

child includible in the hands of the parent. Further, lottery income is subject to tax at a flat rate of 30%, and hence, if any exemption is allowed in respect of such income, it would reduce the tax liability and the effective rate of tax.

Question 4

PYP July'21, MTP Oct '23

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" form scholarship received from his school	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024-25 assuming that they have not opted to be taxed under section 115BAC. **5 Marks**

Answer:

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2024-25

Particulars		Mr. Dharmesh	Mrs. Anandi
		Amount (₹)	
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total Income before including income of minor children		17,50,000	9,60,000
Income of minor son "A"			
Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]			
Income of minor son "B"			
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		-	
Income from fixed deposit with PNB	5,000		
[Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]			
Less: Exemption under section 10(32)	1,500	3,500	
Income of minor daughter "C"			



Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]			
Hence, clubbing provisions will not apply in this case/no adjustment is required.			
Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]			
Hence, clubbing provisions will not apply in this case / no adjustment is required.		Nil	
Gross Total Income/ Total Income		17,53,500	9,60,000

Note - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16). Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialized knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

Question 5

PYQ May'18

Mr. Madhab made a gift of ₹ 2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31st March 2023, which he deposited in a fixed deposit account in a Nationalized bank at 10% interest p.a. 'compounded' annually. The balance in this account as on 1st April, 2023 was ₹ 2,75,000 and the bank credited a sum of ₹ 27,500 as interest on 31st March, 2024. Madhav's father gifted equity shares worth ₹ 50,000 of an Indian company to Master Manan, another son of Mr. Madhab (Date of birth 10th April, 2016) in July 2016 which were purchased by him on 8th December, 2010 for ₹ 80,000. Manan received a dividend of ₹ 5,000 on these shares in October 2023. He sold these shares on 1st November, 2023 for ₹ 5,00,000 and deposited ₹ 3,00,000 in a company at 15% interest per annum.

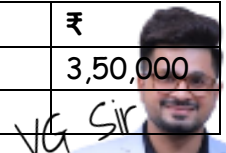
Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2010-11	167
2017-18	272
2023-24	348

Mr. Madhab has a taxable income of ₹ 3,50,000 from his profession during the financial year 2023-24 Compute his Gross Total Income for the A.Y. 2024-25.

5 Marks**Answer:****Computation of Gross Total Income of Mr. Madhab for the A.Y. 2024-25**

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			



Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [$\text{₹ } 80,000 \times 348/167$]	1,66,707	3,33,293	
Income from Other Sources			
Dividend of ₹ 80,000 on equity shares [Exempt u/s 10(34)] (taxable in the hands of shareholder as per amendment)	- 80,000		
Interest on company deposit [$\text{₹ } 3,00,000 \times 15\% \times 5/12$]	18,750	98,750	
		4,32,043	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	4,30,543
Gross Total Income			7,80,543

Notes:

- As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 27,500 arising to handicapped son, Master Tapan, would not be clubbed with the income of Mr. Madhav
- Income of the other minor child, Master Manan, is includible in the hands of Mr. Madhav, assuming that Mr. Madhav's income is higher than that of his wife.
- In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Manan held the asset, i.e., F.Y.2010-11, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

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

Particulars	₹	₹	₹
Income from profession			3,50,000
Income of minor son Manan			
Capital gains			
Full value of consideration	5,00,000		
Less: Indexed Cost of Acquisition [$\text{₹ } 80,000 \times 348/113$]	2,46,372	2,53,628	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)] (taxable in the hands of shareholder as per amendment)	80,000		
Interest on company deposit [$\text{₹ } 3,00,000 \times 15\% \times 5/12$]	18,750	98,750	
		3,52,378	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	
			3,50,878
Gross Total Income			7,00,878



Question 6

On 10th April, 2018, Mr. Mayur made a gift of ₹ 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a fixed deposit account in a Nationalized bank. The bank credited a sum of ₹ 42,500 as interest on fixed deposit on 31st March, 2024. Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19th June, 2016) in September 2016 which were purchased by him on 18th December, 2004 for ₹ 95,000. Tejas received a dividend of ₹ 10,000 on these shares in October 2023. He sold these shares on 1st December, 2023 for ₹ 4,80,000 and deposited ₹ 3,10,000 in a company at 14% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2011-12	184
2018-19	280
2016-17	264
2023-24	384

