

Topic: Residential Status, Clubbing, Setoff & Deduction

Total Marks: 68 Marks

Time Allowed: 120 minutes

Questions

Part-A Multiple Choice Questions

[Total 36 Marks – 2 Marks for each MCQ]

1. Mr. Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during the F.Y. 2025-26 was 135 days. He is not liable to pay any tax in Dubai. Following is his details of stay in India in the preceding previous years:

Financial Year	Days of Stay in India
2024-25	100
2023-24	125
2022-23	106
2021-22	83
2020-21	78
2019-20	37
2018-19	40

What shall be his residential status for the P.Y. 2025-26 if his total income (other than income from foreign sources) is ₹ 10 lakhs?

- (a) Resident but not ordinary resident
 - (b) Resident and ordinary resident
 - (c) Non-resident
 - (d) Deemed resident but not ordinarily resident
2. Aashish earns the following income during the P.Y. 2025-26:
- Interest on U.K. Development Bonds (1/4th being received in India): ₹ 4,00,000
 - Capital gain on sale of a building located in India but received in Holland: ₹ 6,00,000
- If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2026-27?
- (a) ₹ 7,00,000
 - (b) ₹ 10,00,000
 - (c) ₹ 6,00,000
 - (d) ₹ 1,00,000

3. In case of a Member of Parliament –

- (a) Daily allowance is exempt but constituency allowance received as per applicable Rules is taxable.
- (b) Constituency allowance received as per applicable Rules is exempt but daily allowance is taxable.
- (c) Both daily allowance and constituency allowance received as per applicable Rules are taxable.
- (d) Both daily allowance and constituency allowance received as per applicable Rules are exempt.

4. Who among the following will qualify as non-resident for the P.Y. 2025-26?

- Mr. Bob, an Italian dancer, came on visit to India to explore Indian dance on 15.09.2025 and left on 25.12.2025. For past four years, he visited India for dance competition and stayed in India for 120 days each year.
- Mr. Samrat born and settled in USA, visits India each year for 100 days to meet his parents and grandparents, born in India in 1946, living in Delhi. His Indian income is Rs. 15,20,000
- Mr. Joseph, an American scientist, left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2020 till 01.07.2025

Choose the correct answer

- (a) Mr. Bob and Mr. Joseph
- (b) Mr. Samrat
- (c) Mr. Bob, Mr. Samrat and Mr. Joseph
- (d) None of the three

5. If Devam, a citizen of India, has stayed in India in the P.Y. 2025-26 for 181 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y. 2026-27 would be –

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Deemed resident but not ordinarily resident

6. Mr. Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2017. From Canada, he is managing his retail business of toys in India. For the purpose of his Indian business, he visits India every year from 1st September to 31st January. His business income is ₹ 23.50 lakhs and ₹ 18 lakhs from retail trade business in Canada and in India, respectively for the F.Y. 2025-26. He has no other income during the P.Y. 2025-26. Determine his residential status and income taxable in his hands for the A.Y. 2026-27.

- (a) Resident and ordinarily resident in India and income of ₹ 18 lakhs and ₹ 23.50 lakhs would be taxable.
- (b) Non-Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- (c) Resident but not ordinarily Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- (d) Deemed resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.

7. Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Chennai on 25th April, 2025. From the following details for the P.Y. 2025-26, what would be the residential status of Mr. Sumit for A.Y. 2026-27, assuming that his stay in India

in the last 4 previous years preceding P.Y. 2025-26 is 365 days and last seven previous years preceding P.Y. 2025-26 is 730 days?

- Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2025
- Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2025

Mr. Sumit has been filing his income tax return in India as a resident for the preceding 2 previous years.

