

STUDY MATERIAL

PROFESSIONAL PROGRAMME

**ADVANCED DIRECT
TAX LAWS & PRACTICE**

GROUP 1

ELECTIVE PAPER 4.5



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

© THE INSTITUTE OF COMPANY SECRETARIES OF INDIA

Timing of Headquarters :

Monday to Friday
Office Timings : 9.00 A.M. to 5.30 P.M.

Public Dealing Timings :

Without financial transactions – 9.30 A.M. to 5.00 P.M.
With financial transactions – 9.30 A.M. to 4.00 P.M.

Phones :

011-45341000 / 0120-4522000

Website :

www.icsi.edu

E-mail :

info@icsi.edu / academics@icsi.edu

For any suggestions/clarifications students may write to *academics@icsi.edu*

Disclaimer

Although due care and diligence have been taken in preparation of this Study Material, the Institute shall not be responsible for any loss or damage, resulting from any action taken on the basis of the contents of this Study Material. Anyone wishing to act on the basis of the material contained herein should do so after cross checking with the original source.

Laser Typesetting by :

AArushi Graphics, Prashant Vihar, New Delhi

PROFESSIONAL PROGRAMME

ADVANCED DIRECT TAX LAWS & PRACTICE

The roles & duties of Company Secretary are very important in a business origination. In the Context of Direct Tax Laws, a Company Secretary is responsible for ensuring that a company meets its all legal and statutory requirements regularly, such as filing or managing tax returns timely, maintaining records and relevant documents related thereto. The Company Secretary can also act as an authorized representative before the Income tax authority with respect to assessment and appeals matter.

Keeping in mind the versatile role of Company Secretary in present era, the faculty of the Directorate of Academics publish this study material to aid the students in preparing for the Advanced Direct Tax Laws and Practice paper of the CS Professional Programme. It is part of the educational kit and takes the students step by step through each phase of preparation stressing key concepts, pointers and procedures. Company Secretaryship being a professional course, the examination standards are set very high, with emphasis on knowledge of concepts, applications, procedures and case laws, for which sole reliance on the contents of this study material may not be enough. Besides, as per the Company Secretaries Regulations, 1982, students are expected to be conversant with the amendments to the laws applicable for relevant examination. The material may, therefore, be regarded as the basic material and must be read along with the original Bare Acts, Rules, Orders, Case Laws, Student Company Secretary e-bulletin published and supplied to the students by the Institute every month as well as recommended readings given with each study lesson.

The subject of Advanced Direct Tax Laws & Practice is inherently dynamic and is subjected to constant refinement through new primary legislations, rules and regulations made thereunder and court decisions on specific legal issues. It therefore becomes necessary for every student to constantly update himself with the various changes made as well as judicial pronouncements rendered from time to time by referring to the Institutes journal 'Chartered Secretary' and 'Student Company Secretary e-bulletin' as well as other law/professional journals on tax laws. The purpose of this study material is to impart conceptual understanding to the students of the provisions of the Direct Tax covered in the Syllabus.

The legislative changes made upto October 31, 2025 have been incorporated in the study material. In addition to Study Material, students are advised to refer to the updations at the Regulator's website, supplements relevant for the subject issued by ICSI and ICSI Journal Chartered Secretary and other publications. Specifically, students are advised to read "Student Company Secretary" e-Journal which covers regulatory and other relevant developments relating to the subject, which is available at academic portal <https://www.icsi.edu/academic-portal/>. In the event of any doubt, students may contact the Directorate of Academics at academics@icsi.edu.

The amendments to law made upto 31st May of the Calendar Year for December Examinations and upto 30th November of the previous Calendar Year for June Examinations shall be applicable.

Although due care has been taken in publishing this study material, the possibility of errors, missions and /or discrepancies cannot be rules out. This publication is released with an understanding that the Institute shall not be responsible for any errors, omissions and/or discrepancies or any action taken in that behalf.

Note: This study material is based on Finance Act, 2025 applicable for Assessment Year 2026-27. Besides, as per the Company Secretaries Regulation, 1982, students are expected to be conversant with the amendments to the laws applicable for respective exam.

PROFESSIONAL PROGRAMME
Group 1 • Elective Paper 4.5
ADVANCED DIRECT TAX LAWS & PRACTICE

SYLLABUS

OBJECTIVES: To acquire expert knowledge on practical application of Direct Tax Laws

Advanced Direct Tax Laws & Practice (100 Marks)

1. Computation of Total Income, Tax Liability and Filing of Returns of various entities excluding Companies

Computation of Total Income and Tax liability of Individual, Hindu Undivided Family 'HUF', Partnership Firm / LLP, Co-operative Societies, Association of Person 'AOP' and Body of Individual 'BOI', Filing of Income Tax Return, Technological aspects of tax compliances [Practical Questions, Case Laws and Case Studies]

2. Computation of Total Income, Tax Liability and Filing of Return of Companies

Computation of taxable income and tax liability of Company including Foreign Company, Filing of Return [Practical Questions, Case Laws and Case Studies]

3. Income Tax Implication on specified transactions

Taxation on Dividend Income, Slump Sale; Restructuring; Buy Back of shares; Redemption of Preference shares; Issue of shares at Premium; Transfer of shares; Reduction of share Capital; Equalization Levy, Carbon Credit [Practical Questions, Case Laws and Case Studies]

4. Tax Audit

Introduction, Provision of Section 44AB, Tax Auditor, Tax Audit Report, Analysis of various clauses in Tax Audit Report, Penalty for non-compliance

5. Assessment

Assessment, Types of Assessments, Self-Assessment, Inquiry, Scrutiny Assessment, Best Judgement Assessment, Income Escaping Assessment, Faceless Assessment

6. Appeals

Commissioner of Income Tax (CIT) Appeals, Appeals before Income Tax Appellate Tribunal (ITAT), Appeals before High Court, Appeal Before Supreme Court, Faceless Appeals, Revision of Orders

7. Transfer Pricing & General Anti Avoidance Rules "GAAR"

Introduction & Concept of Arm's Length Price; International and Specified Domestic Transaction; Transfer Pricing Methods; Advance Pricing Agreement & Roll Back Provision; Documentation and Return, Basic concept of GAAR; Impermissible avoidance arrangement; Arrangement to lack commercial substance; Application of GAAR Rule; GAAR v/s SAAR.