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2023-24. Compute his Gross Total Income for the A.Y. 2024-25

Answer:

Computation of Gross Total Income of Mr. Mayur for the A.Y. 2024-25

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 × 384/264]	1,38,182	3,41,818	
Income from Other Sources			
Dividend of ₹ 10,000 on equity shares [Exempt u/s 10(34)] As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any other person. DDT has been abolished.	- 10,000		
Interest on company deposit [₹ 3,10,000 × 14% × 4/12]	14,467	24,467	
		3,66,285	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	3,64,785
Gross Total Income			8,14,785

Notes:

- As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable



in the hands of the minor child. Therefore, in this case, interest income of ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur

2. Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.

3. In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2016-17, as per the definition given in clause (iii) of Explanation below section 48. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

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

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 × 348/113]	2,92,566	1,87,434	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
As per amendment dividend u/s 2(22)(a)/(b)/(c)/(d)/(e) from an Indian Company will now be taxable normal rates in the hands of the Shareholder Assesses. Interest Income incurred to earn such income will be allowed as a deduction but only up to 20% of such income. No deduction of commission/remuneration paid to any another person. DDT has been abolished)	10,000		
Interest on company deposit [₹ 3,10,000 × 14% × 4/12]	14,467	24,467	
		2,11,901	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	2,10,401
Gross Total Income			6,60,401

Difficulty

Question 1

MTP Aug'18

Mr. Shashank is an employee of KML (P) Ltd. drawing a monthly salary of ₹ 30,000. He provides you the following information for the previous year 2023-24:

- He had a fixed deposit of ₹ 4,00,000 with State Bank of India with interest @10%. He instructed bank to credit such interest on deposit to the saving account of Mr. Ram, his sister's son, to help him in his higher education.
- He gifted a flat to Mrs. Kajal (wife of Mr. Shashank) on April 1, 2023. During the previous year 2023- 24, she received a rent of ₹ 20,000 p.m. from letting out the flat.



(iv) He gifted ₹ 10,00,000 to M₹ Kajal on 1st April, 2023 which Mrs. Kajal invested in her business on the same day. Capital in the business before such investment was ₹ 20,00,000. She earned profits from business for the financial year 2023-24 of ₹ 9,00,000.

(v) His minor son Sandeep earned income from company deposit of ₹ 1,50,000.

Mr. Shashank and Mrs. Kajal do not have any other income during the P.Y. 2023-24.

Compute the total income of Mr. Shashank and Mrs. Kajal for A.Y. 2024-25.

6 Marks

Answer:

Computation of Total income of Mr. Shashank and Mrs. Kajal for the A.Y. 2024-25

Particulars	Mr. Shashank (₹)	Mrs. Kajal (₹)
Salary income (₹ 30,000 × 12) Less standard deduction ₹ 50,000 (As per amendment)	3,10,000	
Income from house property [₹ 2,40,000 (₹ 20,000 × 12) less standard deduction of 30%] (Note 1)	1,68,000	
Income from other sources		
Interest on fixed deposit with State bank of India (₹ 4,00,000 × 10%) (Note 2)	40,000	
Profits and gains from business or profession		
Profits earned by M₹ Kajal from her business (Note 3)	3,00,000	6,00,000
Income before including income of minor child under section 64(1A)	8,18,000	6,00,000
Income from other sources		
Minor son Sandeep - Income from company deposit (Note 4)	1,48,500	
Total income	9,66,500	6,00,000

Notes:

1. According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Shashank shall be deemed to be the owner of the flat gifted to Mrs. Kajal and hence, the income arising from the same shall be computed in the hands of Mr. Shashank.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of M₹ Kajal, since she has received immovable property without consideration from a relative i.e., her husband.

2. As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 40,000 transferred by Mr. Shashank to Mr. Ram shall be included in the total income of Mr. Shashank.

3. Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case Mrs. Kajal received a gift of ₹ 10,00,000 on 1.4.2023 from her husband which she invested in her business on the same day. The income to be clubbed in the hands of Mr. Shashank for the A.Y. 2024-25 is computed as under:

Particulars	M₹ Kajal's capital contribution (₹)	Capital contribution out of gift from Mr. Shashank (₹)	Total (₹)
Capital as on 1.4.2023	20,00,000	10,00,000	30,00,000
Profit for P.Y. 2023-24 to be apportioned on the basis of capital	6,00,000 (9,00,000 × 2/3)	3,00,000 (9,00,000 × 1/3)	9,00,000



employed on the fit day of the previous year i.e. as on 1.4.2023 (2:1)

Therefore, the income to be clubbed in the hands of Mr. Shashank for the A.Y.2024-25 is ₹ 3,00,000.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of M^{rs} Kajal, since she has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e, her husband.

4. As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 1,50,000 received by minor son Sandeep from company deposit shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Shashank, since Mr. Shashank's income of ₹ 8,68,000 (before including the income of the minor child) is greater than M^{rs} Kajal's income of ₹ 6,00,000. Therefore, ₹ 1,48,500 (i.e., ₹ 1,50,000 - ₹ 1,500) shall be included in Mr. Shashank's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Question 2

PYQ. Nov'20

Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2024- 25 from the following:

- Salary received by Shri Ram Kumar from a company ₹ 1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹ 2,40,000 per annum.
- Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2019 for adequate consideration. The rent received from this let-out flat is ₹ 9,000 per month.
- Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹ 36,000 and Smt. Ram Kumar received ₹ 64,000 as interest from the firm and also had a share of profit of ₹ 12,000 and ₹ 26,000 respectively.
- Smt. Ram Kumar transferred 10% debentures worth ₹ 3,00,000 to Shri Ram Kumar. The whole amount of ₹ 3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹ 39,000.
- Mother of Shri Ram Kumar transferred a property to Master Rohitha (son of Shri Ram Kumar) in the year 2018. Master Rohitha (aged 13 years) received ₹ 15,000 as income from this property on 20th February, 2024.

6 Marks

Answer:

Computation of Gross Total Income of Shri Ram Kumar and Smt. Ram Kumar for A.Y. 2024-25

Particulars	Shri Ram Kumar		Smt. Ram Kumar	
	₹	₹	₹	₹
Salary	1,80,000		2,40,000	
Less: Standard deduction	50,000	1,30,000	50,000	1,90,000
Income from house property				
Rent received (taken as annual value in the absence of other information)	45,000		63,000	
Less: Deduction u/s 24(a)@30% of Annual Value	13,500	31,500	18,900	44,100
Note - Clubbing provisions are not attracted since the transfer to spouse is for adequate consideration. Therefore, the rent for the 5 months				
5 No tax is payable u/s 112A in respect of LTCG of ₹ 50,000, since the same is less than ₹ 1,00,000				



up to the date of transfer is taxable in the hands of Ram Kumar and thereafter, in the hands of his wife.				
Profits and gains of business or profession				
Share of profit from firm [Exempt under section 10(2A)]	-		-	
Interest from firm (assumed that the same is fully deductible in the hands of the firm)	36,000	36,000	64,000	64,000
Income from other sources				
Interest on debentures (interest@10% on debentures transferred to Shri Ram Kumar without consideration to be included in the hands of the transferor- spouse, Smt. Ram Kumar) = 10% of ₹ 3 lakh (See Note 1 below)	-		30,000	
Income from investments [₹ 39,000 × 3,00,000/3,30,000] (The clubbing provisions will apply even if the form of the asset is changed. If the debentures are redeemed and invested in similar investments, income from ₹ 3 lakh invested (being the value of debentures transferred) alone will be included in the hands of the transferor- spouse, Smt. Ram Kumar. Income from accretion to such debentures (i.e., income earned by investing debenture interest of ₹ 30,000 will not be included in the hands of Smt. Ram Kumar. The same i.e., ₹ 3,545, will be taxable in the hands of the Shri Ram Kumar himself) (See Note 1 below)	3,545	3,545	35,455	65,455
Total income (before including minor's income)		2,01,045		3,63,555
Income of minor son Rohitha to be included in Smt. Ram Kumar's income, since her total income before including minor's income is higher than that of her husband. She is eligible for exemption of ₹ 1,500 u/s 10(32) in respect of the income so included. Therefore, income to be included in her income is ₹ 13,500 (₹ 15,000 - ₹ 1,500) (See Note 2 below)				13,500
Total Income		2,01,045		3,77,055

