Rent of clinic	5,76,000	By Rental Income from House Property	2,40,000
To Conveyance Expenses	1,44,000	By Dividend from Foreign Companies (gross)	60,000
To Power & Fuel	1,44,000		
To Interest on Housing Loan	2,20,000		
To Interest on Education Loan for son	1,56,000		
To Amount paid to scientific research association approved & notified u/s 35	1,50,000		
To net profit	55,34,000		
<b>Total</b>	<b>88,08,000</b>	<b>Total</b>	<b>88,08,000</b>

(i) He is working part-time with True Care Hospitals (P) Ltd. His salary details are as under:

Basic Pay	₹85,000 p.m.
Transport Allowance	₹5,000 p.m.
Total	₹90,000 p.m.

Further, during P.Y. 2025-26, his son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹1,60,000 for a similar treatment to unrelated patients.

(ii) He owns a residential house. The reconstruction of the house was started on 01.04.2025 and was completed on 30.09.2025. After reconstruction, ground floor of the house is self-occupied by him while first floor has been rented out since 1.10.2025. Both the floors are of equal area. The monthly rent is ₹40,000. The tenant also pays ₹3,000 p.m. as power back-up charges. He took a housing loan of ₹25 lakhs for reconstruction on 01.04.2025. Interest on housing loan for the period 01.04.2025 to 30.09.2025 was ₹1,20,000 and for the period 01.10.2025 to 31.03.2026 was ₹1,00,000. During the year, he also paid municipal taxes for the F.Y. 2024-25: ₹5,000 and for F.Y. 2025-26: ₹5,000.

**Other information:**

(a) Conveyance expenses include a sum of ₹48,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice versa in relation to his employment.

- (b) Power & fuel expenses include a sum of ₹10,000 incurred for generator fuel for providing power back-up to the tenant.
- (c) Administrative expenses include a sum of ₹10,000 paid as Municipal Taxes for his house.
- (d) Clinic equipment's details are:  
Opening W.D.V. of clinic equipment as on 01-04-2025 was ₹5,00,000 and fresh purchase made on 28-08-2025 is ₹75,000 which was paid in cash.
- (e) He also paid tuition fee of ₹40,000 for his grand-daughter, which has been debited to his Capital A/c.
- (f) He availed a loan of ₹25,00,000 from bank for higher education of his son. He repaid principal of ₹3,00,000 and interest of ₹1,56,000 during P.Y. 2025-26.

You are required to compute the total income of Mr. Ayush for the A.Y. 2026-27 under both the regimes.

**Answer –**

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

	Particulars	₹	₹	₹
<b>I</b>	<b>Income from Salaries</b>			
	Basic Pay (₹85,000 x 12)		10,20,000	
	Transport Allowance (₹5,000 x 12) [Fully taxable]		60,000	
	Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite]		Nil	
	<b>Gross Salary</b>		<b>10,80,000</b>	
	Less: Standard deduction u/s 16 [Actual salary or ₹75,000, whichever is less]		75,000	
				10,05,000
<b>II</b>	<b>Income from House Property</b>			
	<b>Let out portion [First floor]</b>			
	Gross Annual Value [Rent received is taken as GAV = ₹40,000 p.m. x 6 months]		2,40,000	
	Less: Municipal taxes paid by him in the P.Y.2025-26 pertaining to let out portion [(₹5,000 + ₹5,000)/2], allowable since it is paid during the year, even if it relates to earlier years		5,000	
	Net Annual Value (NAV)		2,35,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹2,35,000	70,500		
(b) Interest on housing loan [(₹1,20,000 (+) ₹1,00,000)/2]	1,10,000	1,80,500		
			54,500	
	<b>Self-occupied portion [Ground Floor]</b>			
Annual Value	Nil			
Less: Deduction u/s 24				
Interest on housing loan for reconstruction [Not allowed under default tax regime]	Nil		Nil	

	Particulars	₹	₹	₹
III	<b>Profits and gains of business or profession</b>			54,500
	Net profit as per Income and Expenditure account		55,34,000	
	<b>Less: Items of income to be treated separately under the respective head of income</b>			
	(i) Salary received from True Care Hospitals (P) Ltd.	10,80,000		
	(ii) Rent from house property	2,40,000		
	(iii) Dividend from foreign companies (gross)	60,000		
			13,80,000	
	<b>Less: Allowable expenditure</b>			41,54,000
	Depreciation on Clinic equipment On Opening WDV ₹5,00,000 @15%	75,000		
	On additions during the year ₹75,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost.	Nil		75,000
		40,79,000		
<b>Add: Items of expenditure not allowable while computing business income</b>				
(i) Interest on housing loan for reconstruction of residential house	2,20,000			
(ii) Interest on education loan for son	1,56,000			
(iii) Amount paid to scientific research association approved & notified u/s 35, not allowed under default tax regime	1,50,000			
(iii) Conveyance expenses in relation to his employment with True Care Hospitals debited to Income and Expenditure A/c, not allowed	48,000			
(iv) Power and fuel expenses incurred for providing power back up to tenant not deductible	10,000			
(v) Municipal tax paid relating to residential house included in administrative expenses, not deductible	10,000			
		5,94,000	46,73,000	
IV	<b>Income from Other Sources</b>			
	Power back up charges from tenant (₹3,000 p.m. x 6 months)	18,000		
	<b>Less:</b> Actual expenditure incurred for providing power back up	10,000		8,000
	Dividend from foreign companies		60,000	68,000
			<b>58,00,500</b>	

Particulars		₹	₹	₹
Less: Deduction under Chapter VI-A				
<b>Deduction u/s 80C</b> [Not allowed under default tax regime]			Nil	
<b>Deduction u/s 80E</b> [Not allowed under default tax regime]			Nil	Nil
<b>Total income</b>				<b>58,00,500</b>

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

Particulars	₹
<b>Gross Total Income under default tax regime</b>	<b>58,00,500</b>
Add: Difference in standard deduction u/s 16	25,000
	58,25,500
Less: Interest on housing loan for reconstruction of house [Self occupied portion], restricted to	30,000
Less: Amount paid to scientific research association approved & notified u/s 35	1,50,000
<b>Gross Total Income as per optional tax regime</b>	<b>56,45,500</b>
Less: Deduction under Chapter VI-A	
<b>Deduction u/s 80C</b> – Tuition fee paid for grand child is not allowable	Nil
<b>Deduction u/s 80E</b> - Interest on loan taken for higher education of his son is deductible [principal repayment is not deductible]	1,56,000
<b>Total Income as per optional tax regime</b>	<b>54,89,500</b>

**Question: 2(a) Residential Status [6 Marks]**

**RTP SEP 25**

1. Mr. Varun, an Indian citizen, engaged in consultancy business in India. He shifted to Dubai in the year 2020 to expand his consultancy business overseas. He visits India every year to supervise his office in Delhi. His stay in India for current as well as past years is as follows:

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

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

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

You are required to:

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

**Answer –**

**(a) Determination of residential status**

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

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

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

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

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

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

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

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

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

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

**RTP JAN 26**

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

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profits from business carried on in Chennai	80,000
3	Loss from business carried on in Vadodara	(20,000)
4	Loss from business carried on in USA (though profits are not received in India, business is controlled from Rishikesh)	(46,000)
5	Unabsorbed depreciation of business in USA	(16,000)
6	Profits from business in Bali (controlled from Delhi) and 60% of profit deposited in a bank in Bali and 40% received in India	70,000

7	Rent from house property situated in USA and received in USA	1,92,000
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Determine the gross total income of Ms. Aanchal for the A.Y. 2026-27 assuming that she has opted out from the provisions of section 115BAC on the assumption that she is:

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

**Answer –**

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

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

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

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

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

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

**RTP MAY 26**

3. Mr. Subhash, an Indian citizen, is currently in employment with an overseas company located in Country X. During the previous year 2025-26, he comes to India for 135 days. He is in India for 100 days, 50 days, 76 days and 45 days in the financial years 2021-22, 2022-23, 2023-24 and 2024-25, respectively. His annual income for the previous year 2025-26 is as follows:

Particulars	Amount (₹)
Income from salary earned and received in Country X	2,00,000
Income earned and received from a house property situated in Country X	5,00,000
Income deemed to be accrued and arise in India	2,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	4,00,000

Determine the residential status of Mr. Subhash for the assessment year 2026-27. He is not liable to pay tax in Country X.

**Answer –**

Mr. Subhash is an Indian citizen in employment in Country X. He comes on a visit to India during the P.Y.2025-26 for 135 days. His stay in India in the four immediately preceding previous years is as follows:

P.Y. 2021-22 – 100 days

P.Y. 2022-23 – 50 days

P.Y. 2023-24 – 76 days

P.Y. 2024-25 – 45 days

Total – 271 days

Mr. Subhash, an Indian citizen, visiting India in the P.Y.2025-26, would be a resident in India for A.Y.2026-27, if he satisfies either of the following conditions—

- He is in India for 182 days or more during the P.Y.2025-26 or
- He is in India for a period of 120 days or more during the P.Y.2025-26 and his stay in India in the four immediately preceding previous years is 365 days or more if his total income (excluding income from foreign sources) exceeds ₹15 lakhs.

Since he did not satisfy either of the conditions, Mr. Subhash is a non-resident in P.Y. 2025-26 as per section 6(1).

However, he would be deemed resident u/s 6(1A) if his total income (excluding income from foreign sources) exceeds ₹15 lakhs irrespective of the period of his stay in India in the relevant previous year.

**Computation of Total Income (excluding income from foreign sources) of Mr. Subhash**

Particulars	Amount (₹)
Income from salary earned and received in Country X (income from a foreign source, hence, to be excluded)	-
Income earned and received from a house property situated in Country X (income from a foreign source, hence, to be excluded)	-
Income deemed to be accrued and arise in India	2,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arise in India	4,00,000
<b>Total Income (excluding income from foreign sources) of Mr. Subhash</b>	<b>16,00,000</b>

Since Mr. Subhash is an Indian citizen having total income (excluding income from foreign sources) exceeding ₹15 lakhs and not liable to tax in Country X, he would be a deemed resident in P.Y. 2025-26 as per section 6(1A). He would be treated as resident but not ordinarily resident.

**SEP 25 Exams**

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

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

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

- She did not visit India during the F.Y. 2025-26.
- She visits and stays in India for 200 days every year since 12 preceding previous years including F.Y. 2025-26.

- (iii) She did not visit India during the previous year 2025-26 and her income from profession in India is ₹4 lakhs for the financial year 2025-26, instead of ₹16 lakhs.

**Answer –**

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

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

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

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

Since Swetha has total income excluding income from foreign sources exceeding ₹15 lakhs, she is a deemed resident and resident but not ordinarily resident in India by default. Her total income would be ₹23 lakhs as computed above

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

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

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

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

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

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

**JAN 26 Exams**

5. Mr. Paul, an Indian citizen and karta of V P HUF, stays out of India during the various previous years as follows:

Previous year	Stay outside India
2020-21	112 days
2021-22	221 days
2025-26	90 days

Apart from above, he never went out of India in the past 15 years.

The VP HUF owns two agricultural lands in India, one in Mysore and the other in Saharanpur. The Mysore land is used for coffee cultivation. The cost of cultivation of coffee produce is ₹4 lakh and is sold directly in the Indian market for ₹15 lakh. The Saharanpur land is used for sugarcane cultivation which is further used for

CA Bhanwar Borana

manufacturing of sugar in the factory owned by Mr. Paul. The sugarcane (worth ₹8 lakh) were processed into sugar with a job work cost of ₹3 lakh and is sold in the Indian market for ₹28 lakh. The cost of cultivation of sugarcane is ₹2 lakh.

Based on the above information, determine:

- Residential status of V P HUF for the assessment year 2026-27, and
- Compute the total income under proper heads of income and net tax liability of V P HUF under the default tax regime.