8. Double Taxation Avoidance Agreement (DTAA)

Introduction, Double Taxation Avoidance Agreement, Necessity for DTAA, Objectives of Tax Treaties, Juridical Double Taxation, Economic Double Taxation, Double Taxation Relief, Unilateral Relief from Double Taxation, Bilateral Relief from Double Taxation.

Annexure - Reports and Certificates under Income Tax Law

ARRANGEMENT OF STUDY LESSONS

ADVANCED DIRECT TAX LAWS & PRACTICE

Group 1 • Elective Paper 4.5

ADVANCED DIRECT TAX LAWS & PRACTICE

Sl. No. Lesson Title

1. Computation of Total Income, Tax Liability and Filing of Returns of various entities excluding Companies
2. Computation of Total Income, Tax Liability and Filing of Return of Companies
3. Income Tax Implication on specified transactions
4. Tax Audit
5. Assessment
6. Appeals
7. Transfer Pricing & General Anti Avoidance Rules “GAAR”
8. Double Taxation Avoidance Agreement (DTAA)

Annexure – Reports and Certificates under Income Tax Law

PROFESSIONAL PROGRAMME

ADVANCED DIRECT TAX LAWS & PRACTICE

An income tax is a tax that governments impose on income generated by businesses and individuals within their jurisdiction. By law, taxpayers must file an income tax return annually to determine their tax obligations. Income taxes are a source of revenue for governments. They are used to fund public services, pay government obligations, and provide goods for citizens.

Income Tax Act, 1961 provides for levy, administration, collection and recovery of Income Tax. It provides progressive rate schedule, exemption limits, and incorporates number of incentive provisions. It provides sound tax system. Rate schedule & Exemption limits are prescribed by Finance Act.

Indian tax legislative and judicial environment is constantly evolving, along with globalization, economic shifts, and operational adjustments. Businesses are faced with a tax regime with greater complexities and challenges, nonetheless moving towards a globally cohesive tax world. Now, more than ever, businesses must have an ongoing system for adapting to and staying on top of these complex changes.

The tax laws of the country undergo significant changes every year on the passing of Annual Finance Act. Apart from the amendments coming out every year through the Finance Act, there are circulars / notifications issued by the CBDT to implement the provision of the act, clarifying the scope of the provision.

The study material contains detailed provisions related to Direct Taxes and comprises of Total 8 lesson. The broad coverage of the lessons is summarized below.

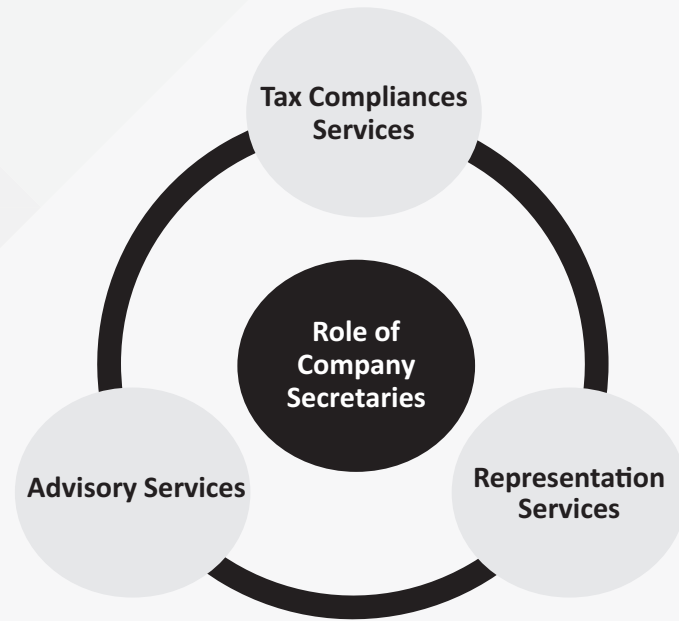
1. Computation of Total Income, Tax Liability and Filing of Returns of various entities excluding Companies
2. Computation of Total Income, Tax Liability and Filing of Return of Companies
3. Income Tax Implication on specified transactions
4. Tax Audit
5. Assessment
6. Appeals
7. Transfer Pricing & General Anti Avoidance Rules “GAAR”
8. Double Taxation Avoidance Agreement (DTAA)

Annexure – Reports and Certificates under Income Tax Law

ROLE OF COMPANY SECRETARIES IN DIRECT TAX LAW

The Company Secretaries as experienced tax professionals can assist in resolving various challenges such as keeping abreast with tax regulations, efficiently manage compliances, address uncertain tax positions, among many others. The Company Secretaries can provide with an insight into how to best work to meet the business needs.

The following are the key important areas under the direct tax regime where a Company Secretaries can play a vital role.