- (a) Resident and ordinarily resident
- (b) Resident but not-ordinarily resident
- (c) Non-resident
- (d) Deemed resident but not-ordinarily resident

8. Mr. Raj makes a gift of Rs. 25,000 to his wife, Mrs. Rama, on 27.03.2025. Mrs. Rama, on 1.4.2025, invests Rs. 75,000 (Rs. 25,000 out of gift and Rs. 50,000 of her own) in a partnership firm as capital which is her total capital contribution in the firm. During the year ended 31.03.2026 she earns an interest of Rs. 12,000 and salary of Rs. 1,20,000 from the firm, both of which are approved by the partnership deed. What amount shall form part of total income of Mr. Raj for the previous year 2025-26?

- (a) Rs. 3,000 as interest on capital from firm
- (b) Rs. 4,000 as interest on capital from firm
- (c) Rs. 3,000 as interest on capital from firm and Rs. 40,000 as salary from firm.
- (d) Rs. 4,000 as interest on capital from firm and Rs. 40,000 as salary from firm.

9. Mr. A, a member of his father, Mr. C's HUF, converts his individual property into property of the HUF. If the converted property is subsequently partitioned among the members of the HUF, the income derived from such converted property as is received by Mrs. A will be taxable –

- (a) as the income of Mr. C
- (b) as the income of Mrs. A
- (c) as the income of the HUF
- (d) as the income of Mr. A

10. Mrs. Bhawna, wife of Mr. Sonu, is a partner in a firm. Her capital contribution of Rs. 10 lakhs to the firm as on 31.3.2025 included Rs. 6 lakhs contributed out of gift received from Sonu. On 1.4.2025, she further invested Rs. 2 lakh out of gift received from Sonu. The firm paid interest on capital of Rs. 1,20,000 and share of profit of Rs. 1,00,000 during the F.Y.2025-26. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct?

- (a) Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Bhawna
- (b) Share of profit is exempt but interest of Rs. 80,000 is includible in the income of Mr. Sonu and interest of Rs. 40,000 is includible in the income of Mrs. Bhawna
- (c) Share of profit is exempt but interest of Rs. 72,000 is includible in the income of Mr. Sonu and interest of Rs. 48,000 is includible in the income of Mrs. Bhawna
- (d) Share of profit to the extent of Rs. 60,000 and interest on capital to the extent of Rs. 72,000 is includible in the hands of Mr. Sonu

11. Mr. Rakesh gifted ₹ 6,00,000 to his daughter-in-law, Sudha. She invested ₹ 3,00,000 in shares in April 2025. She started a business in May 2025 with ₹ 5,00,000 (₹ 3,00,000 received from Mr. Rakesh and ₹

2,00,000 from her own savings). During the previous year 2025-26, Sudha has earned the following income:

- Business income: ₹ 90,000
- Dividend from shares: ₹ 18,000

What is the total income of Sudha for the A.Y. 2026-27?

- (a) ₹ 1,08,000
- (b) ₹ 18,000
- (c) ₹ 90,000
- (d) ₹ 36,000

12. Mr. Arpit, an employee of MNO Ltd. has contributed Rs. 1,61,280 towards NPS and similar amount is contributed by his employer. His basic salary is Rs. 80,000 p.m. and dearness allowance is 40% of basic salary which forms part of retirement benefits. He also paid Rs. 55,000 towards LIC premium for himself and his wife and medical insurance premium of Rs. 35,000 by crossed cheque for his mother, being a senior citizen during the previous year 2025-26. How much deduction is available under Chapter VI-A while computing total income of Mr. Arpit for the A.Y. 2026-27 if he exercises the option of shifting out of the default regime provided u/s 115BAC(1A)?

- (a) Rs. 3,46,280
- (b) Rs. 3,69,400
- (c) Rs. 3,19,400
- (d) Rs. 3,96,280

13. Mr. Krishna, a resident Indian aged 61 years, maintains a saving account with a co-operative land development bank and he earns Rs. 20,000 as interest on saving account for the Financial Year 2025-26. Mr. Krishna also maintains a fixed deposit and recurring deposit account with Mani Finance (A Non-Banking Finance Company) and earns Rs. 25,000 and Rs. 10,000 as interest on fixed deposit and recurring deposit, respectively. What would be the deduction allowable to Mr. Krishna under Chapter VI-A if he has exercised the option of shifting out of the default regime provided u/s 115BAC(1A) for the A.Y. 2026-27?