**Answer –**

**(i) Determination of residential status of V P HUF for the A.Y. 2026-27**

Since Mr. Paul, Karta of V P HUF, stayed outside India for only 90 days, the control and management of the affairs of the V P HUF can be said to be situated partly in India. Thus, V P HUF would be resident in India for the P.Y. 2025-26.

Since Mr. Paul was resident in at least 2 previous years out of 10 previous years immediately preceding P.Y. 2025-26 and he stayed for 730 days or more during 7 previous years immediately preceding P.Y. 2025-26, the V P HUF would be resident and ordinarily resident in India for the P.Y. 2025-26.

**Note:** Alternatively, the answer can be presented as follows:

Since Mr. Paul was neither a non-resident in 9 out of 10 previous years immediately preceding P.Y. 2025-26 nor stayed for less than 729 days during the 7 previous years preceding P.Y. 2025-26, the VP HUF would be resident and ordinarily resident in India for the P.Y. 2025-26.

**(ii) Computation of total income of VP HUF**

Particulars	₹	₹
<b>Profits from Business or Profession</b>		
<b>Sale of Sugar</b>		
Sale Proceeds of sugar	28,00,000	
Less: Manufacturing exp.	<u>3,00,000</u>	
	25,00,000	
Less: Market value of sugarcane	<u>8,00,000</u>	
		17,00,000
<b>Income from Other Sources</b>		
<b>Sale of Sugarcane</b>		
Market value of sugarcane	8,00,000	
Less: Cost of cultivation	<u>2,00,000</u>	
Agricultural income would be exempt u/s 10(1)	6,00,000	
<b>Sale of coffee produce</b>		
Sale proceeds	15,00,000	
Cost of cultivation	<u>4,00,000</u>	
<b>Agriculture income</b> [Since coffee produce are directly sold in the Indian market without further processing, the income derived therefrom would be agriculture income and exempt u/s 10(1)]	11,00,000	
<b>Gross total income/Total income</b>		17,00,000

**Computation of net tax liability of VP HUF under default tax regime**

Particulars	₹
<b>Step I:</b> Tax on agricultural income and non-agricultural income = ₹34,00,000 (₹17,00,000 + ₹17,00,000) (i.e., ₹3,00,000 upto ₹24,00,000 plus 30% of ₹10,00,000)	6,00,000
<b>Step II:</b> Tax on agricultural income plus basic exemption limit = ₹21,00,000 [₹17,00,000 + ₹4,00,000]	2,25,000

Particulars	₹
(i.e., ₹2,00,000 upto ₹20,00,000 plus 25% of ₹1,00,000)	
<b>Step I – Step II</b>	3,75,000
Add: Health and Education cess @4%	15,000
<b>Net tax liability</b>	<b>3,90,000</b>

**MTP SEP 25**

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

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

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

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

**Answer –**

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

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

**Notes:**

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

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

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

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

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

**MTP JAN 26**

7. Mr. Nikhil is an Indian citizen living in Dubai since year 2005. He never came to India for a single day since then. He earned the following incomes during previous year 2025-26:

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

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

**Answer –**

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

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

- having total income (excluding income from foreign sources) exceeds ₹15 lakhs during the previous year; and
- not liable to tax in Dubai.

**Computation of Total Income (excluding income from foreign sources) for A.Y.2026-27**

Particulars		₹
(i)	Income accrued and arisen in Dubai (not considered)	-
(ii)	Income accrued and arisen in India (Considered)	5,00,000
(iii)	Income deemed to accrue or arise in India (Considered)	8,00,000
(iv)	Income arising in Dubai from a profession set up in India (Considered)	10,00,000
<b>Total income (excluding income from foreign sources)</b>		<b>23,00,000</b>

Since Mr. Nikhil fulfills the above condition, he is a deemed resident u/s 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR). His taxable income will be ₹23 lakhs as calculated above.

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. 2025-26 and hence, his total income would be only ₹13 lakhs (aggregate of ₹5 lakhs + ₹8 lakhs).

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

Accordingly, he would be non-resident in India during the P.Y. 2025-26 and his total income would be ₹13 lakhs.

**MTP JAN 26**

8. Determine the residential status and total income of Mr. Arvind under optional tax regime for the A.Y.2026-27 based on the following details:

- Mr. Arvind, aged 62, is a Canadian citizen employed in a senior research position with a multinational corporation based in Gurugram since 2009.
- To share his research expertise, he traveled to group companies abroad while remaining based at the Gurugram office.
- His travel schedule for Financial Year 2025-26 was as follows:

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

**Additional information on his stay in India:**

- Present in India for 380 days during the last 4 years preceding P.Y. 2025-26
- Present in India for 700 days during the last 7 years preceding P.Y. 2025-26

**Income earned during P.Y 2025-26:**

1. Salary of ₹15,80,000 fully credited to his Indian bank account.
2. Dividend of ₹48,000 from Treat Ltd., a Singapore-based company, deposited in his Singapore bank account.
3. Interest income of ₹10,500 credited to his savings account in Punjab National Bank (Delhi branch).

**Answer –****Determination of residential status**

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

- (i) He has been in India during the P.Y. 2025-26 for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the P.Y. 2025-26 for a total period of 365 days or more and has been in India for at least 60 days in the P.Y. 2025-26.

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

During the P.Y. 2025-26 Mr. Arvind stayed in India for 179 days i.e., 365 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 years preceding P.Y. 2025-26. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y.2026-27.

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

- (a) has been a non-resident in 9 out of 10 previous years preceding the P.Y. 2025-26; or
- (b) has during the 7 previous years immediately preceding the P.Y. 2025-26 been in India for 729 days or less.

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

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

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

Particulars	Amount (₹)
Less: Deduction u/s 80TTB	10,500
<b>Total Income</b>	<b>14,50,000</b>

**MTP MAY 26**

9. Mr. Dhruv, an Indian citizen aged 32 years, a Central Government officer serving in the Ministry of Corporate Affairs, left India for the first time on 31.03.2025 due to transfer to High Commission of UK. He did not visit India any time during the previous year 2025-26. He received the following income for the previous year 2025-26:

- (i) Salaries received for services rendered in London (computed) 20,00,000
- (ii) Foreign Allowances 10,00,000
- (iii) Interest on saving bank deposit in State Bank of India 1,00,000
- (iv) Short term capital gains on sale of shares of an Indian Company received in London 2,00,000
- (v) Dividend from PP Ltd., an Indian company, paid in London 50,000
- (vi) Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels 1,80,000

Compute the Total Income of Mr. Dhruv for the Assessment Year 2026-27 under optional tax regime

**Answer –**

Mr. Dhruv is a non-resident for the A.Y. 2026-27, since he was not present in India at any time during the previous year 2025-26.

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.

**Computation of total income of Mr. Dhruv, a non-resident, for the A.Y. 2026-27**

Particulars	₹
Salaries received for services rendered in London (computed) [Taxable, since the 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)]	20,00,000
Foreign allowances [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 u/s 10(7)]	-
Interest on saving bank deposit in State Bank of India [Since interest income is from a source (i.e., bank deposit) in India, it is deemed to accrue or arise in India]	1,00,000
Short term capital gains on sale of shares of an Indian company received in London [Since income arises from transfer of a capital asset situated in India, it is taxable in the hands of a non- resident]	2,00,000
Dividend from PP Ltd., an Indian company, paid in London [Since the dividend paid by an Indian company outside India is deemed to accrue or arise in India, it is taxable in the hands of non-resident]	50,000
Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels [Not taxable, since neither the property is situated in India nor rent is received in India]	-
<b>Gross Total Income</b>	<b>23,50,000</b>
Less: Deduction u/s 80TTA	
Interest on saving bank account subject to a maximum of ₹10,000	10,000
<b>Total Income</b>	<b>23,40,000</b>

**Question: 2(b) Advance Tax, TDS & TCS [4 Marks]****RTP SEP 25**

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

(i) Nexus Tech Pvt. Ltd., a company engaged in the business of manufacturing electronic goods, reported a turnover of ₹12 crore during the F.Y. 2024–25. During the F.Y. 2025–26, the company made the following purchases from resident sellers:

- **From Vendor A** – Raw materials worth ₹60,00,000 (₹25 lakh in April, ₹35 lakh in July). Payment of ₹20 lakhs was made in June and remaining payment in September. Vendor A has not furnished his PAN
- **From Vendor B** – Trading goods worth ₹48,00,000 on instalments (₹15 lakh in May, ₹20 lakh in October, ₹13 lakh in December). Entire payment was made in March, 2026.

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

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

**Answer-**

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

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

- **Purchase of raw material from Vendor A**

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

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

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

- **Purchase of trading goods from Vendor B**

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

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

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

**RTP JAN 26**

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

(i) ABC Ltd., having its registered office in Noida, organized its annual company function at its Gurgaon office. For this purpose, the company engaged Beta Pvt. Ltd. to arrange road transport for its employees from Noida to Gurgaon and back, for which a payment of ₹25,000 has to be made. Further, ABC Ltd. also entered into a separate contract with Beta Pvt. Ltd. for providing catering services at the function, for ₹90,000.

(ii) Vijay Health Solutions Ltd., a Third-Party Administrator (TPA), makes payments to various hospitals across India towards settling cashless medical insurance claims on behalf of insurance companies. During the financial year 2025-26, the total payment made by Vijay Health Solutions Ltd. to LifeCare Hospital for cashless claims is ₹12,00,000.

**Answer-**

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

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

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

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

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

**RTP MAY 26**

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

- (i) ABC Ltd. sells a flat to Mr. Jatin for ₹47 lakhs on 15.5.2025. The agreement to sell provides that in addition, Mr. Jatin has to pay maintenance charges of ₹10,000 per month for 24 months in advance, ₹3 lakhs for car parking, and ₹1 lakh for club membership fees to ABC Ltd. The stamp duty value of the flat is ₹48 lakhs.
- (ii) State Government of Jharkhand grants a lease of coal mine to M/s XYZ Ltd. on 1.5.2025 and charged ₹7 crores for the lease. M/s XYZ Ltd. sold coal for ₹2 crores to M/s LMN, a public sector company, during the P.Y. 2025-26. The turnover of XYZ Ltd. and M/s LMN, PSU, for the F.Y. 2024-25 amounted to ₹5.5 crores and ₹11 crores, respectively.

**Answer –**

- (i) Section 194-IA requires deduction of tax @1% of consideration for transfer or stamp duty value, whichever is higher, by every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to a resident transferor.

Tax is not required to be deducted at source where the total amount of consideration for the transfer of immovable property and the stamp duty value both are less than ₹50 lakhs. Consideration for transfer of any immovable property includes, *inter alia*, club membership fee, car parking fee, maintenance fee, which are incidental to transfer of the immovable property.

In the present case, since the consideration for transfer of flat by Mr. Jatin to ABC Ltd. is ₹53,40,000 (₹47 lakhs + ₹2,40,000, being ₹10,000 x 12 x 2 + ₹3 lakhs + ₹1 lakh) which is not less than ₹50 lakhs, Mr. Jatin is required to deduct tax @1% on ₹53,40,000, being higher of consideration and stamp duty value.

Tax deductible by Mr. Jatin would be ₹53,400.

- (ii) State Government is required to collect tax at source @ 2% u/s 206C(1C) on ₹7 crores, being the charges for lease of coal mine.

Accordingly, TCS = 2% x ₹7 crores = ₹14,00,000

Every person, being a seller, is required to collect at source @1% u/s 206C(1) on sale of coal to a buyer. However, a public sector company is not covered within the definition of buyer.

Accordingly, M/s XYZ Ltd. is not required to collect tax at source on sale of coal to M/s LMN, a PSU.

However, since the turnover of M/s LMN, a PSU exceeds ₹10 crores during the P.Y. 2024-25, it is required to deduct tax at source u/s 194Q @0.1% of sum exceeding ₹50 lakhs paid to M/s XYZ Ltd.