Tax Compliance Services:

As the complexities of businesses increase, the amount of time spent by professionals in cracking up the law codes increases. However, tax and regulatory systems of even the most developed countries cannot keep pace with the developments across each industry as businesses emerge day by day. These also bring out the requirements for new compliances and the challenges of meeting them every single day. More detailed Income Tax Return forms including disclosures on tax residency certificates and details of foreign assets, and higher penalties for non-disclosures require businesses to gear up for efficient tax compliance. Following are the areas or avenues where company secretaries can assist client:

- Assist in obtaining Permanent Account Number 'PAN No.' Tax Deduction / Collection Account Number 'TAN No.'
- Filling of Income tax Returns
- Filling of TDS / TCS returns
- Tax Payroll assistance
- Income tax clearance certificate
- Tax Residency Certificate

Advisory Services: Corporate taxation is an essential aspect of doing business in India and its importance cannot be undermined. The Company Secretaries can provide the corporate tax advisory services in the following areas:

- Establishing tax efficient Indian business presence for an MNC.
- Planning a heavy capital outlay in the existing business
- Addressing concerns about cash flow and examining tax inefficiencies
- Ensuring that the tax function is aligned with the business plan
- Assessing the impact of any tax and regulatory changes/ amendments

Representation Services: The Appellate hierarchy in India consists of assessing officer, first appellate authority, Appellate Tribunal, High Court and Supreme Court. The Company Secretaries can provide the following range of services comprise of:

- Assisting in filing appeals before the appellate authorities and complying with appellate requirements and procedure
- Determining the appeal strategy and approach and drafting of legal submissions
- In-house service of the expert counsel with experience in representation before appellate authorities
- Advising on the course of action to be adopted before revenue authorities to mitigate the risk of penal consequences
- Reviewing pending litigation and other uncertain tax positions, to comment on adequacy of defense, probability of success and prevention of recurrence
- Assisting the external legal counsel in preparing or representing for appeals, writ petition and special leave petition before the Supreme Court and court subordinate to it (High Court).

LESSON WISE SUMMARY

ADVANCED DIRECT TAX LAWS & PRACTICE

Lesson 1: Computation of Total Income, Tax Liability and Filing of Returns of various entities excluding Companies

The taxes are the basic source of revenue for the Government. Revenue raised from the taxes are utilized for meeting expense of Government like, provision for education, infrastructure facilities such as roads, dams etc. Taxes are broadly divided into two parts i.e., direct taxes and indirect taxes. The tax that is levied directly on the income or wealth of a person is called direct tax. Income tax is one of form of direct taxes. The levy of income tax in India is governed by the Income Tax Act, 1961 and Income Tax Rules, 1962. It is charged on the Total Income and to derive the total income one must know certain concepts of the Income Tax Act, such as residential status, assessment year, previous year, assessee etc. Income tax is leviable on taxable income and to determine taxable income, residential status of the person and scope of total income are the initial steps.

For calculation of income, amount received is classified under 5 heads of income; it is then to be adjusted with reference to the provisions of the income tax laws. The coverage of the lesson would include the income tax treatment with relation to individual, Hindu Undivided Families (HUF), Firms, Associations of Persons and Co-operative Societies is being discussed. The Tax implications, rates of tax and other issues relating to the above persons have been discussed elaboratory. Further, the lesson also includes the provision related to filing of Income tax Returns.

Lesson 2: Computation of Total Income, Tax Liability and Filing of Return of Companies

In the previous lessons we have learn the tax provisions of persons not being the company. Here, we will go through the income tax provisions of corporate entity. The coverage of the lesson would include the Computation of taxable income and tax liability of Company including Foreign Company. The provision relating to computation of Books Profits, Minimum Alternate Tax (MAT) etc. Further, the lesson also includes the provision related to filing of Income tax Returns in case of companies.

Lesson 3: Income Tax Implication on specified transactions

The coverage of the lesson includes:

- Tax implication on Dividend Income
- Tax implication in case of Buy Back of Shares
- Tax implication in case of Slump Sale
- Tax implication on issue of Shares at Premium
- Tax implication in case of Transfer of Shares
- The tax implication on Reduction of Share Capital
- Provision related to Equalization Levy
- Provision related to Carbon Credit
- Tax Implication in case of Restructuring of Business (Amalgamation / Merger / De-merger)

Lesson 4: Tax Audit

The provisions of Tax Audit were first introduced in the Finance Act, 1984. Tax audit is an examination or review of accounts of any business or profession carried out by taxpayers from an income tax perspective. Any business entity or an individual exceeding certain threshold limits of turnover is liable to get the accounts audited.

The coverage of the lesson includes:

- The provisions related to applicability of Tax Audit
- Objectives of Tax Audit
- Provisions related to Tax Auditor
- Tax Audit Report [Form 3CA/3CB – 3CD]
- Analysis of various clauses in Tax Audit Report
- Penalty for non-compliance

Lesson 5: Assessment

Every assessee has to submit his income details to the income tax department by filing his Income tax return. After submission of return of income, the next step is the processing of the income tax return by the income tax department. While processing, department verifies and examines the correctness of the income details provided by assessee. This process of examining the income tax return by the Income Tax Department is called “Assessment”.