Note -

- In respect of transfer of debentures by Smt. Ram Kumar to Shri Ram Kumar, it is not mentioned whether the transfer is for adequate consideration or not. Moreover, the date of transfer is also not given. The above solution is given on the assumption that transfer is for inadequate consideration. However, if it is assumed that transfer is for adequate consideration, the clubbing provisions would not be attracted. In such case, the interest on Debentures of ₹ 30,000 as well as income from investment of ₹ 39,000 will be taxable in the hands of Shri Ram Kumar.
- In respect of property transferred to Rohitha, the question simply states ₹ 15,000 as the income from property, without mentioning the nature of income (whether rental income or otherwise) or nature of property (whether house property or otherwise). Therefore, the said amount has not been treated as income from house property and deduction u/s 24(a) has not been provided in the above solution.

VG SIR



However, if such sum is treated as income from house property, the income to be included in Smt. Ram Kumar's income would be ₹ 9,000 [₹ 15,000 - ₹ 4,500 (30% of ₹ 15,000 allowable as deduction u/s 24(a)) - ₹ 1,500 (exemption u/s 10(32)], and the same would be included under the head "Income from house property". Consequently, her total income would be ₹ 3,72,555.

Question 3

PYQ May '23

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- Mr. Chaman's salary income - ₹ 11,00,000
- Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2023-24. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2023-24.
- Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of up to 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2024-25. Ignore section 115BAC pertaining to alternative tax regime. **6 Marks**

Answer:

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2024-25

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	₹	₹	₹	₹
Income under the head "Salaries" Salaries (computed)	11,00,000			
Profits and gains from business or profession Income from Kathak performances		2,50,000		
Capital Gains Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] [Refer Note 1 and 2 below]		2,00,000		



The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		
Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since			3,56,000	
such income arises from her own skills/talent. However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500] ⁵	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income				
	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A -Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
Under section 80U - Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note - (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2023 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words "invested the entire amount in the stock market" in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.



Multiple Choice Questions

Question 1

MTP Oct'21

Mr. Vishal started a proprietary business on 01.04.2022 with a capital of ₹5,00,000. He incurred a loss of ₹ ₹ 1,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Kamini, a Chartered Accountant, gave a gift of ₹ 4,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vishal. He earned a profit of ₹ 2,00,000 during the year 2023-24. What is the amount to be clubbed in the hands of M₹ Kamini for the Assessment Year 2024-25?

- a) ₹ 88,888
- b) ₹ 1,00,000
- c) ₹ 2,00,000
- d) Nil

Question 2

MTP April'22

Mr. Raj Makes a gift of ₹ 25,000 to his wife, Mrs. Rama, on 27.03.2023. M₹ Rama, on 2.4.2023, invests ₹ 75,000 (25,000 out of gift and 50,000 of her own) in a partnership firm as capital which is her total capital contribution in the firm. During the year ended 31.03.2024 she earns an interest of ₹ 12,000 and salary of ₹ 1,20,000 from the firm. What amount shall form part of total income of Mr. Raj for the previous year 2023-24?

- a) ₹ 3,000 as interest on capital from firm
- b) ₹ 3,000 as interest on capital from firm and ₹40,000 as salary from firm
- c) ₹ 4,000 as interest on capital from firm and ₹40,000 as salary from firm
- d) Nil

Question 3

MTP Sep'22

Pankaj gifted an amount of ₹ 3,00,000 to his wife, Nikki and ₹ 2,00,000 to his daughter, Pinki aged 20 years, on 1st April 2020. Both Nikki and Pinki invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Nikki for A.Y. 2024-25?