Accordingly, TDS = 0.1% x ₹1.50 crores = ₹15,000.

**SEP 25 Exams**

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

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

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

**Answer –**

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

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

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

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

**SEP 25 Exams**

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

**Answer –**

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

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

**JAN 26 Exams**

6. Examine the applicability of tax deduction at source as per the Income-tax Act, 1961 for the assessment year 2026-27 in the following independent situations:

- (i) Dr. Ram Narayan (aged 63 years), an orthopaedic surgeon, borrowed ₹25 lakh from a friend to expand his clinic to include physiotherapy services and paid ₹2.5 lakh as interest on borrowed funds. His professional receipts were ₹52 lakh and ₹48 lakh during the financial years 2024-25 and 2025-26, respectively.
- (ii) Mr. Mahesh intends to distribute cash to the people affected by a heavy flood in the state of Punjab. He maintains a bank account with a nationalised bank and has withdrawn ₹2 crore in cash in the months of August 2025 and September 2025. During the last four previous years, Mr. Mahesh has filed his return of income only for the previous year 2024-25, as his income in the remaining three years was below the maximum amount not chargeable to tax under the Income-tax Act, 1961

**Answer –**

- (i) As the gross receipts of the profession carried on by Dr. Ram Narayan for F.Y. 2024-25 has exceeded ₹50 lakhs, he is required to deduct tax at source u/s 194A @10% on ₹2,50,000, being the interest on borrowed funds from a friend.
- (ii) Since Mr. Mahesh has furnished his return of income for one of the assessment year's i.e., A.Y. 2025-26 out of the three assessment years relevant to the three previous years, for which the due date for filing return of income has expired at the time of cash withdrawals i.e., August and September 2025, the bank is required to deduct tax at source u/s 194N @2% on the cash withdrawals of ₹1 crore, being the amount exceeding ₹1 crore.

**Alternate answer** – If it is assumed that the due date for filing return of income for A.Y. 2025-26 for Mr. Mahesh is 31st October 2025, being the date after the months in which he made the cash withdrawals, alternate answer can be given as follows:

Since Mr. Mahesh has not furnished the return of income for all the three assessment years relevant to the three previous years for which due date of filing return of income has expired at the time cash withdrawals, the bank is required to deduct tax at source u/s 194N @ 2% on ₹80 lakhs, being the sum exceeding ₹20 lakhs but does not exceed ₹1 crore and @ 5% on ₹1 crore, being the amount exceeding ₹1 crore.

### MTP SEP 25

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

- (i) Mr. Ram, an individual carrying on business, reported a turnover of ₹89 lakhs for the F.Y. 2024-25. In April 2025, he entered into an agreement to hire machinery for use in his business operations for a monthly rent of ₹50,000.
- (ii) XYZ Limited, having an idle parking lot, opted to lease it through a public bidding process. PQR Ltd, a PSU, emerged as the highest bidder and will utilize the premises for its business operations under the lease arrangement.

### Answer –

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

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

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

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

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

### MTP SEP 25

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

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

### Answer –

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

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

- (ii) Tax has to be deducted @30% u/s 194B on payment of ₹15,00,000 to Mr. Narsimha for winnings in a TV Serial contest.

Tax to be deducted = ₹15,00,000 x 30% = ₹4,50,000

**MTP JAN 26**

9. Examine TDS implications in case of following transactions, briefly explaining provisions involved; state the rate and amount to be deducted, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Mira & Co., an LLP withdrew cash amounts of ₹40 lakhs on 1st May 2025, ₹35 lakhs on 7th September 2025, and ₹55 lakhs on 28th February 2026 from its bank account. Mira & Co regularly files its return of income before the due date.
- (ii) Mr. Anil, aged 75 years, holds 8% Savings (Taxable) Bonds, 2003 with a face value of ₹2,50,000 and 7.75% Savings (Taxable) Bonds, 2018 amounting to ₹3,50,000. He received interest income on these bonds on 31st March 2026 for P.Y. 2025-26.

**Answer –**

- (i) Mira & Co has withdrawn aggregate cash of ₹1.30 crores during the previous year 2025-26. Since aggregate amount of cash withdrawals exceed ₹1 crore, bank is required deducted tax at source @2% on the amount exceeding ₹1 crore i.e., ₹30 lakhs.

TDS = 2% of ₹30 lakhs = ₹60,000

- (ii) Tax @10% u/s 193 is to be deducted on interest on 8% Savings (Taxable) Bonds, 2003 and 7.75% Savings (Taxable) Bonds, 2018, since the interest payable on the bonds held by Mr. Anil exceeds ₹10,000.

Interest on 8% Savings (Taxable) Bonds, 2003 = ₹2,50,000 x 8% = ₹20,000

Interest on 7.75% Savings (Taxable) Bonds, 2018 = ₹3,50,000 x 7.75% = ₹27,125

Tax to be deducted at source = ₹47,125 x 10% = ₹4,713.

**MTP JAN 26**

10. Examine TDS implications in case of following transactions, briefly explaining provisions involved; state the rate and amount to be deducted, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Rohit, a resident individual in India who does not have any income from business or profession, made payments of ₹10 lakhs in January 2026, ₹25 lakhs in February 2026, and ₹25 lakhs in March 2026 to Suresh, a contractor, towards the reconstruction of his residential house.
- (ii) ABC Pvt. Ltd. made a payment of ₹2,00,000 to Rajesh, an individual transporter who owned 6 goods carriages throughout the P.Y. 2025-26. Rajesh did not furnish his PAN to ABC Pvt. Ltd.

**Answer –****(i) On payments made to contractor**

Tax is deductible @2% u/s 194M, since payments to Mr. Suresh, a contractor, for reconstruction of his residential house exceeds ₹50 lakhs in aggregate during the F.Y.2025-26.

Amount of tax to be deducted = 2% of ₹60 lakhs = ₹1,20,000

**(ii) Payment to transporter who has not furnished PAN**

U/s 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

However, in this case, this exemption from TDS would not be available, since Rajesh has not furnished his PAN to ABC Pvt. Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided u/s 194C.

Amount of tax to be deducted = ₹2,00,000 x 20% = ₹40,000

**MTP JAN 26**

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

**Answer –**

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 31<sup>st</sup> March of the relevant financial year.

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

### MTP MAY 26

12. Examine the applicability of Tax Deduction at Sources (TDS) or Tax Collection at Source (TCS) as per the Income-tax Act, 1961 for the assessment year 2026-27 in the following independent situations.

- XYZ Limited paid rent of ₹75,000+18% GST per month to Mr. Raja for the office premises from 01.04.2025 to 31.03.2026. Mr. Raja has furnished his PAN and also filed his return of income before due date regularly.
- ABC Pvt. Ltd sells two cars to Mrs. Shilpa costing ₹4,00,000 and ₹12,00,000 respectively on 01.05.2025 and 25.12.2025. Mrs. Shilpa has furnished her PAN and filed her return of income regularly before the due date.

### Answer –

- XYZ Limited is required to deduct tax at source u/s 194-I @10% on rent of ₹75,000 per month exclusive of GST component, since the rent exceeds ₹50,000 per month.  
Tax has to be deducted at the time of payment or credit, whichever is earlier.
- ABC Pvt. Ltd. is not required to collect tax at source on sale of car of ₹4,00,000 to Mrs. Shilpa since its value does not exceed ₹10 lakhs.  
However, it is required to collect tax at source u/s 206C(1F) @1% on the sale consideration of ₹12 lakhs since the value of this car exceeds ₹10 lakhs.  
Tax has to be collected at the time of receipt of ₹12 lakhs.

### Question: 3(a) Heads of Income (salary, capital gain or mix) [6 Marks]

#### RTP SEP 25

1. Mr. Aryan, a resident individual, is working in Nishchay Ltd. and earns salary of ₹90,000 per month during P.Y. 2025-26. He holds 20,000 equity shares of Alpha Ltd., an Indian listed company, purchased on 1st January 2016 at ₹200 per share. These were acquired through a recognized stock exchange and STT was paid on both acquisition and sale.

In August, 2025, Mr. Aryan transferred a plot in Chandigarh for ₹70 lakhs which was acquired by him in May 2016 for ₹22 lakhs. He paid brokerage of 1% on transfer.

In November, 2025, Alpha Ltd. decided to buy back 50% of its shares at ₹250 per share. Alpha Ltd. bought back proportionate shares of Mr. Aryan. In May 2026, Mr. Aryan acquired a residential house property in Kanpur for ₹40 lakhs. Fair Market value of equity shares of Alpha Ltd. as on 31.1.2018 was ₹190 per share.

You are required to compute the total income of Mr. Aryan if he is paying tax under default tax regime.

CII for F.Y. 2015-16: 254; F.Y. 2016-17: 264; F.Y. 2017-18: 272; F.Y. 2025-26: 376

### Answer –

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

Particulars		₹	₹
I	<b>Salaries</b>		
	Salary from Nishchay Ltd. [ ₹90,000 x 12] Less: Deduction u/s 16 - Standard deduction upto ₹75,000	10,80,000 <u>75,000</u>	10,05,000
II	<b>Capital Gains</b>		
	<b>On buy back of equity shares of Alpha Ltd.</b>		
	Consideration received on buy back of shares Less: Cost of acquisition	Nil <u>20,00,000</u>	
	Higher of - Actual cost of acquisition of		

Particulars		₹	₹
	₹ 20 lakhs [10,000 shares @ ₹200 per share]		
	- Lower of FMV as on 31.1.2018 i.e., ₹19 lakhs and full value of consideration i.e., Nil		
	Long term capital loss on buy back of shares	(20,00,000)	
	<b>On sale of plot</b>		
	Sale consideration	70,00,000	
	Less: Brokerage @1%	<u>70,000</u>	
	Net sale consideration	69,30,000	
	Less: Cost of acquisition [Indexation benefit is not available on transfer which took place on or after 23.7.2024]	<u>22,00,000</u>	
		47,30,000	
	Less: Exemption u/s 54F	<u>27,30,159</u>	
	Amount invested in residential house within 2 years would qualify for exemption against long term capital gain arising from transfer of plot. Since the amount invested is less than the net consideration, proportionate capital gains is exempt [₹47,30,000 x ₹40,00,000/₹69,30,000]		
	Long term capital gain on transfer of plot	19,99,841	
	Less: Set off of long term capital loss on buy back of original shares against long term capital gain on transfer of plot to the extent of	<u>19,99,841</u>	Nil
	Balance long term capital loss of ₹159 on buy back of original shares is to be carried forward to A.Y. 2027-28		
	<b>Income from Other Sources</b>		
III	Dividend on buy back of shares [10,000 x 250]		<u>25,00,000</u>
	<b>Total Income</b>		<b><u>35,05,000</u></b>

**RTP MAY 26**

2. Ms. Nisha is a marketing manager in Rose Ltd. She gives you the following details for P.Y. 2025-26:

- Basic salary of ₹45,000 p.m.
- Dearness Allowance of ₹10,000 p.m. (30% is for retirement benefits)
- Bonus of one-month basic salary
- She contributes 18% of her salary (Basic Pay + DA) towards recognised provident fund and the company contributes the same amount.
- Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Nisha from 1st November, 2025 which is used for both official and personal purposes. Repair and running expenses of ₹50,000 were fully met by Ms. Nisha. The motor car was self-driven by the employee.
- The company pays medical insurance premium of ₹18,000 to effect insurance on the health of Ms. Nisha.
- Her employer gave her a rent free accommodation in Mumbai from 1.4.2024. The house was taken on lease by Rose Ltd. for ₹12,000 p.m. The perquisite value of such accommodation for the P.Y. 2024-25 was ₹55,000.  
CII – F.Y. 2024-25: 363; F.Y. 2025-26: 376
- Company incurred expenses on the treatment of her daughter abroad including stay expenses of ₹1,50,000 as permitted by the RBI.
- Company also incurred expenses in relation to the foreign travel for medical treatment of daughter of ₹80,000.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Nisha for the Assessment Year 2026-27 under optional tax regime.