The coverage of the lessons includes:

- Types of Assessment
- Self-Assessment
- Inquiry before Assessment
- Summary Assessment/Processing of Return
- Scrutiny Assessment
- Best Judgement Assessment
- Income Escaping Assessment
- Faceless Assessment
- Time Limit to complete the Assessment, Reassessment & Re-computation
- Faceless Assessment of Income Escaping Assessment
- Rectification of Mistakes

Lesson 6: Appeals

The right to appeal must be given by express enactment in the Act. Therefore, in case there is no provision in the Act for filing an appeal regarding a particular matter, no appeal shall lie. The right to appeal arises where the taxpayer is aggrieved by the order passed by the income-tax authority. However, where the Assessing Officer accepts the return filed by the tax payer and passes an order making no modification, an appeal does not lie against that order as the taxpayer cannot be said to be aggrieved of that order. Similarly, where an appellate authority accepts the contention of the taxpayer and allows the appeal, there is no further appeal by the assessee against that order.

The assessee may prefer an appeal against the orders of the Assessing Officer to the Joint Commissioner (Appeals) or Commissioner (Appeals) as the case may be, in accordance with the relevant provisions under Section 246 or 246A and appeal against the order of the Joint Commissioner (Appeals) or Commissioner (Appeals) can be preferred by the Assessee or the Income Tax Authority and such appeal lies with the Appellate Tribunal.

The assessee or CIT if not satisfied with the order of the tribunal can appeal directly to the High Court, if High Court is satisfied that the case involve a substantial question of law and if the assessee or Commissioner of Income-tax is not satisfied with the order passed by the High Court they may file an appeal against the order of the High Court to the Supreme Court. However, it should be noted that in the case of question of fact tribunal is the final & binding authority and its decision is final.

The coverage of the lessons includes:

- The provisions related to appeal before Joint Commissioner (Appeal) / Commissioner (Appeal)
- The provisions related to appeal before Income Tax Appellate Tribunal 'ITAT'
- The provisions related to appeal before High Court
- The provisions related to appeal before Supreme Court
- The provisions related to Revision of orders prejudicial to the interest of Revenue or Assessee

Lesson 7: Transfer Pricing & General Anti Avoidance Rules “GAAR”

In this lesson we will discuss the two important concept / provisions of Income Tax Laws:

Transfer Pricing Provisions in India: After the liberalization of Indian economy and easing of restrictions on the entry of foreign entities, cross border business transactions have increased manifold. With the ratification of WTO by the Government of India, our economy has become robust and an atmosphere has sprung up where FII investments in India have increased tremendously. All these economic activities have ramifications for tax laws of the country.

The Finance Act, 2001 introduced law of transfer pricing in India through Sections 92 to 92F of the Income Tax Act, 1961 which guides computation of the transfer price and suggests detailed documentation procedures.

General Anti Avoidance Rules ‘GAAR’ - Since the liberalization of the Indian economy, increasingly sophisticated forms of tax avoidance are being adopted by the taxpayers and their advisers. The problem has been further compounded by tax avoidance arrangements spanning across several tax jurisdictions. This has led to severe erosion of the tax base. Further, appellate authorities and courts have been placing a heavy onus on the Revenue when dealing with matters of tax avoidance even though the relevant facts are in the exclusive knowledge of the taxpayer and he chooses not to reveal them. This emphasises upon the need of having a general anti-avoidance rule, which will act as a dampener to such transactions in line with best practices around taxation internationally.

The coverage of the lesson would include:

- The need of GAAR provisions in India
- Impermissible avoidance agreements
- Specific anti avoidance rules
- Case study on invoking the provision of GAAR
- The exclusion of GAAR / circumstances where GAAR cannot be invoked

Lesson 8: Double Taxation Avoidance Agreement (DTAA)

A tax treaty is a bilateral agreement made by two countries to resolve issues involving double taxation of passive as well as active income. Tax treaties generally determine the amount of tax that a country can levy to a taxpayer's income, capital.

Many countries have entered into tax treaties (also called double tax agreements, or DTAs) with other countries to avoid or mitigate double taxation. Such treaties may cover a range of taxes including income taxes, inheritance taxes, value added taxes, or other taxes.

The coverage of the lesson would include:

- The meaning of Tax Treaty?
- Source Rule v/s Residence based taxation
- Types of Double Taxation
- Economic Double Taxation, Juridical Double Taxation
- Objectives and Need of DTAA
- Application of Tax Treaty
- Interpretation of Tax Treaty

CONTENTS

ADVANCED DIRECT TAX LAWS & PRACTICE

LESSON 1

COMPUTATION OF TOTAL INCOME, TAX LIABILITY AND FILING OF RETURNS OF VARIOUS ENTITIES EXCLUDING COMPANIES

Regulatory Framework	2
Introduction	2
Tax Rates for FY 2025-26 i.e. AY 2026-27	6
Calculation of Tax on Income	6
Components of Tax	6
Surcharge	7
Marginal Relief in Surcharge	8
Health and Education Cess 'HEC'	8
Special Tax Regime for Individual, HUFs, AOP, BOI, Artificial Juridical Person [Section 115BAC]	9
Special Tax Regime applicable to Co-Operative Societies [Section 115BAD]	11
Tax on Income of certain New Manufacturing Co-Operative Societies [Section 115BAE]	12
Special Tax Rates which are Taxable at Fixed Rates (Applicable for Both Regime)	12
Rebate [Section 87A]	13
Taxation of Individuals	15
Taxation of Hindu Undivided Families (HUF)	29
Position under Hindu Succession Act, 1956	32
Computation of Income of Hindu Undivided Family 'HUF'	32
Partition of a Hindu Undivided Family [Section 171]	34
Who is entitled to share on partition?	34
Assessment after partition (Section 171)	34
A partition of the HUF can be both total partition and partial partition	34
Taxation of Firms	40
Assessment as a Firm [Section 184]	41
Computation of Income and Tax Liability of Firm	42
Meaning of Book Profit [Explanation 3 to section 40(b)]	43