- (a) Rs. 55,000
- (b) Rs. 10,000
- (c) Rs. 20,000
- (d) Rs. 50,000

14. Mr. Srivastav, aged 72 years, paid medical insurance premium of Rs. 52,000 by cheque and Rs. 4,000 by cash during May, 2025 under a Medical Insurance Scheme of the General Insurance Corporation. The above sum was paid for insurance of his own health. If he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A), he would be entitled to a deduction u/s 80D of a sum of –

- (a) Rs. 30,000
- (b) Rs. 50,000
- (c) Rs. 52,000
- (d) Rs. 56,000

15. Mr. X has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.3.2018 and unit in DTA from 15.6.2019. Total turnover of Mr. X and Unit in DTA is Rs. 8,50,00,000 and Rs. 3,25,00,000, respectively. Export sales of unit in SEZ and DTA is Rs. 3,50,00,000 and Rs. 1,25,00,000, respectively and net profit of Unit in SEZ and DTA is Rs. 80,00,000 and Rs. 45,00,000, respectively. Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2026 is Rs. 2,50,00,000. Assuming that Mr. X would file his return on or before 31.10.2026

exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA for P.Y. 2025-26 of an amount equal to

- (a) Rs. 38,09,524
- (b) Rs. 19,04,762
- (c) Rs. 23,52,941
- (d) Rs. 11,76,471

16. Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	Amt. (in Rs.)
Income from Salary (computed)	4,00,000
Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2025-26	(-) 2,30,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. Arpan for the A.Y. 2026-27 and the amount of loss that can be carried forward for the subsequent assessment year if he pays tax u/s 115BAC?

- (a) Total income Rs. 2,00,000 and loss from house property of Rs. 2,50,000 and business loss of Rs. 20,000 to be carried forward to subsequent assessment year.
- (b) Total income Rs. 1,60,000 and loss from house property of Rs. 2,30,000 to be carried forward to subsequent assessment year.
- (c) Total income Rs. 4,00,000 and business loss of Rs. 20,000 to be carried forward to subsequent assessment year.
- (d) Total income is Nil and loss from house property of Rs. 70,000 to be carried forward to subsequent assessment year.

17. Virat runs a business of manufacturing of shoes since the P.Y. 2023-24. During the P.Y. 2023-24 and P.Y. 2024-25, Virat had incurred business losses. He also has unabsorbed depreciation. For P.Y. 2025-26, he earned business profit (computed) of Rs. 3 lakhs. Considering he may/may not have sufficient business income to set off his earlier losses and unabsorbed depreciation, which of the following order of set off shall be considered: (He does not have income from any other source)

- (a) First adjustment for loss of P.Y. 2023-24, then loss for P.Y. 2024-25 and then unabsorbed depreciation.
- (b) First adjustment for loss of P.Y. 2024-25, then loss for P.Y. 2023-24 and then unabsorbed depreciation.
- (c) First adjustment for unabsorbed depreciation, then loss of P.Y. 2024-25 and then loss for P.Y. 2023-24.
- (d) First adjustment for unabsorbed depreciation, then loss of P.Y. 2023-24 and then loss for P.Y. 2024-25.

18. During the A.Y. 2025-26, Mr. A, exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A), has a loss of Rs. 8 lakhs under the head "Income from house property" which could not be set off against any other head of income as per the provisions of section 71. The due date for filing return of income u/s 139(1) in case of Mr. A has already expired and Mr. A forgot to file his return of income within the said due date. However, Mr. A filed his belated return of income for A.Y. 2025-26. Now, while filing return of income

for A.Y.2026-27, Mr. A wishes to set off the said loss against income from house property for the P.Y. 2025-26. His income from house property (computed) for the P.Y. 2025-26 is Rs. 5 lakhs and interest on bank fixed deposits is Rs. 1 lakh. Determine whether Mr. A can claim the said set off.