**Answer-**

**Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Nisha for A.Y.2026-27**

Particulars		₹
Basic Salary [₹45,000 x 12]		5,40,000
Dearness allowance [₹10,000 x 12]		1,20,000
Bonus		45,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 18% x [(₹45,000 + ₹10,000) x 12] – 12% x {(₹45,000 + ₹3,000 (being 30% of ₹10,000)) x 12} = ₹1,18,800 – ₹69,120 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		49,680
<b>Perquisite value</b>		
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employee - the perquisite value would be ₹900 p.m. [₹900 x 5 months]		4,500
Medical insurance premium of ₹18,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite		-
Value of rent free accommodation [Lower of ₹62,100 i.e., 10% of ₹6,21,000 (₹5,40,000, being salary + ₹36,000, being DA forming part of retirement benefit + ₹45,000, being bonus) or ₹1,44,000, being rent paid by the employer]	62,100	
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one previous year, shall not exceed the amount calculated for first previous year, as multiplied by the amount which is a ratio of CII for the previous year for which the value is calculated and CII for the previous year in which accommodation was initially provided to the employee.		
Accordingly, value of perquisite for P.Y. 2025-26 to be restricted to = ₹55,000 x 376/363	56,970	56,970
Medical expenditure including stay expenses of ₹1,50,000 incurred by employer for treatment of her daughter outside India [Exempt since it is permitted under RBI guidelines]		-
Travel expense of ₹80,000 incurred by employer on foreign travel for medical treatment [Travel expenses would be exempt, since Ms. Nisha's gross total income before including travel expenditure does not exceed ₹8 lakhs.]		-
<b>Gross Salary</b>		<b>8,16,150</b>
Less: Standard deduction under section 16(ia)		50,000
<b>Salary chargeable to tax</b>		<b>7,66,150</b>

### SEP 25 Exams

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

- (i) A rent-free unfurnished accommodation (owned by the company) in Mumbai from 01.05.2025. However, he occupied the accommodation only from 01.12.2025. The company had bought this house in the financial year 2024-25 at a cost of ₹2 crores.

- (ii) A mobile phone for his personal use on 01.04.2025. The cost of the phone was ₹90,000. The company also gives him a telephone allowance amounting to ₹1,000 p.m. to cover his mobile phone bill. During the F.Y. 2025-26, his aggregate mobile phone bill was ₹15,000.
- (iii) Company had purchased a car on 01.07.2023 for ₹10 lakhs. This car is sold to Prabhu on 01.08.2025 for ₹2,50,000.
- (iv) He was allowed to use the video camera and laptop belonging to the company from 01.04.2025. The company had purchased these assets for ₹50,000 and ₹2,00,000, respectively on 01.04.2023.

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

Cost Inflation Index: F.Y. 2023-24:348; F.Y. 2025-26:376

**Answer –**

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

Particulars	₹	₹	₹
<b>Income from Salaries</b>			
Basic Salary [₹80,000 x 12]			9,60,000
<b>Perquisite Value of Rent-free accommodation</b>			
10% of salary [₹9,60,000 x 10% x 4/12]			32,000
Mr. Prabhu has occupied the accommodation from 01.12.2025. Therefore, the value of rent-free accommodation will be calculated for 4 months only.			
Mobile phone given for personal use is not taxable perquisite. Since telephone allowance of ₹12,000 is less than the actual mobile phone bill of ₹15,000, nothing is taxable as perquisite.			-
<b>Perquisite Value on sale of car</b>			
Original cost of car		10,00,000	
Less: Depreciation from 01.7.2023 to 30.6.2024 @20%		<u>2,00,000</u>	
		8,00,000	
Less: Depreciation from 01.7.2024 to 30.6.2025 @20%		<u>1,60,000</u>	
Value as on 01.08.2025- being the date of sale to Mr. Prabhu		6,40,000	
Less: Amount received from the Mr. Prabhu on 01.08.2025		<u>2,50,000</u>	3,90,000
<b>Perquisite value on use of moveable assets</b>			
Use of Laptop [Not taxable as perquisite]			-
Use of Video Camera [₹50,000 x 10%]			5,000
<b>Gross Salary</b>			13,87,000
Less: Standard deduction u/s 16 [Actual salary or ₹50,000, whichever is less]			<u>50,000</u>
<b>Net salary</b>			<b>13,37,000</b>

**JAN 26 Exams**

4. Mr. Suresh, aged 55 years, is a resident individual employed in a Government company. During the financial year 2025-26, he received a monthly basic salary of ₹1 lakh along with a dearness allowance (DA) of 25% of the basic pay. In addition, as per the company's policy, he was provided with the following allowances and perquisites during the year:

- (i) On account of a natural calamity caused by a cloudburst in Himachal Pradesh, he instructed his employer to directly deposit his basic pay and dearness allowance for the month of September 2025 into the PM CARES Fund.
- (ii) He received ₹62,500 as leave encashment during the year, equivalent to 15 days' basic pay and dearness allowance.
- (iii) He received entertainment allowance of ₹95,000.
- (iv) His employer incurred ₹5 lakh towards the medical treatment of his married daughter outside India, including ₹1 lakh for travel expenses of the patient and one attendant, as permitted under RBI guidelines.
- (v) Upon his appointment as Director (Finance) during the year, the company provided free education to his child in a school maintained by it. The cost of similar education in a comparable institution is ₹900 per month.

Calculate the total income of Mr. Suresh, if he opted for the optional tax regime for the assessment year 2026-27.

**Answer-**

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

Particulars	₹
Basic Salary [₹1 lakh x 12]	12,00,000
Dearness Allowance [25% of Basic Salary]	3,00,000
[Salary and Dearness Allowance for the month of September 2025 would be taxable in the hands of Mr. Suresh, even if he forgone the same and instructed to directly deposit into PM CARES Fund]	
Leave encashment [Taxable, since it is received during the employment]	62,500
Entertainment allowance	95,000
<b>Perquisite Valuation</b>	
Medical expenditure of ₹4 lakhs incurred by employer outside India for married daughter [Exempt, since it is permitted under RBI guidelines]	-
Travel expense of ₹1 lakh incurred by employer on patient and one attendant [Travel expenses would not be exempt, since Mr. Suresh's Gross total income before including travel expenditure exceed ₹2 lakhs]	1,00,000
Provision of free educational facility to child [Exempt, since it is in a school maintained by the employer company and the cost does not exceed ₹1,000 per month]	-
<b>Gross Salary</b>	17,57,500
Less: Entertainment allowance [Allowed in case of government employee only]	-
Less: Standard deduction	50,000
<b>Net Salary/ Gross Total Income</b>	17,07,500
Less: Deduction u/s 80G [Contribution to PM CARES Fund of Basic pay and DA of September month]	1,25,000
<b>Total Income</b>	<b>15,82,500</b>

**MTP SEP 25**

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

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

The following additional information is provided:

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

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

**Answer –**

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

Particulars	₹	₹
Annual value is nil (since house is self-occupied)		Nil
Less: Deduction u/s 24(b)		
Interest on borrowed capital ₹15,00,000 @ 12%	1,80,000	
Pre-construction interest [Interest from 1.4.2023 to 31.3.2025 in 5 equal installments] [₹3,60,000/5]	<u>72,000</u>	
	2,52,000	
As per second proviso to section 24(b), interest deduction restricted to		<u>2,00,000</u>
<b>Loss under the head “Income from house property” of Mr. Arjun</b>		<b><u>(2,00,000)</u></b>

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

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

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

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

Expected rent = ₹50,000 being higher of -

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

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

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

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

### MTP SEP 25

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

- Basic salary of ₹56,000 per month.
- Medical treatment facility received in the company's own hospital – ₹9,000
- On his work anniversary, he received a gift voucher worth ₹4,500 from the company.
- A four-seater dining table was provided to Mr. Rajeev at his residence. This was purchased by the company on 1.5.2023 for ₹90,000 and sold to Mr. Rajeev on 1.8.2025 for ₹50,000.
- Personal expenses of ₹10,000 made using the company credit card were paid by the company. No part of the amount was recovered from Mr. Rajeev.
- A Maruti Suzuki car which was purchased by the company on 16.7.2022 for ₹2,50,000 was sold to Mr. Rajeev on 14.7.2025 for ₹80,000.

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

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

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

**Answer –**

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

Particulars		₹	
<b>I</b>	<b>Salaries</b>		
	Salary [ $₹56,000 \times 12$ ]	6,72,000	
	Medical facility [in the hospital maintained by the company is exempt]	-	
	Gift given on the occasion of work anniversary ₹4,500 is exempt, since its value is less than ₹5,000	-	
	Perquisite on use of dining table for 4 months [ $₹90,000 \times 10/100 \times 4/12$ ]	3,000	
	<b>Perquisite on sale of dining table</b>		
	Cost	90,000	
	Less: Depreciation on straight line method @ 10% for 2 years	<u>18,000</u>	
	Written Down Value	72,000	
	Less: Amount paid by the assessee	<u>50,000</u>	22,000
	Purchase through credit card [covered by section 17(2)(viii) read with Rule 3(7)]		10,000
	<b>Perquisite on sale of car</b>		
	Original cost of car	2,50,000	
	Less: Depreciation from 16.7.2022 to 15.7.2023 @ 20%	50,000	
		2,00,000	
	Less: Depreciation from 16.7.2023 to 15.7.2024 @ 20%	<u>40,000</u>	

Particulars		₹		
	Value as on 14.07.2025 - being the date of sale to employee	1,60,000		
	Less: Amount received from the assessee on 14.07.2025	80,000	80,000	
	<b>Gross Salary</b>		<b>7,87,000</b>	
	Less: Standard deduction u/s 16(ia)		<u>50,000</u>	
	<b>Taxable Salary</b>			7,37,000
<b>II</b>	<b>Income from Other Sources</b>			
	Interest on fixed deposit with a company		5,000	
	Income from specified mutual fund		3,000	
	Interest on Fixed Deposit received by minor daughter (₹3,000 - ₹1500)		1,500	9,500
	<b>Gross Total Income</b>			<b>7,46,500</b>

**MTP MAY 26**

7. Mr. Shivam is the proprietor of Star Stores having 2 units. On 1.4.2025, he transferred Unit 2, which he started in 2014-15, by way of slump sale for a total consideration of ₹18 lakhs. The professional fees & brokerage paid for this transfer are ₹78,000. His Balance Sheet as on 31-03-2025 is as under:

Liabilities	₹	Assets	Unit 1 ₹	Unit 2 ₹	Total
Own Capital	20,50,000	Land	12,75,000	7,50,000	20,25,000
Revaluation reserve	2,50,000	Furniture	2,00,000	5,00,000	7,00,000
Bank Loan (70% for Unit 1)	8,50,000	Debtors	2,00,000	3,50,000	5,50,000
Trade Creditors (20% for Unit 2)	4,50,000	Patents	-	7,25,000	7,25,000
Unsecured Loan (30% for Unit 2)	4,00,000				
	<b>40,00,000</b>		<b>16,75,000</b>	<b>23,25,000</b>	<b>40,00,000</b>

**Other Information:**

- Land of Unit 2 was purchased at ₹5,00,000 in the year 2014 and revalued at ₹7,50,000 as on 31.3.2025.
  - No individual value of any asset is considered in the transfer deed.
  - Patents were acquired on 01.12.2023 on which no depreciation has been provided.
  - Furniture of Unit 2 of ₹5,00,000 were purchased on 01.12.2024 on which no depreciation has been provided.
  - Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹18,10,000.
- Compute the capital gain for A.Y. 2026-27.

**Answer –**

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available.