Assessment of Partners	46
Succession of one Firm by another Firm [Section 188]	46
Joint and Several Liabilities of Partners for Tax Payable by Firm [Section 188A]	47
Firm Dissolved or Business Discontinued [Section 189]	47
Alternate Minimum Tax (AMT) [Section 115JC]	47
Taxation of Association of Persons / Body of Individuals	69
Tax Liability of Association of Persons / Body of Individuals	70
Method of Computing Share of Member of Association of Persons / Body of Individuals [Section 67A]	72
Taxation of share of income of a member of AOP/BOI	72
Assessment in case of Dissolution of an Association of Persons [Section 177]	72
Taxation of Co-Operative Societies	74
Meaning [Section 2(10)]	74
Computation of Income of Co-operative Societies	74
Rates of Income-tax on Co-operative Society	74
Deduction in respect of Income of Co-operative Societies [Section 80P]	75
Urban Consumers' Co-operative Society	76
Assessment of Co-operative Societies	77
Income Tax Returns	83
Manner and Mode of Filing Return of Income	84
Compulsory Filing of Income Tax Return [Section 139(1)]	86
Verification of Return of Income [Section 140]	87
Self-Assessment Tax [Section 140]	88
Technological Aspects in Tax Compliances	90
Enhanced Compliance and Enforcement	91
Benefits of Technological Innovations in Tax Compliance	91
Lesson Roundup	94
Test Yourself	95
List of Further Readings	100
Other References (Including Websites and Video Links)	100

LESSON 2

COMPUTATION OF TOTAL INCOME, TAX LIABILITY AND FILING OF RETURN OF COMPANIES

Regulatory Framework	102
Background	103

Meaning of 'Company'	103
Meaning of Company [Section 2(17) of the Income-tax Act, 1961]	103
Closely Held Company	106
Tax Incidence on Companies	106
Guiding Principles for determining Place of Effective Management [POEM]	107
Some of the guiding principles for determining the POEM	109
Scope of Total Income of Companies	112
Corporate Tax Rates	112
Minimum Alternate Tax (MAT)	116
Meaning of Book Profits	117
Meaning of Book Profit for Indian Accounting Standards (Ind AS) compliant companies	120
MAT Credit [Section 115JAA]	121
Concessional Rate of MAT for IFSC unit	125
Carried Forward of MAT Credit	125
Filing of Returns by Companies [Section 139]	131
Compulsory Filing of Income Tax Return [Section 139(1)]	131
Exemption from filing Income Tax Return by Foreign Companies in certain cases	131
Conditions for claiming exemption for filing Income Tax Return	131
Return of Loss [Section 139(3)]	132
Compulsory Filing of Return of Loss for on or before the due date to carry forward and set-off certain losses	132
Belated Return [Section 139(4)]	132
Revised Return [Section 139(5)]	132
Particulars to be furnished along with return of Income in case of an assessee engaged in Business or Profession [Section 139(6)]	132
Defective Return [Section 139(9)]	133
Updated Return [Section 139(8A)]	133
Tax on Updated Return [Section 140B]	134
Interest for Default in furnishing Return of Income [Section 234A]	136
Fee for default in Furnishing Return of Income [Section 234F]	136
Verification of Return of Income in case of Companies [Section 140]	137
Lesson Roundup	138
Test Yourself	139
List of Further Readings	143
Other References (Including Websites and Video Links)	143

LESSON 3
INCOME TAX IMPLICATION ON SPECIFIED TRANSACTIONS

Regulatory Framework	146
Taxation of Dividend Income	146
Dividend Income	146
Tax Implication in case of Dividend Income	148
Exemption for inter-corporate dividend distribution within IFSC Units engaged in the aircraft leasing business [Section 10(34B)]	150
Taxability of Dividend in hands of Recipient	151
Taxable in the hands of Resident Shareholder	151
Taxability in case of Non-Resident shareholders including FPIs	151
Buy Back of Shares	151
Special provisions relating to Tax on Distributed Income of Domestic Company for Buy -Back of Shares	151
Tax Implication of Buy Back of Shares	152
Slump Sale	153
Special provision for computation of Capital Gains in case of Slump Sale [Section 50B]	154
Related Rule(s)	155
Related Form(s)	155
Slump Sale and Capital Gain Tax	155
Issue of Shares at Premium	157
Transfer of Shares	161
Special provision for full value of consideration for transfer of share other than quoted share [Section 50CA]	161
Mode of Computation [Section 48]	161
Reduction of Share Capital	163
Capital Gain Tax	164
Questions for Practice	165
Carbon Credit [Section 115BBG]	169
Equalisation Levy	169
Charge of Equalisation levy on specified services [Section 165]	170
Charge of Equalisation levy on e-commerce supply of services [Section 165A]	170
Collection and recovery of Equalisation levy on specified services [Section 166]	171
Collection and recovery of Equalisation levy on e-commerce supply or services [Section 166A]	171

Furnishing of Statement [Section 167]	172
Aspects of Amalgamations, Mergers and Demergers	174
Capital Gains	177
Carry Forward and Set Off of Accumulated loss and unabsorbed depreciation of the amalgamating company [Section 72A]	177
Lesson Roundup	179
Test Yourself	179
Lists of Further Readings	180
Other References (Including Websites and Video Links)	180