- a) ₹ 4,473
- b) ₹ 12,132
- c) ₹ 33,000
- d) Nil

Question 4

MTP March'23

Mrs. Archana, wife of Mr. Raj, started a business of trading in beauty products on 15.5.2023. She invested ₹ 5 lakhs in the business on 15.5.2023 out of gift received from her husband, Mr. Raj. She further invested ₹ 4 lakhs from her own savings on 15.12.2023. She earned profits of ₹ 1,50,000 from her business for the financial year 2023-24. Which of the following statements is correct?

- a) Share of profit of ₹ 1,50,000 is includible in the hands of Mrs. Archana.
- b) Share of profit of ₹ 66,667 is includible in the hands of Mr. Raj and share of profit of ₹ 83,333 is includible in the hands of Mrs. Archana.
- c) Share of profit of ₹ 83,333 is includible in the hands of Mr. Raj and share of profit of ₹ 66,667 is includible in the hands of Mrs. Archana.
- d) Share of profit of ₹ 1,50,000 is includible in the hands of Mr. Raj.

VG Sir



Question 5

RTP May '19

Ram owns 500, 15% debentures of Reliance Industries Ltd. of ₹ 500 each. Annual interest of ₹ 37,500 was declared on these debentures for P.Y. 2023-24. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2024-25, Shyam showed ₹ 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

- Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
- No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.
- Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.
- No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

Answers

1	2	3	4	5					
b	d	b	d	b					



Chapter 5: Aggregation of Income, Set-off and carry forward of losses

Descriptive Questions

Easy

Question 1

MTP Sep'22

Mr. Gaurav, a resident individual, furnishes the following particulars of his income and other details for the previous year 2023-24:

	₹
Income from Salary (computed)	22,00,000
Business loss before providing current year depreciation (Business discontinued on 31.5.2023)	1,00,000
Current year depreciation	50,000
Interest from Fixed Deposit	10,15,000
Interest on loan in respect of self-occupied property	2,35,000
Income from specified business (Not eligible for deduction under section 35AD)	20,000

Brought forward losses (Pertaining to A.Y. 2023-24)

Unabsorbed depreciation	45,000
Loss from specified business (eligible for deduction under section 35AD)	20,000

You are required to compute his gross total income for the A.Y. 2024-25 in such a way that his tax liability is minimised.

4 Marks

Answer:

Computation of gross total income of Mr. Gaurav for A.Y.2024-25

Particulars	₹	₹
Income from Salary (Computed)	22,00,000	
Less: Loss from self-occupied house property (on account of interest deduction up to ₹ 2,00,000) [Loss from house property can be set-off against salary income as per section 71(1)]	2,00,000	20,00,000
Profits and gains from business and profession		
Income from specified business [not eligible for deduction u/s 35AD]	20,000	
Less: Set-off of brought forward loss from specified business [eligible for deduction u/s 35AD] allowable as per section 73A	(20,000)	Nil
[Brought forward loss from specified business eligible for deduction u/s 35AD can be set-off against income from any specified business, whether or not the same is eligible for deduction u/s 35AD]		
Income from Other Sources		



Interest from fixed deposit	10,15,000	
Less: Current year business loss set-off [Inter-head set-off is permissible by virtue of section 71(1). Hence, current year business loss can be set-off against interest income from fixed deposit]	1,00,000	
	9,15,000	
Less: Current year depreciation	50,000	
	8,65,000	
Less: Unabsorbed depreciation under section 32(2) [Can be set-off against any head of income other than Salaries]	45,000	
		8,20,000
Gross Total Income		28,20,000

Question 2

RTP May '22

Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2023-24

Particulars	Amount (₹)
Income from Salary	3,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,15,000)
Loss from let out property in Delhi	(75,000)
Interest on self-acquired property in Mumbai	(50,000)
Winnings from lottery tickets	40,000
Cost of acquisition of lottery tickets	10,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000)	96,000
Long term capital gains on sale of house property	1,40,000

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2023-24 are as follow:

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

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2024-25 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time.