**Computation of capital gain on slump sale of Unit 2**

Particulars	₹
Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹18,00,000) whichever is higher]	18,10,000
Less: Expenses on sale [professional fees & brokerage]	<u>78,000</u>

Particulars	₹
Net full value of consideration	17,32,000
Less: Cost of acquisition, being the net worth of Unit 2 ( <b>Note 1</b> )	<u>13,35,781</u>
<b>Long term capital gains arising on slump sale</b>	<b><u>3,96,219</u></b>
(The capital gains is long-term as the Unit 2 is held for more than 36 months)	

**Notes****1. Computation of net worth of Unit 2**

Particulars	₹
(1) Book value of non-depreciable assets	
(i) Land (Revaluation not to be considered)	5,00,000
(ii) Debtors	3,50,000
(2) Written down value of depreciable assets u/s 43(6)	
(i) Furniture ( <b>See Note 2</b> )	4,75,000
(ii) Patents ( <b>See Note 3</b> )	<u>4,75,781</u>
Aggregate value of total assets	18,00,781
Less: Current liabilities of Unit 2	
Bank Loan [₹8,50,000 x 30%]	2,55,000
Trade Creditors [₹4,50,000 x 20%]	90,000
Unsecured Loan [₹4,00,000 x 30%]	1,20,000
	<u>4,65,000</u>
<b>Net worth of unit 2</b>	<b><u>13,35,781</u></b>

**2. Written down value of furniture as on 1.4.2025**

Value of patents	₹
Cost as on 1.12.2024	5,00,000
Less: Depreciation @ 10% x 50% for Financial Year 2024-25	<u>25,000</u>
<b>WDV as on 1.4.2025</b>	<b><u>4,75,000</u></b>

**3. Written down value of patents as on 1.4.2025**

Value of patents	₹
Cost as on 1.12.2023	7,25,000
Less: Depreciation @ 25% x 50% for F.Y. 2023-24	<u>90,625</u>
WDV as on 1.4.2024	6,34,375
Less: Depreciation@25% for F.Y. 2024-25	<u>1,58,594</u>
<b>WDV as on 1.4.2025</b>	<b><u>4,75,781</u></b>

**Question: 3(b) Heads of Income (IFOS, HP or any small question) [4 Marks]****SEP 25 Exams**

1. Mr. Mani, a resident individual aged about 45 years, acquired a plot of land in March 2002 for ₹12,25,000 and paid stamp duty of ₹1,00,000 on registry of the land. He sold this land on 10th October 2025 for ₹80,00,000. The stamp duty valuation assessed by sub registrar was ₹83,50,000. Advise Mani about which option of computation of capital gains is most suitable for him as far as his tax liability is concerned on the assumption that he has no other income chargeable to tax and has not opted out of the provision of section 115BAC.

Costs Inflation Index for various financial years are as under:

2001-02	100
2002-03	105
2006-07	122
2025-26	376

Answer –

**Computation of tax liability of Mr. Mani for the A.Y. 2026-27 as per the default tax regime**

Particulars	₹	₹
<b>Capital Gain</b>		
Actual sale consideration	80,00,000	
Valuation as per Stamp duty Authority on the date of agreement (Since the stamp duty value does not exceed 110% of the actual sale consideration, the actual sales consideration shall be taken to be the full value of consideration as per section 50C)	<u>83,50,000</u>	80,00,000
Less: Cost of acquisition of Plot (₹12,25,000 + ₹1,00,000)		<u>(13,25,000)</u>
<b>Long Term Capital Gain/ Total Income</b>		<b>66,75,000</b>
<b>Tax on LTCG u/s 112</b>		
Since land is acquired before 23.7.2024 and transferred on or after 23.7.2024, Mr. Mani has an option to pay tax @12.5% on LTCG computed without indexation benefit or @20% on LTCG computed with indexation benefit.		
<b>Capital Gain without Indexation (Tax @12.5%)</b>		
[₹80,00,000 - ₹13,25,000] = ₹66,75,000		
Tax = [₹ 66,75,000 - ₹ 4,00,000, being unexhausted basic exemption limit] x 12.5% = ₹7,84,375 (A)		
<b>Capital Gain with Indexation (Tax @20%)</b>		
[₹80,00,000 - (₹13,25,000 x 376/100)] =		
₹30,18,000		
Tax = [₹ 30,18,000 - ₹ 4,00,000, being unexhausted basic exemption limit] x 20% = ₹5,23,600 (B)		
Lower of (A) or (B)		5,23,600
Add: Surcharge @10% [Since the total income exceeds ₹50,00,000 but does not exceed ₹1 crore]		52,360
		5,75,960
Add: HEC @4%		23,038
<b>Tax liability</b>		5,98,998
<b>Tax liability (Rounded off)</b>		5,99,000
<b>Note:</b> Indexation option is more beneficial to the assessee		

**Alternative solution** - As per second proviso to section 112(1)(a), in the case of transfer of a long-term capital asset, being land or building or both, which is acquired before the 23.7.2024, where the income-tax computed under item (B) exceeds the income-tax computed in accordance with the provisions of this Act, as they stood immediately before their amendment by the Finance (No. 2) Act, 2024, such excess shall be ignored.

As per item (B), long-term capital gains arising from transfer on or after 23.7.2024 are taxed @12.5%. Such tax is to be computed considering the first proviso to section 112(1)(a), which provide for utilization of unexhausted basic exemption limit.

On literal interpretation of the provisions of section 112(1)(a), the excess of tax will be determined after adjusting the unexhausted basic exemption limit while computing tax @12.5% on LTCG computed without indexation and tax @20% on LTCG computed with indexation. Accordingly, the main solution is given.

However, alternative solution is possible considering the manner followed in ITR utility for computation of tax on long-term capital gains in case of transfer of land acquired on or before 23.7.2024 but transferred thereafter.

**Computation of tax liability of Mr. Mani for the A.Y. 2026-27 as per the default tax regime**

Particulars	₹	₹
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Particulars	₹	₹
<b>Capital Gain</b>		
Actual sale consideration	80,00,000	
Valuation as per Stamp duty Authority on the date of agreement (Since the stamp duty value does not exceed 110% of the actual sale consideration, the actual sales consideration shall be taken to be the full value of consideration as per section 50C)	<u>83,50,000</u>	80,00,000
Less: Cost of acquisition of Plot (₹12,25,000 + ₹1,00,000)		(13,25,000)
<b>Long Term Capital Gain/ Total Income</b>		<b>66,75,000</b>
<b>Tax on LTCG u/s 112</b>		
Since land is acquired before 23.7.2024 and transferred on or after 23.7.2024, Mr. Mani has an option to pay tax @12.5% on LTCG computed without indexation benefit or @20% on LTCG computed with indexation benefit.		
<b>Capital Gain without Indexation (Tax @12.5%)</b> [₹80,00,000- ₹13,25,000] = ₹66,75,000 Tax = ₹66,75,000 x 12.5% = ₹8,34,375 (A)		
<b>Capital Gain with Indexation (Tax @20%)</b> [₹80,00,000- (₹ 13,25,000 x 376/100)] = ₹30,18,000 Tax = ₹30,18,000 x 20% = ₹6,03,600 (B)		
Excess of (A) over (B) to be ignored	2,30,775	
Tax @ 12.5% on ₹62,75,000 [₹66,75,000 – ₹ 4,00,000, being unexhausted basic exemption limit]		7,84,375
Less: Amount to be ignored		2,30,775
		5,53,600
Add: Surcharge @10% [Since the total income exceeds ₹50,00,000 but does not exceed ₹1 crore]		55,360
		6,08,960
Add: HEC @4%		24,358
<b>Tax liability</b>		<b>6,33,318</b>
<b>Tax liability (Rounded off)</b>		<b>6,33,320</b>
<b>Note:</b> Indexation option is more beneficial to the assessee		

**JAN 26 Exams**

2. Examine whether the following are chargeable to tax in the hands of Mrs. Nitu and the amount liable to tax for the assessment year 2026-27:

- On the day of her marriage, Mrs. Nitu received gifts totalling ₹5,40,000, out of which ₹60,000 was received from non-relatives.
- On 01.11.2025, Mrs. Nitu entered into an agreement to acquire a vacant land from her friend for ₹25 lakh. The applicable stamp duty value (SDV) fixed by the authority was ₹30 lakh. As per the terms of payment, 2% of the sale consideration was paid through an account payee cheque on the date of the agreement, and the remaining 98% was paid on registration. On 15.12.2025, the date of actual registration, the SDV was enhanced to ₹33 lakh by the authority.
- Mrs. Nitu gifted ₹4 lakh on 1st September, 2025 to her husband Mr. Aman, to invest in the business. Mr. Aman started business with a capital of ₹12 lakh (including the amount gifted by his wife) and earned a profit of ₹5 lakh from this business during the financial year 2025-26.

**Answer-**

**Amount liable to tax in the hands of Mrs. Nitu for A.Y. 2026-27**

		Amount (₹)
(i)	<b>Gifts received on marriage</b> The amount of ₹5,40,000 received by Mrs. Nitu from relatives and non-relatives is not taxable u/s 56(2)(x) since such gifts are received on her marriage.	-
(ii)	<b>The difference between stamp duty value on the date of agreement and actual consideration</b> The difference between stamp duty value on the date of agreement of ₹30 lakhs and actual consideration of ₹25 lakhs is taxable u/s 56(2)(x) since the difference exceeds ₹2,50,000, being the higher of ₹50,000 and 10% of consideration. Stamp duty value on the date of agreement is considered since part payment i.e., 2% of sale consideration was paid through account payee cheque on the date of agreement.	5,00,000
(iii)	<b>Profit from business of Mr. Aman</b> Since the amount of ₹12 lakhs invested in the business by Mr. Aman includes ₹4 lakhs gifted by Mrs. Nitu, the proportionate profit attributable to such gifted amount, computed by taking such investment as on the first day of the previous year i.e., on 1 <sup>st</sup> September 2025 to total investment in the business, is to be included in the income of Mrs. Nitu [₹5 lakhs x ₹4 lakhs/ ₹12 lakhs]	1,66,667

**MTP SEP 25**

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

	House 1	House 2
Fair rent	1,25,000	3,95,000
Actual rent	1,20,000	2,85,000
Municipal Valuation	1,24,000	3,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000

**Additional information:**

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

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

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

**Answer –**

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

Particulars	₹	₹	₹
<b>Income from house property</b>	<b>House 1</b>	<b>House 2</b>	
Municipal value (A)	1,24,000	3,90,000	
Fair rent (B)	1,25,000	3,95,000	
Higher of (A) and (B) = (C)	<b>1,25,000</b>	<b>3,95,000</b>	
Actual rent received	1,20,000	2,85,000	

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

**MTP JAN 26**

4. Mr. Arjun entered into an agreement with Mr. Siddharth on 5th April 2025 for sale of a plot for ₹45 lakhs. An advance of ₹15 lakhs was received through an account payee cheque on the date of agreement. The transfer of the property took place on 10th September 2025. The stamp valuation authority valued the property at ₹49 lakhs on the date of agreement and ₹53 lakhs on the date of transfer.

Mr. Siddharth subsequently sold this plot to Ms. Nisha on 21st March 2026 for ₹55 lakhs. The stamp valuation authority assessed the value of the property at ₹54 lakhs on this date.

Discuss the tax implications arising from these transactions for Mr. Arjun and Mr. Siddharth. Additionally, compute capital gains taxable in the hands of Mr. Siddharth.