LESSON 4

TAX AUDIT

Regulatory Framework	182
Introduction	182
Objective of Tax Audit	184
Audit of Accounts of Certain Persons carrying on Business or Profession [Section 44AB]	185
Detailed Analysis of Section 44AB	186
Applicability	186
Non-Applicability of Tax Audit	188
Specified Date	189
Who can conduct Tax Audit “Accountant”	189
Analysis of definition & eligibility of ‘Tax Auditor’	190
Removal of Tax Auditor	193
Meaning of Important Term	193
Meaning of Sales, Turnover and Gross Receipts	193
Turnover for Business	193
Gross Receipts for Profession	195
Question for Practice	196
Maintenance of Books of Accounts [Section 44AA]	199
List of books of accounts required to be maintained	200
Where books of account and other documents should be kept and maintained?	200
Period of maintenance	201
Penalty for Non-compliance	201

Impact on Tax Audit Applicability	202
Tax Audit Report	202
Form 3CA	203
Form 3CB	204
Form 3CD – Statement of Particulars required to be furnished under section 44AB	205
Signature in Form 3CA / 3CB / 3CD	224
Revision of Audit Report	224
Failure to furnish Tax Audit Report [Section 271B]	225
E-filing of Tax Audit Report – Form 3CA-3CD / 3CB-3CD	226
Lesson Roundup	229
Test Your Self	230
Lists of Further Readings	231
Other References (Including Websites and Video Links)	231

LESSON 5

ASSESSMENT

Regulatory Framework	234
Chapter Overview	235
Introduction	235
Self-Assessment [Section 140A]	236
Inquiry before Assessment [Section 142]	238
Analysis of Section 142 - Inquiry Before Assessment	240
Estimation of Value of Assets by Valuation Officer (VO) [Section 142A]	244
Analysis of Section 142A - Estimation of Value of Assets by Valuation Officer (VO)	244
Faceless Inquiry and Valuation [Section 142B]	247
Summary Assessment/ Processing of Return [Section 143(1)]	249
Analysis of Section 143(1) - Summary Assessment/ Processing of Return	250
Scrutiny Assessment [Section 143(2) / 143(3)]	251
Notice of Scrutiny Assessment [Section 143(2)]	251
Order of Scrutiny Assessment [Section 143(3)]	251
Best Judgement Assessment [Section 144]	255
Power of Joint Commissioner to Issue Direction [Section 144A]	258
Faceless Assessment [Section 144B]	258

Procedure for Faceless Assessment [Section 144B(1)]	263
Authorities for Various Units [Section 144B(4)]	267
Income Escaping Assessment or Re-Assessment i.e., Re-Opening of Cases [Section 147]	267
Conducting inquiry, providing opportunity before issue of notice u/s 148 [Section 148A]	269
Analysis of Section 148A – Conducting inquiry, providing opportunity before issue of notice under Section 148	270
Issue of Notice [Section 148]	270
Analysis of Section 148	271
Conditions to be fulfilled before issue of notice	271
Prior approval for assessment, reassessment or re-computation in certain cases [Section 148B]	272
Time limit for issue of Notice u/s 148 [Section 149]	272
Analysis of Section 149 - Time limit for issue of Notice u/s 148	272
Unlimited Time Limit to Issue Notice [Section 150]	273
Unlimited time period for issue of notice for assessment in pursuance of order on appeal	273
Analysis of Section 150 - Unlimited Time Limit to Issue Notice	273
Section 151 – Sanction for issue of notice	273
Faceless Assessment of Income Escaping Assessment [Section 151A]	273
Tax Rate applicable for Escaped Income [Section 152(1)]	274
Dropping of Assessment Proceeding [Section 152(2)]	274
Time Limit to complete Assessment and Reassessment [Section 153]	274
Following time limits are to be excluded for the purpose of Section 153	276
Rectification of Mistakes [Section 154]	278
Analysis of Section 154 - Rectification of Mistakes	278
Demand Notice [Section 156]	279
Test Yourself	279
List of Further Readings	283
Other References (Including Websites and Video Links)	284

LESSON 6

APPEALS

Regulatory Framework	286
Introduction	287

Appealable Orders before Joint Commissioner (Appeals) (Section 246)	288
Appealable Orders before Commissioner (Appeals) (Section 246A)	288
Procedure for filing an Appeal before Joint Commissioner (Appeals) or Commissioner Appeal [Section 249(1)]	289
Prescribed Fees	290
Period of Limitation to prefer an Appeal before Joint Commissioner (Appeals) or Commissioner Appeal [Section 249(2)]	290
Payment of Tax before Filing Appeal [Section 249(4)]	291
Submission of Paper Book	292
Procedure in Appeal (Section 250)	292
Rule 46A Production of additional evidence before the Joint Commissioner (Appeals) and Commissioner (Appeals)	292
Decision and Order of Joint Commissioner (Appeals) or CIT (Appeals)	293
Faceless Appeal [Section 250(6B)]	293
Notification of the Scheme of Faceless Appeals	293
File Appeal	294
Scope of the Scheme	294
Faceless Appeal Centers	294
Procedure of Conduct of Faceless Appeals	294
How to file Rectification	297
Grievance redressal mechanism	297
Powers of the Joint Commissioner (Appeals) or Commissioner (Appeals) (Section 251)	298
Appellate Tribunal (Section 252)	298
Appealable Orders Before ITAT [Section 253(1) And (2)]	299
Procedure for Filing Appeal Before Appellate Tribunal [Section 253(3), (4) & (6)]	299
Form of appeal and memorandum of cross-objections to Appellate Tribunal	300
Submission of Paper Book	300
Filing of Additional Evidence	301
Order of Appellate Tribunal (Section 254)	301
Rectification of Appellate Order	302
Faceless Proceedings before ITAT	302
Procedure of Appellate Tribunal (Section 255)	303
Faceless Proceedings before ITAT	303
Provision for Avoiding Repetitive Appeals (Section 158A)	304