- (a) No, Mr. A cannot claim set off of loss of Rs. 8 lakhs during A.Y. 2026-27 as he failed to file his return of income u/s 139(1) for A.Y. 2025-26.
- (b) Yes, Mr. A can claim set off of loss of Rs. 2 lakhs, out of Rs. 8 lakhs, from his income from house property during A.Y. 2026-27 and the balance loss of Rs. 6 lakhs has to be carried forward to A.Y.2027-28.
- (c) Yes, Mr. A can claim set off of loss of Rs. 2 lakhs, out of Rs. 8 lakhs, from his income from any head during A.Y. 2026-27 and the balance loss of Rs. 6 lakhs has to be carried forward to A.Y.2027-28.
- (d) Yes, Mr. A can claim set off of loss of Rs. 5 lakhs during A.Y. 2026-27 from his income of Rs. 5 lakhs from house property and the balance loss of Rs. 3 lakhs has to be carried forward to A.Y.2027-28.

Part-B Descriptive Questions**[Total 32 Marks]**

1. Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2026:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the Gross Total income of Mrs. Rosy and Mrs. Mary for the Assessment Year 2026-27 and tax thereon. Assume both opted out from section 115BAC. **[5 Marks]**

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

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

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

[6 Marks]

3. 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.

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

[7 Marks]

4. Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2025-26:

Mr. Suraj

- (i) Salary received as a partner from a partnership firm - ₹ 6,15,000

He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).

- (ii) Income (loss) from house property:

Brought forward loss from House -A (let out) - ₹ 96,000

Current year loss from House B (let out) - ₹ 2,30,000

- (iii) Interest received on enhanced compensation - ₹ 2,00,000

It relates to transfer of a piece of land in the financial year 2020-21.

Out of the above ₹ 35,000 relates to previous year 2025-26 and the balance relate to preceding previous year.

- (iv) Gift from grandfather's younger sister by cheque - ₹ 1,25,000

- (v) Dividend on listed equity shares of domestic companies (Gross) - ₹50,000

- (vi) On 1st December 2025, Mr. Suraj received ₹75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2012. He paid ₹ 6,00,000 as annual premium and the sum assured was ₹65 lakhs.

Mrs. Megha

- (i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - ₹ 8,10,000.

- (ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1st April, 2025 out of love and affection. The FMV of the house on the date of transfer was ₹ 51 lakhs.

Master Dev

Rent received from house property received from Mrs. Megha - ₹ 35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2026-27 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item.

[7 Marks]

5. 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:

- (i) Remuneration received as a partner from partnership firm "A" - ₹ 9.7 lakhs (Deductible while computing the income of the firm).
- (ii) Loss from intra-day trading in shares of Indian companies listed on a recognised stock exchange (no delivery of shares was taken) - ₹ 4 lakhs.
- (iii) Income from the activity of owning and maintaining race horses - ₹ 7 lakhs.
- (iv) Long term capital gains on sale of property (computed as per the provisions of the Income-tax Act, 1961) - ₹ 9.2 lakhs.
- (v) Interest paid on loan taken for repair of self-occupied house property - ₹ 1.2 lakhs.

- (vi) 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.
- (vii) Share of loss from partnership firm "B" - ₹ 1.1 lakhs.
- (viii) Loss on betting - ₹ 0.20 lakhs.
- (ix) Interest on fixed deposit (gross) - ₹ 0.80 lakhs. The fixed deposit of ₹10 lakhs was gifted to her by her father-in-law on 01.04.2024.

Following are the losses brought forward:

- (i) Long term capital loss on sale of unlisted shares (pertaining to A.Y. 2025-26) - ₹ 3.8 lakhs.
- (ii) 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 AY 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.

[7 Marks]