**Answer –**

I	<b><u>Tax consequences in the hands of Mr. Arjun</u></b>
	<p>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.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since ₹15 lakhs is received through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration.</p> <p>Accordingly, in this case, capital gains would be computed in the hands of Mr. Arjun, for A.Y.2026-27, taking the actual consideration of ₹45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration.</p>
II	<b><u>Tax consequences in the hands of Mr. Siddharth</u></b>
	In case immovable property is received for inadequate consideration, the difference between the

<p>stamp duty value and actual consideration would be taxable u/s 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹50,000 and 10% of actual sales consideration.</p> <p>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.</p> <p>In this case, since ₹15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.</p> <p>Therefore, nothing would be taxable in the hands of Mr. Siddharth under the head "Income from Other Sources" in A.Y.2026-27 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed ₹4,50,000, being the higher of ₹50,000 and 10% of consideration.</p> <p>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.</p> <p>In this case, since ₹15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.</p> <p>Therefore, nothing would be taxable in the hands of Mr. Siddharth under the head "Income from Other Sources" in A.Y.2026-27 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed ₹4,50,000, being the higher of ₹50,000 and 10% of consideration.</p> <p>At the time of subsequent sale of property by Mr. Siddharth to Ms. Nisha (on 21.3.2026), short-term capital gains would arise in the hands of Mr. Siddharth in A.Y.2026-27, since the property is held by him for less than 24 months.</p>	
<b>Particulars</b>	<b>₹</b>
Full value of consideration (Since actual consideration of ₹55 lakh is higher than stamp duty value of ₹54 lakh)	55 lakhs
Less: Cost of acquisition	45 lakhs
Short-term capital gains	10 lakhs

**MTP JAN 26**

5. Ms. Ritu transferred 100 shares of PQR (P) Ltd. to M/s. LMN Co. (P) Ltd. on 10th September 2025 for ₹3,00,000 when the market value of the shares was ₹5,00,000. Ms. Ritu purchased these shares in 2018 for ₹2,50,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Ms. Ritu and M/s. LMN Co. (P) Ltd. as a result of this transaction.

**Answer –**

Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹50,000.

Thus, share received by M/s. LMN Co. (P) Ltd. from Ms. Ritu for inadequate consideration is chargeable to tax u/s 56(2)(x) to the extent of ₹2,00,000.

As per section 50CA, since the consideration is less than the fair market value of unquoted shares of PQR (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 PQR (P) Ltd. are unquoted shares.

The full value of consideration (₹5,00,000) less the cost of acquisition (₹2,50,000) would result in a long term capital gains of ₹2,50,000 in the hands of Ms. Ritu.

**MTP MAY 26**

6. From the following, calculate the taxable amount under the proper head of income for the Financial Year 2025-26 of Mr. Lalit, who is resident and 56 years old. He is paying tax under default tax regime. The reasons should form part of your answer:

(i) Dividend of ₹45,000 (Net) received in April 2025 from LMN Ltd.

- (ii) Advance forfeited amounting to ₹1,00,000 on 01.05.2025 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.
- (iii) Cash gift received from non-relative on the occasion of marriage of son ₹51,000.
- (iv) He received ₹99,000 as pension from employer of deceased wife.

**Answer –**

**Computation of taxable amount of Mr. Lalit for the A.Y.2026-27**

Particulars	₹
(i) <b>Dividend from LMN Ltd.</b> – Dividend would be chargeable to tax under the head “Income from Other Sources”. [₹45,000/90%]	50,000
(ii) <b>Advance of ₹1,00,000 forfeited on 1.5.2025</b> - The advance received and forfeited on or after 1.4.2014 would be subject to tax u/s 56(2)(ix) under the head “Income from Other Sources”.	1,00,000
(iii) <b>Cash gifts from non-relative on marriage of son of ₹51,000</b> – Since gift is received by Mr. Lalit from a non- relative on the occasion of marriage of his son, it would be taxable in his hands u/s 56(2)(x) under the head “Income from Other Sources”.	51,000
(iv) <b>Pension from employer of deceased wife of ₹99,000</b> - Pension after deducting lower of ₹33,000 i.e., 1/3 of such income or ₹25,000, is chargeable to tax under the head “Income from Other Sources”. [₹99,000 – ₹25,000]	74,000
<b>Taxable amount</b>	<b>2,75,000</b>

**Question: 4(a) Clubbing, Setoff & C/F with Total Income [6 Marks]**

**RTP SEP 25**

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

- (i) He is employed in ABC Ltd. and earned salary income of ₹10,50,000 (computed).
- (ii) He is engaged in a speculation and a non-speculation business. He earned profit from speculation business of ₹60,000 and suffered loss from non-speculation business of ₹40,000.
- (iii) He reported short-term capital gain of ₹80,000. He also received lottery winnings of ₹20,000 (Gross).
- (iv) He has a brought forward long-term capital loss of ₹30,000 from A.Y. 2024–25.
- (v) Mr. Suraj has two children: one married daughter Riya aged 17 years, and a son Raj aged 16 years. The interest income of Riya and Raj is ₹1,200 p.a. and ₹2,000 p.a., respectively.
- (vi) He transferred a flat to Riya on 1st April 2025, on account of natural love and affection. This flat was let out from that date and generated rental income of ₹5,000 per month.
- (vii) Mr. Suraj paid a medical insurance premium of ₹22,000 during the financial year to insure his health, his spouse and dependent children. Additionally, he paid ₹33,000 to insure the health of his mother, aged 67 years, who is not dependent on him. He also incurred ₹20,000 as medical expenditure for his father, aged 71 years, who is not dependent and is not covered under any insurance policy. He contributed ₹6,000 during the year to the Central Government Health Scheme (CGHS).

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

**Answer –**

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

Particulars		₹	₹
<b>I</b>	<b>Salaries</b>		
	Income from Salary (computed)		10,50,000
<b>II</b>	<b>Income from business</b>		
	Income from speculation business	60,000	
	Less: Loss from non-speculation business	(40,000)	20,000
	As per section 73(1), loss from speculation business cannot be set off against profit from non-speculation business. However, there is no restriction u/s 72 to set off		

Particulars		₹	₹
III	loss from non-speculation business against profit from speculation business.		
	<b>Capital Gains</b>		
	Short-term capital gain		80,000
	As per section 74(1), long term capital loss can be set off only against long		
	term capital gain. Therefore, long term capital loss of ₹30,000 has to be carried forward to A.Y. 2027-28		
	<b>Income from Other Sources</b>		
IV	Winnings from lotteries		20,000
	<b>Gross Total income before including income of minor children</b>		<b>11,70,000</b>
	<b>Income of minor married daughter Riya</b>		
	(i) Interest income	1,200	
	(ii) GAV [Rental income from 60,000 house property] [₹5,000 x 12]		
	[Section 27 is not attracted if the house property is transferred by a parent to a minor married daughter. Hence, Mr. Suraj is not a deemed owner of the house property. However, by virtue of section 64(1A), all income of a minor child is includible in the hands of parent whose income is higher.		
	Less: 30% of GAV	<u>18,000</u>	
		42,000	
	Less: Exempt u/s 10(32)	43,200	41,700
	<b>Income of Minor Son Raj</b>	<u>1,500</u>	
	Interest income	2,000	500
	Less: Exempt u/s 10(32)	<u>1,500</u>	<b>12,12,200</b>
	<b>Gross Total Income</b>		<u>75,000</u>
	Less: Deduction u/s 80D (Refer working note below)		
	<b>Total Income</b>		<b>11,37,200</b>

**Working Note****Deduction allowable u/s 80D for the A.Y.2026-27**

Particulars		₹	₹
(i)	Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii)	Contribution to CGHS	<u>6,000</u>	
	restricted to	28,000	25,000
(iii)	Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv)	Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	<u>20,000</u>	
	restricted to	53,000	50,000
			<b>75,000</b>

RTP JAN 26

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

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

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

**Answer-**

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

Particulars		₹	₹
<b>I</b>	<b>House Property</b>		
	Rental Income of ₹5 lakhs shall be taxable in the hands of Mrs. K since it is a case of transfer of house property to his spouse in connection with an agreement to live apart. In such case, the transferee shall be the owner of the house property and rental income will be taxed in the hands of transferee.		-
	Set off of loss from house property to be restricted to ₹2 lakhs by virtue of section 71(3A). Balance loss of ₹15,000 has to be carried forward to A.Y. 2027-28		
<b>II</b>	<b>Income from business</b>		
	Income from manufacturing business	10,00,000	
	Loss from speculation business	-	
	As per section 73(1), loss from speculation business can be set off only against profit from any other speculation business. Therefore, loss from speculation business of ₹7,00,000 has to be carried forward to A.Y. 2027-28		
	<i>Less:</i> Set off of loss from house property to the extent of ₹2 lakhs	<u>2,00,000</u>	
	<b>Capital Gains</b>		
	Short-term capital gain u/s 111A	50,000	8,00,000
	Long term capital loss	-	
<b>III</b>	As per section 74(1), long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of		50,000

Particulars		₹	₹
	₹75,000 has to be carried forward to A.Y. 2027-28		
	<b>Income from Other Sources</b>		
	Royalty Income [₹4,10,000 - ₹60,000]	3,50,000	
	Interest income from son's bank account [Income of the minor will be included in the income of Mrs. K as Mrs. K is maintaining the child.]	-	
<b>IV</b>	Income from the activity of owning and maintaining race horses	50,000	
	Less: Expenses incurred to earn this income	<u>5,000</u>	
			3,95,000
	<b>Gross Total Income</b>		<b>12,45,000</b>
	Less: <b>Deduction u/s 80GGC</b>	2,00,000	
	Contribution to an electoral trust is allowed as deduction assuming it is paid otherwise than in cash. Expenditure of ₹30,000 incurred on advertisement in a brochure of political party is not eligible for deduction u/s 80GGC		
	<b>Deduction u/s 80QQB</b> (Refer working note below)		
	<b>Total Income</b>	<u>2,30,000</u>	4,30,000
			<b>8,15,000</b>

**Working Note****Deduction allowable u/s 80QQB for the A.Y.2026-27**

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

**RTP MAY 26**

3. Mr. Vipul furnished the following details for the previous year 2025-26:

- Loss from House Property (computed) in India – ₹2,60,000
- Income from business in India – ₹8,60,000
- Short Term Capital Gain on sale of equity shares listed in recognized stock exchange (STT paid) – ₹1,99,800
- Income from card game (Gross) – ₹1,02,500
- Loss from betting (Gross) – ₹87,500
- Expenses of Lottery Income – ₹7,500
- Income from Lottery Income – ₹38,500 (Net of TDS)
- Loss from the activity of owning and maintaining camels for races – ₹20,000
- Income from the activity of owning and maintaining race horses – ₹97,800
- Long term capital gain on sale of land – ₹25,000
- Income of minor daughter Riya from script writing for Television series - ₹15,000
- Interest income of minor son Saurabh who suffers from disability specified in section 80U - ₹2,50,000

Following are the brought forward losses:

- Loss from Textile Business pertaining to A.Y. 2014-15 – ₹7,000
- Long-term capital loss pertaining to A.Y. 2017-18 – ₹1,12,500
- Short term capital loss pertaining to A.Y. 2018-19 – ₹90,200

Compute gross total income of Mr. Vipul as per optional tax regime and find out the amount of losses which can be carried forward.