Procedure where an Identical Question of Law is Pending before High Courts or Supreme Court (Section 158AB)	305
Appeal before High Court (Section 260A & 260B)	306
Appeal before Supreme Court (Section 261)	307
Revision by the Commissioner of Income Tax (Sections 263 And 264)	308
Revision of Orders Prejudicial to the Interest of Revenue (Section 263)	309
Revision of Order in the Interest of Assessee (Section 264)	310
Circumstances in which no Revision can be made [Section 264(4)]	312
Remedy against the Revisional Order	312
Faceless Revision of Order (Section 264A)	313
Faceless effect of Order (Section 264B)	313
Monetary Limit for Regulating Filing an Appeals by Income Tax Authorities (Section 268A)	313
Condonation of delay in Filing Appeal or Revision application where period of Limitation is provided	314
Offences and Penalties	315
Offences and Prosecution	321
Rigorous Imprisonment	321
No punishment if proved that there was reasonable cause for failure (Section 278AA)	324
Provision for Bank Guarantee (Section 281B)	324
Lesson Roundup	324
Test Yourself	325
List of Further Readings	326
Other References (Including Websites and Video Links)	326

LESSON 7

TRANSFER PRICING & GENERAL ANTI AVOIDANCE RULES “GAAR”

(I) Transfer Pricing	328
Regulatory Framework	328
Introduction	328
Importance of Transfer Pricing	329
Transfer Pricing provisions in India	329
Practical Difficulties in Application of ALP	330

Associated Enterprises (AE)	331
Deemed Associated Enterprises	332
Meaning of International Transaction	334
Meaning of International Transaction [Section 92B(1)]	334
Transfer Pricing – Applicability to Domestic Transactions	337
Specified Domestic Transactions [Section 92BA]	338
Meaning of Specified Domestic Transaction	338
Transfer Pricing – Methods	339
Computation of Arm’s Length Price	339
(a) Comparable Uncontrolled Price Method (CUP Method)	342
(b) Resale Price Method	344
(c) Cost Plus Method	344
(d) Profit Split Method	346
(e) Transactional Net Margin Method (TNMM)	349
Other Method of Determination of Arm’s Length Price [Rule 10AB]	349
Selection of Transfer Pricing Method	350
Computation of Arm’s Length Price in Certain Cases [Rule 10CA]	351
Reference to Transfer Pricing Officer	354
Who is Transfer Pricing Officer (TPO)	354
Determination of Arm’s Length Price by Transfer Pricing Officer	354
Extension of Time Limit to Transfer Pricing Officer in Certain Cases	354
Rectification of Arm’s Length Price Order by Transfer Pricing Officer	354
Powers of Transfer Pricing Officer	355
Advance Pricing Agreement (Section 92CC)	356
Calculation of Arm’s Length Price under Advance Pricing Agreement	357
Validity of Advance Pricing Agreement	357
Bindingness of Advance Pricing Agreement	357
Declaring an Advance Pricing Agreement Void Ab Initio	358
Effect of Declaring an Advance Pricing Agreement Void Ab Initio	358
Procedure and Scheme of Advance Pricing Agreement	358
Roll Back Provision in Advance Pricing Agreement	358
“Multiple Year Data” and Range Concept	358

Application of the Range Concept	359
Filing of Modified Return for Any Assessment Year relevant to Previous Year to which APA applies	360
Extension of limitation period in the cases where modified return is filed under Section 92CD	361
Secondary Adjustment in certain International Transactions [Section 92CE]	361
Quantification of Secondary adjustment “on Part” [Section 92CE(2)]	362
Transfer Pricing – Documentation	362
Burden of Proof	365
Submission of Documents with the Tax Authorities	365
Non-Applicability of Documentation Requirement	365
Retention Period of Documents Kept under Rule 10D	365
Report from an Accountant [Section 10E]	365
Safe Harbour Rules [Section 92CB]	366
Filling of form 3CEFA / 3CEFB	366
Transfer Pricing – Penalty for Contravention	367
Questions For Practice	368
(II) General Anti Avoidance Rules	375
Regulatory Framework	375
Background	375
Need for GAAR	376
Tax Evasion v/s Tax Avoidance	376
Chapter X-A	377
Key Sections	377
Impermissible Avoidance Agreement	378
Current Scenario with Specific Anti Avoidance Rules (SAAR)	381
Bond washing Transaction u/s 94(1)	381
GAAR vs. SAAR	382
SAAR [Specific Anti Avoidance Rules]	382
GAAR [General Anti-Avoidance Rules]	382
International Transaction	385
Exclusions from GAAR	387
Miscellaneous Aspects of the GAAR provisions	389

SAAR v. GAAR	389
Judicial anti-avoidance in a GAAR era	389
Penalties	389
Procedural Aspects	389
Advance Ruling	390
GAAR Checklist	390
Lesson Roundup	395
Test Yourself	397
List of Further Readings	398