Answer:

Particulars	Amount (₹)	Amount (₹)
Income from Salary	3,40,000	
Less: Loss under the head "Income from house property" [Loss from house Property is not allowed to be set off with any other head of income since Mr. Rajesh is opting for section 115BAC]	-	3,40,000
Income from house property		
Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Rajesh is opting for section 115BAC]	-	
Loss from let out property [Carried forward to A.Y. 2025-26]	(75,000)	-



Profit and gains from business or profession		
Profit and gains from manufacturing business	96,000	
Add: Additional depreciation not allowable in case of section 115BAC	4,000	
	1,00,000	
Less: Brought forward loss from manufacturing business	35,000	
Less: Unabsorbed normal depreciation	10,000	55,000
Capital Gains		
Long term capital gains on sale of house property	1,40,000	
Less: long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	(1,15,000)	25,000
Income from Other Sources		
Winnings from lottery tickets		40,000
Gross Total Income		4,60,000

Losses to be carried forward to A.Y. 2025-26

Particulars	Amount (₹)
Loss from let out property in Delhi	75,000
Loss from the activity of owning and maintaining the race horses	50,000

Notes -

- As per section 74A (3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
- As per section 58, no expenditure is allowed from the lottery winnings.

Question 3

PYQ Nov'19, MTP Sep '23

Following are the details of incomes/losses of Mr. Rishi for the F.Y. 2013-14:

(Figures in brackets represents losses)	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources:	
from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2024-25.

5 Marks



Answer:

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

Particulars	₹	₹
Salary Income (computed)	3,60,000	
Less: Set-off of loss from house property ₹ 2,20,000, restricted to	2,00,000	1,60,000
Income from House Property		
Income from Property X	1,20,000	
Less: Loss from Property Y [inter-source set-off is permitted under section 70(1)]	3,40,000	
Loss from house property	2,20,000	
Less: Loss eligible for set-off against salary income as per section 71(3A), restricted to	2,00,000	
Loss to be carried forward to A.Y. 2025-26 as per section 71B, for set-off against income from house property, if any, in that year.	(20,000)	
Profits and gains of business or profession		
Income from business P	2,30,000	
Less: Loss from business Q (inter-source set-off is permitted)	12,000	2,18,000
Income from speculation business R	15,000	
Less: Loss from speculation business T [can be set-off only against income from speculation business as per section 73(1)]	25,000	
Loss to be carried forward to A.Y. 2025-26 for set-off against speculative business income of that year by virtue of section 73(2).	(10,000)	
Income from Other Sources		21,00
Income from card games	16,000	
Interest on securities	5,000	
Loss from owning & maintaining race horses [Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to A.Y. 2025-26 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)]	(7,000)	
Gross Total Income		3,99,000

Note: Loss from house property of ₹ 2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be ₹ 3,60,000 and business income would be ₹ 18,000. Gross total income would remain the same. Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible.

Question 4

PYQ July'21, MTP Oct '23

Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2024:

S. No.	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000



(ii)	Income from House Property	
	- House in Delhi	22,000
	-House in Chennai	(-) 2,60,000
	-House in Mumbai (self-occupied)	(-) 20,000
(iii)	Profit and gains from business or profession	
	-Textile business	18,000
	-Cosmetics business	(-) 22,000
	-Speculative business- 1	(-) 74,000
	-Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	-Income from betting	34,000
	-Income from card games	46,000
	-Loss on maintenance of race horses	(-)14,600

Determine the gross total income of Mr. X for the assessment year 2024-25 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC **5 Marks**

Answer:

a. Computation of Gross Total Income of Mr. X for A.Y. 2024-25

Particulars	Amount	Amount
Salaries		
Income from salary (computed)	2,22,000	
Less: Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)	2,00,000	22,000
Income from house property		
-House in Delhi	22,000	
-House in Chennai	(2,60,000)	
-House in Mumbai (self-occupied)	(20,000)	
Loss up to ₹ 2 lakhs can be set off against income from salary. Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2025-26.	(2,58,000)	
Profits and gains from business or profession		
Profits from Speculative business - 2	46,000	
Less: Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set- off against any income other than profit and gains of another speculation business. Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2025-26.	(46,000)	
		-