**Answer –**

**Computation of Gross total income of Mr. Vipul for the A.Y. 2026-27**

	Particulars	Amount (₹)	Amount (₹)
(i)	<b>Profits and gains of business or profession</b>		
	Income from business in India	8,60,000	
	Less: Set-off of loss from activity of owning and maintaining camel for races	<u>20,000</u>	
		8,40,000	
	Less: Loss from house property of ₹2,60,000 can be set-off against any other head of income to the extent of ₹2,00,000.	<u>2,00,000</u>	
	<b>Note – Loss from activity of owning and maintaining camel for races and loss from house property can first be set off against short term capital gains and then against business income.</b>		
		6,40,000	
	Less: Unabsorbed loss from textile business pertaining to A.Y. 2014-15 cannot be set-off against the business income of the A.Y. 2026-27, since loss can be carried forward for a maximum of eight assessment years.	—	6,40,000
	(ii) <b>Capital Gains</b>		
	Short Term Capital Gain on sale of equity shares listed in a recognized stock exchange (STT paid)	1,99,800	
Less: Short-term capital loss of A.Y. 2018-19	<u>90,200</u>	1,09,600	
Long term capital Gain on Sale of land	25,000		
Less: Long-term capital loss pertaining to A.Y. 2017-18 cannot be set-off against LTCG of the A.Y. 2026-27, since such loss can be carried forward for a maximum of eight assessment years.	—	25,000	
<b>Income from other sources</b>			
(iii) Income from card game	1,02,500		
Income from Lottery [Expenses of Lottery income are not allowed as a deduction] [₹38,500/(100-30)]	55,000		
Income from the activity of owning and maintaining race horses	97,800		
Income of ₹15,000 of minor daughter Riya 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]	-		
Income of ₹2,50,000 of minor son Saurabh who suffers from disability specified in section 80U [Since minor child Saurabh is suffering from disability specified u/s 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]	—	2,55,300	
<b>Gross Total Income</b>			<b>10,29,900</b>

## Item eligible for carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Current year loss from House property	60,000
Loss from betting can neither be set off against any other income, nor can it be carried forward.	-

## SEP 25 Exams

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

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

Following are the losses brought forward:

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

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

**Answer –**

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

Particulars	₹	₹
<b>Income from House Property (Self-occupied Property)</b>		
Annual Value	-	
Less: Deductions u/s 24(b)	(30,000)	
Interest on loan for repair of self-occupied property (Restricted to ₹30,000)	(30,000)	
<b>Profit and gains of business or profession</b>		
Remuneration from partnership firm	9,70,000	
Share of loss from partnership firm [Not allowed for set-off as it is from exempt source]	-	
Less: Set off of loss from House Property	(30,000)	9,40,000
<i>[Alternatively, loss from house property can be set off from advance forfeited.]</i>		
<b>Capital Gain</b>		

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

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

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

**JAN 26 Exams**

5. Mr. Kunal, a resident individual, furnishes the following information of his income and losses for the assessment year 2026-27:

Particulars	Amount ₹
Gross salary received from part time employment in a company	12 lakh
Rent received from a let-out residential house property	8 lakh
Interest payment on loan taken for purchase of above house	2.5 lakh
Profit from a food delivery startup business	5 lakh

Particulars	Amount ₹
Profit from the business of production of fertilizers established in August, 2025 in India	6 lakh
On 01.04.2025, Kunal transferred ₹10 lakh to a charitable trust with a direction that the trust will pay ₹2,40,000 to Mrs. Sunita (Kunal's wife) annually. Mr. Kunal can take back the full amount as per his wish.	

Losses brought forward from the earlier years:—

- (i) Loss from self-occupied property - ₹1.5 lakh for the previous year 2022-23.  
(ii) Business losses from specified business covered u/s 35AD - ₹10 lakh of financial year 2016-17.

You are required to compute the gross total income under proper heads of income of Mr. Kunal on the assumption that he has opted for default tax regime for the assessment year 2026-27 and the amount of losses to be carried forward and the period upto which they are carried forward.

**Answer –**

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

Particulars	₹	₹
<b>Income under the head “Salaries”</b>		
Gross Salary	12,00,000	
Less: Standard Deduction	<u>75,000</u>	
Net Salary		11,25,000
<b>Income from House Property (Let-out Property)</b>		
Annual Value [Rent received]	8,00,000	
Less: Deductions u/s 24		
- Standard deduction@30%	2,40,000	
- Interest on loan of ₹2,50,000 allowed as deduction	<u>2,50,000</u>	
Carry forward and set off of loss from self-occupied house property is not allowed as deduction as per default tax regime u/s 115BAC.		
		3,10,000
<b>Profit and gains of business or profession</b>		
Profit from a food delivery start up business		5,00,000
Profit from business of production of fertilizers	6,00,000	
Less: Brought forward losses from specified	<u>6,00,000</u>	
business is allowed to be set-off against the profits from a specified business only. Thus, losses to the extent of ₹6,00,000 is allowed assuming that such loss is not on account of deduction u/s 35AD.		
<i>[Note - If it is assumed that loss from specified business is on account of deduction u/s 35AD, the loss is not allowed to be set off as per default tax regime u/s 115BAC. In such case, gross total income would be ₹27,75,000]</i>		
<b>Income from Other Sources</b>		
Income arising from the transfer of ₹10 lakhs to the charitable trust will be included in the hands of Mr. Kunal, since Mr. Kunal can take back the full amount as per his wish and thus, it is a revocable transfer		2,40,000
<b>Gross Total Income</b>		<b>21,75,000</b>

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

Particulars	₹
<b>Loss from self-occupied property</b> Loss from self-occupied property of P.Y. 2022-23 shall be deemed to have been given full effect and no further deduction of such loss would be allowed for any subsequent year.	-
<b>Business Loss from specified business u/s 35AD</b> Balance loss from specified business u/s 35AD of F.Y. 2016-17 can be carried forward for indefinite period, assuming the same is not on account of deduction u/s 35AD. <b>Note</b> – If it is assumed that loss from specified business of F.Y. 2016-17 is on account of deduction u/s 35AD, then such loss shall be deemed to have been given full effect and no further deduction of such loss would be allowed for any subsequent year.	4,00,000

**MTP SEP 25**

6. On 14th June 2025, Mr. Rajesh Kumar gifted a sum of ₹3,00,000 to his brother's wife (Mrs. Neha). On 12th July 2025, Mr. Rajesh Kumar's brother (Mr. Rakesh) gifted ₹5,00,000 to the minor son of Mr. Rajesh Kumar. Both Mrs. Neha and minor son invested the gifted amounts in fixed deposits on 1st August 2025 at an interest rate of 9% per annum. Assume Mrs. Anjali (wife of Mr. Rajesh Kumar) has a higher income than of Mr. Rajesh Kumar's income and she has opted out of the default tax regime.

Examine the consequences of the above under the provisions of the Income-tax Act, 1961.

What would be your answer if Mr. Rajesh Kumar's brother (Mr. Rakesh) gifted ₹5,00,000 to Mrs. Anjali instead of minor son.

**Answer –**

In the given case, Mr. Rajesh kumar gifted a sum of ₹3 lakhs to his brother's wife on 14.06.2025 and simultaneously, his brother gifted a sum of ₹3 lakhs to Mr. Rajesh kumar's minor son on 12.07.2025. The gifted amounts were invested as fixed deposits in banks by Mr. Rajesh kumar' son 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)*.

Accordingly, the interest income on fixed deposits arising to Mrs. Neha of ₹18,000 [ $₹3,00,000 \times 9\% \times 8/12$ ] would be included in the total income of Mr. Rakesh Kumar. However, as per section 64(1A), all the income of a minor son is, in any case, to be included in the income of the parent, whose total income before including minor's income, is higher. Therefore, ₹30,000 [ $₹5,00,000 \times 9\% \times 8/12$ ] would be included in the total income of Mrs. Anjali since her income before including minor's income, is higher than of Mr. Rajesh's income.

Additionally, Mrs. Anjali is entitled to exemption of ₹1,500 u/s 10(32) with respect to income included in her hands on account of minor's income.

If Mr. Rakesh gifted ₹5,00,000 to Mrs. Anjali instead of minor son, then the interest income includible in the hands of Mr. Rajesh would be restricted to the extent of cross transfer. Accordingly, only interest ₹18,000 [ $₹3,00,000 \times 9\% \times 8/12$ ] would be includible in the hands of Mr. Rajesh since the cross transfer is only to the extent of ₹3 lakhs

**MTP SEP 25**

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

Particulars	Amount (₹)
Income from Salary	3,40,000
Long term capital loss on sale of shares of ABC Ltd. STT has been paid both at the time of acquisition and sale	(1,15,000)
Loss from let out property in Delhi	(75,000)

Particulars	Amount (₹)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery tickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹10,000 and additional depreciation of ₹4,000)	96,000
Long term capital gains on sale of house property	1,40,000

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

Brought forward business loss from manufacturing business	(35,000)
Unabsorbed normal depreciation	(10,000)
Brought forward loss from the activity of owning and maintaining the race horses	(50,000)

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

**Answer –**

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

Particulars	Amount (₹)	Amount (₹)
<b>Income from Salary</b>		3,40,000
<b>Income from house property</b>		
Loss from let out property	75,000	
Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Shitij is paying tax under default tax regime]	—	
Loss from house property is not allowed to be set off against any other head of income under default tax regime and it cannot be carried forward	75,000	-
<b>Profit and gains from business or profession</b>		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	<u>4,000</u>	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	<u>10,000</u>	55,000
<b>Capital Gains</b>		
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 u/s 112A	<u>(1,15,000)</u>	25,000
<b>Income from Other Sources</b>		
Winnings from lottery tickets [As per section 58, no expenditure is allowed against winnings from lottery tickets]		<u>40,000</u>
<b>Gross Total Income</b>		<b><u>4,60,000</u></b>

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

Particulars	Amount (₹)
Loss from the activity of owning and maintaining the race horses [As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.]	50,000

**MTP JAN 26**

8. Mr. Sanjeev, aged 30 years, submits the information of following transaction/ income during the P.Y. 2025-26

- Mr. Sanjeev had a house in Delhi. During financial year 2023-24, he had transferred the said house to Ms. Veena, daughter of his brother without any consideration. House would go back to Mr. Sanjeev after the life time of Ms. Veena. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Sanjeev. Rent received by Ms. Veena during the previous year 2025-26 from such house property is ₹6,50,000.
- Mr. and Mrs. Sanjeev forms a partnership firm with equal share in profits. Mr. Sanjeev transferred a fixed deposit of ₹50 lakhs to such firm. Firm had no income or expense other than the interest of ₹6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Sanjeev at the end of the year.
- Mr. Sanjeev holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chanchal, daughter of his servant. The transfer is irrevocable for the life time of Chanchal. Dividend received by Ms. Chanchal during the previous year 2025-26 is ₹2,00,000 (Gross).
- Mr. Sanjeev has a short term capital loss of ₹16,000 from sale of property and long term capital gain of ₹15,000 from sale of property.
- Other income of Mr. Sanjeev includes
  - Interest from saving bank account of ₹2,00,000
  - Cash gift of ₹75,000 received from daughter of his sister on his birthday.
  - Income from betting of ₹34,000
  - Income from card games of ₹46,000
  - Loss on maintenance of race horses of ₹14,600

Compute the total income of Mr. Sanjeev for the A.Y.2026-27 and the losses to be carried forward assuming that he opts out from default regime u/s 115BAC.

**Answer –**

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

Particulars	Amount (₹)	Amount (₹)
<b>Income from house property</b>		
<b>House in Delhi</b>		
[Since Mr. Sanjeev receives direct or indirect benefit from income arising to his brother's daughter, Ms. Veena, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Sanjeev as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Veena]		
Gross Annual Value	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000

Particulars	Amount (₹)	Amount (₹)
<b>Profits and gains from business or profession</b>		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,000	
<b>Less:</b> Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹16,000 set off against long-term capital gains to the extent of ₹15,000. Balance short term capital loss of ₹1,000 to be carry forward to A.Y.2027-28	<u>15,000</u>	-
<b>Income from other sources</b>		
Dividend on preference shares [Taxable in the hands of Mr. Sanjeev as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	2,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	<u>46,000</u>	<u>5,55,000</u>
<b>Gross Total Income</b>		<b>10,10,000</b>
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80TTA [Interest from savings bank account]	<u>10,000</u>	10,000
<b>Total Income</b>		<b>10,00,000</b>

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

Particulars	Amount (₹)
Short term capital loss [₹16,000 – ₹15,000]	1,000
Loss on maintenance of race horses [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. Hence, such loss has to be carried forward to A.Y.2027-28]	14,600

**Question: 4(b) Return Filing & Self-Assessment [4 Marks]**

**SEP 25 Exams**

1. State, with appropriate reasons, whether the following statements are "true" or "false".

- An income-tax return can be revised only once.
- Updated return u/s 139(8A) cannot be filed if original return is a loss return u/s 139(3).

**Answer –**

- False:** A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if an assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier.
- False:** If any person has a loss in any previous year and has furnished a return of loss on or before the due date of filing return of income u/s 139(1), he shall be allowed to furnish an updated return if such updated return is a return of income.

**JAN 26 Exams**

2. Examine with reasons whether the following statements are true or false with regard to the provisions of the Income-tax Act, 1961:

- (i) Mr. Rajiv is a non-working partner in a partnership firm M/s RKT & Co., whose turnover for the previous year 2025-26 is ₹18 crore and the books of account of the firm are required to be audited u/s 44AB of the Income-tax Act, 1961 for the financial year ended on 31st March, 2026. The due date of filing the return of income by Mr. Rajiv is 31st July 2026 for the assessment year 2026-27, if he is getting only interest on capital from the firm and does not have any other source of income.
- (ii) Mr. Kalra, a resident individual aged 55 years who has opted out of the default tax regime for the previous year 2025-26, is engaged in the business of trading of textile yarn. During the previous year 2025-26, the net profit from the business carried on by him is ₹3.9 lakh. He has no other source of income. He has contributed ₹1.5 lakh to the public provident fund. As his income does not exceed the maximum amount not chargeable to tax, he is of the opinion that he is not required to file his return of income for the assessment year 2026-27.

**Answer –**

- (i) False: Since the firm M/s RKT & Co. is required to get its books of accounts audited for P.Y. 2025-26, the due date for filing return of income for Mr. Rajiv would be 31st October 2026 even if he is a non-working partner and getting only interest on capital from the firm and does not have any other source of income.
- (ii) False: Since the total income of ₹3,90,000 of Mr. Kalra exceed the basic exemption limit of ₹2,50,000 without giving effect to the deduction of ₹1,50,000 under Chapter VI-A in respect of contribution to the public provident fund, he is required to file return of income for the A.Y. 2026-27.

**JAN 26 Exams**

3. Mr. Solanki, aged 52 years, has income from business and profession and income from other sources for the financial year 2025-26. He has filed his return of income for the assessment year 2026-27 before the due date of filing of return but due to some incorrect information provided in the return of income furnished u/s 139(1), the Assessing Officer considers it defective u/s 139(9) of the Income-tax Act, 1961. Discuss the provisions of the Income-tax Act, 1961 in respect of defective return

**Answer –**

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 15 days from the date of intimation.

The Assessing Officer has the discretion to extend the time period beyond 15 days on an application made by the assessee in this behalf.

If the defect is not rectified within the period of 15 days or such further extended period, the return would be treated as an invalid return.

If the assessee rectifies the defect after the expiry of 15 days or the further extended period, but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.

**MTP SEP 25**

4. Examine with reasons, whether quoting of PAN in the following transactions is mandatory or not, as per the provisions of Income-tax Act, 1961 for A.Y. 2026-27:

- (i) Mr. Arjun makes a cash payment of ₹50,000 to Hotel Vista, Dehradun against a bill raised by the hotel.
- (ii) Ms. Kavita enters into a contract for the purchase of debentures, for a value of ₹1,85,000.
- (iii) Mr. Ramesh makes a payment of ₹57,000 for the purchase of units of a mutual fund.
- (iv) Ms. Sneha makes a payment for the purchase of immovable property valued at ₹9,50,000. Stamp duty value of the property is ₹9,75,000.

**Answer –**

Requirement of quoting PAN in respect of certain transactions

- (i) **PAN is not required to be quoted:** Mr. Arjun is not required to quote his PAN while making payment ₹50,000 in cash to a hotel Vista, Dehradun, since such payment does not exceed ₹50,000.
- (ii) **PAN is mandatorily required to be quoted:** Ms. Kavita is required to quote her PAN while making payment of ₹1,85,000 for purchase of debentures, since the amount of the transaction exceeds ₹50,000.

- (iii) **PAN is mandatorily required to be quoted:** PAN has to be mandatorily quoted while making payment of ₹57,000 to Mutual Funds for purchase of its units, since such payment exceeds ₹50,000
- (iv) **PAN is not required to be quoted:** Ms. Sneha is not required to quote her PAN while making payment ₹9,50,000 towards purchase of immovable property, since such payment does not exceed ₹10,00,000

**MTP SEP 25**

5. Who is an eligible person to file a return through a Tax Return Preparer (TRP) u/s 139B of the Income-tax Act, 1961? Also, specify the circumstances in which an eligible person cannot furnish his return of income through a TRP.

**Answer –**

Any person, being an individual or a Hindu undivided family is an eligible person who can file their return through a Tax Return Preparer (TRP).

However, the following eligible person (an individual or a HUF) cannot furnish a return of income for an assessment year through a Tax Return Preparer:

- (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited u/s 44AB or under any other law for the time being in force; or
- (ii) who is not a resident in India during the previous year.

An eligible person cannot furnish a revised return of income for any assessment year through a Tax Return Preparer unless he has furnished the original return of income for that assessment year through such or any other Tax Return Preparer

**MTP SEP 25**

6. Mr. Avinash filed his return of income for the Assessment Year 2026-27 on 30th September, 2026. In the month of October 2026, he came to know that he forgot to show interest on fixed deposit in his income-tax return. Can Mr. Avinash file a revised return in October, 2026?

Assume that the due date for furnishing return of income was 31st July, 2026 and the assessment was not completed till the month of October 2026?

**Answer –**

As per section 139(5), if any person, having furnished a return within the due date or a belated return, discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (a) before three months prior to the end of the relevant assessment year; or
- (b) before the completion of assessment,

whichever is earlier.

Since Mr. Avinash has filed his return after 31.7.2026, being the due date u/s 139(1) in his case, the said return is a belated return u/s 139(4).

Mr. Avinash can file a revised return in October, 2026, since he has found an omission in the belated return filed by him for A.Y.2026-27 before 31.12.2026 and assessment is yet to be completed.

**MTP JAN 26**

7. Mr. Rajiv, owing to certain unavoidable circumstances, could not file his return of income for the A.Y. 2026-27 within the prescribed due date u/s 139(1).

- (i) Can he furnish the return of income after the expiry of the due date? If yes, what would be the last date available to file such a return?
- (ii) What are the implications or consequences under the Income-tax Act, 1961 if the return is not filed within the time limit specified u/s 139(1)?

**Answer –**

(1) If any person fails to furnish a return within the time allowed to him u/s 139(1), he may furnish the belated return for any previous year at any time—

- (i) before three months prior to the end of the relevant assessment year; or
- (ii) before the completion of the assessment,

whichever is earlier.

The last date for filing return of income for A.Y.2026-27, therefore, is 31st December 2026. Mr. Rajiv cannot furnish a belated return after this date.

**(2) Consequences for non-filing return of Income within the due date u/s 139(1)**

**Carry forward and set-off of certain losses:** Business loss, speculation business loss, loss from specified business u/s 35AD in case the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A), 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 u/s 139(1).

**Interest u/s 234A:** Interest u/s 234A@1% per month or part of the month for the period commencing from the date immediately following the due date u/s 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 u/s 234F:** Fee of ₹5,000 would be payable u/s 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

**MTP JAN 26**

8. Mr. Mridul has undertaken certain transactions during the F.Y.2025-26, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents—

S. No.	Transaction
1.	Payment of ₹95,000 was made during the F.Y. 2025–26 towards the acquisition of equity shares of BCD Ltd., an unlisted company.
2.	A sum of ₹1,10,000 was paid to SJB Co. for the acquisition of its mutual fund units.
3.	An application was submitted to Punjab National Bank (PNB) for the issuance of a credit card.
4.	Payment of ₹1,50,000 in cash was made to a travel agent for the purchase of foreign currency amounting to USD 1,500

**Answer –**

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of ₹95,000 was made during the F.Y. 2025–26 towards the acquisition of equity shares of BCD Ltd., an unlisted company.	No, quoting of PAN is not mandatory in this case, since the payment of ₹95,000 for acquiring equity shares of the unlisted company does not exceed the prescribed threshold limit of ₹1,00,000.
2.	A sum of ₹1,10,000 was paid to SJB Co. for the acquisition of its mutual fund units.	Yes, since the amount paid exceeds ₹50,000.
3.	An application was submitted to Punjab National Bank (PNB) for the issuance of a credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
4.	Payment of ₹1,50,000 in cash was made to a travel agent for the purchase of foreign currency amounting to USD 1,500.	Yes, since the amount paid exceeds ₹50,000.

**MTP JAN 26**

9. What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default?

**Answer –**

If a person, who has been allotted PAN as on 1st July, 2017 and is required to intimate his Aadhaar number, has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative.

A person, whose PAN has become inoperative, would be liable for following further consequences for the period commencing from the date as specified i.e., 1.7.2023 till the date it becomes operative –

- (i) no refund of any amount of tax or part thereof, due under the provisions of the Act;
- (ii) interest would not be payable on such refund for the period, beginning with the date specified i.e., 1.7.2023 and ending with the date on which it becomes operative;
- (iii) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;
- (iv) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC:

Where a person, who is required to intimate his Aadhar Number u/s 139AA(2), failed to intimate the same on or before 31.3.2022, he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., ₹1,000.

#### **MTP MAY 26**

**10.** In each of the following independent situations, you are required to examine whether these persons are required to file their return of income or loss for A.Y.2026-27 if their total income for the P.Y. 2025-26 do not exceed the basic exemption limit:

- (i) Mr. Dilip has savings bank account in SBI and HDFC and a current account in Axis Bank with opening balance of ₹20 lakhs, ₹10 lakhs and ₹30 lakhs, respectively. He deposited ₹40 lakhs in SBI account, ₹25 lakhs in HDFC account and ₹75 lakhs in Axis account during the P.Y. 2025-26.
- (ii) Mr. Kumar, aged 50 years, has withdrawn cash of ₹1,15,00,000 during the P.Y. 2025-26 from his saving account in HDFC Bank. Mr. Kumar regularly filed his return of income till A.Y. 2025-26.

#### **Answer –**

- (i) Even though the total income of an individual does not exceed the basic exemption limit, he would be required to file his return of income if
  - he has deposited an amount or aggregate of the amounts exceeding ₹1 crore in one or more current accounts maintained with a banking company or a co-operative bank during the previous year or
  - the deposit in one or more savings bank account of the person, in aggregate, is ₹50 lakhs or more during the previous year

In this case, he has deposited only ₹75 lakhs in current account in Axis account during the P.Y. 2025-26 but has deposited ₹65 lakhs in savings bank account (₹40 lakhs in SBI and ₹25 lakhs in HDFC) during the P.Y. 2025-26, hence, he is required to file a return of income for A.Y. 2026-27 on or before the due date u/s 139(1).

- (ii) If an individual has aggregate TDS and TCS credit of ₹25,000 or more during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

In this case, TDS of ₹30,000 i.e., @2% on ₹15 lakhs, would have been deducted by HDFC Bank u/s 194N on cash exceeding ₹1 crore withdrawn by Mr. Kumar during the P.Y. 2025-26. Hence, he is required to file his return of income for A.Y. 2026-27 on or before the due date u/s 139(1).

#### **MTP MAY 26**

**11.** Mr. Vineet exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12.07.2026 for A.Y. 2026-27 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21.12.2026, he realized that he had not claimed deduction u/s 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21.03.2027?

#### **Answer –**

Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2026-27 u/s 139(1), in his case, is 31st July, 2026. Since Mr. Vineet had filed his return under optional regime on 12.7.2026, the said return is within the time provided u/s 139(1).

As per section 139(5), a return furnished u/s 139(1) can be revised. Therefore, Mr. Vineet can revise the return of income filed by him u/s 139(1) in December 2026, to claim deduction u/s 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2026.

However, he cannot revise return had he discovered this omission only on 21.03.2027, since it is beyond 31.12.2026.