LESSON 8

DOUBLE TAXATION AVOIDANCE AGREEMENT

Regulatory Framework	400
Introduction	400
Double Taxation	401
Juridical Double Taxation	401
Economic Double Taxation	402
Types of DTAA's	402
Double Taxation Relief	402
Bilateral Relief from Double Taxation	402
Unilateral Relief from Double Taxation	403
Agreements with Foreign Countries or Specified Territories Outside India – Bilateral Relief [Section 90]	404
Adoption by Central Government of Agreement between Specified Associations for Double Taxation Relief [Section 90A]	404
Double Taxation Relief where there is no DTAA Agreement [Section 91]	406
Calculation of Relief from Double Taxation	407
Necessity for DTAA	409
Objectives of Tax Treaties	409
Concept of Permanent Establishment	410
Significant Articles covered in the Model Conventions	411
Interpretation of Tax Treaties	415
Lesson Roundup	420

Test Yourself	420
List of Further Readings	421
Other References (Including Website and Video Link)	421
ANNEXURE	423
Reports and Certificates under Income Tax Law	423
TEST PAPERS	444

Computation of Total Income, Tax Liability and Filing of Returns of various Entities excluding Companies

Lesson

1

KEY CONCEPTS

- Individual ■ Hindu Undivided Families 'HUF' ■ Firm ■ Partner ■ Partnership ■ Alternate Minimum Tax 'AMT' ■ Book Profit
- Association of Person 'AOP' ■ Body of Individual 'BOI' ■ Signing of Returns

Learning Objectives

To understand the:

- The Tax Rates applicable to various entities excluding Companies
- The Computation of Total Income and Tax Liability of Individuals
- Special Provisions for computation of Total Income and Tax Liability u/s 115BAC
- Special provisions for computation of Total Income and Tax Liability u/s 115BAD / 115BAE
- Concept of Hindu Undivided Family 'HUF' and how HUF comes into existence?
- When and How HUF can be partitioned?
- What are the Tax implications before and after partition of HUF?
- What is Partnership Firm?
- What are the Tax implications in the hands of Partners and Firm?
- What is Book Profit?
- What are Admissible Expenses/ Inadmissible expenses while calculating the Book Profit of the Firm?
- What are the provisions of Alternate Minimum Tax 'AMT'?
- What is Association of Persons and how it is formed?
- What is the method of computation of share of a member of 'AOP'?
- What is Co-operative Societies and how the tax liability of Co-operative societies is determined?
- What is Return of Income?
- Persons who have to compulsorily file the Return of Income
- Due dates for filing Return of Income
- Consequences for late filing of Return of Income
- Person who are authorized to verify the Return of Income
- Payment of Self-Assessment Tax before filing Return of Income

Lesson Outline

- Introduction
- Tax Rates
- Special Tax Regime for Individual & HUF
- Special Tax Regime Applicable to a Co-operative Societies
- Taxation of Individuals
- Taxation of Hindu Undivided Families 'HUF'
- Computation of Income of Hindu Undivided Families ('HUF')
- Taxation of Firms
- Computation of Book Profit
- Alternate Minimum Tax 'AMT'
- Taxation of Association of Persons / Body of Individual
- Taxation of Co-Operative Societies
- Lesson Round-Up
- Test Yourself
- List of Further Readings
- Other References

REGULATORY FRAMEWORK

Sections	Income-tax Act, 1961
Section 115BAC	Special Tax Regime for Individual, HUFs, AOP, BOI, Artificial Juridical Person
Section 115BAD	Special Tax Regime applicable to a Co-Operative Societies
Section 115BAE	Tax on Income of Certain New Manufacturing Co-Operative Societies
Section 87A	Rebate
Section 171	Partition of a Hindu Undivided Family
Section 184	Assessment as a Firm
Explanation 3 to section 40(b)]	Meaning of Book Profit
Section 188	Succession of one firm by another firm
Section 188A	Joint and Several Liabilities of Partners for Tax Payable by Firm
Section 189	Firm Dissolved or Business Discontinued
Section 115JC to 115JF	Alternate Minimum Tax (AMT)
Section 67A	Method of Computing Share of a Member of Association of Persons / Body of Individuals
Section 177	Assessment in case of Dissolution of an Association of Persons
Section 2(10)	Meaning of Co-operative Society
Section 80P	Deduction in respect of Income of Co-operative Societies
Section 139(1)	Due Date of Filing of Return of Income
Section 140	Verification of Return of Income
Section 140A	Self-Assessment Tax

INTRODUCTION

Under the scheme of Indian Income Tax Act 'the Act', the income of a tax-payer falls in one or more of the following heads of income:

- (i) Income from Salaries
- (ii) Income from House Property
- (iii) Profits and Gains from Business or Profession
- (iv) Capital Gains
- (v) Income from Other Sources.

Specific provisions are contained in the Act for computation of income under each head of income. Income from different sources under each 'head of income' is to be separately computed. For example, a person may be the owner of more than one business in which case, the profit of each business will be computed separately and total of all will be the income under the head 'profits and gains from business or profession'. Similarly, a person may earn capital gains from more than one transaction in which case gains arising from each transfer is to be separately computed and the total of such gains will come under the head 'Capital gains'.

Further, if there is income from one source and loss from another source falling within the same head of income the loss will be adjusted (technically known as set off) against the income of another source and only the net figure will be the income under the head. If, for example, there is profit of Rs. 50,000 from business 'A' and loss of Rs. 30,000 from business 'B', it is only Rs. 20,000 after such intra-head adjustment that will be 'profit from business'.

Having computed income under individual heads, the next step is the aggregation of income under all the heads. If the income computed under any head or heads is a loss, such loss is allowed to be adjusted against the income under other heads subjects to certain exceptions. After the inter-head set off mentioned in above, the next step is to allow set-off of the past losses.

The income of each head after inter-head set off and set off of carried forward losses as mentioned above is then aggregated to give Gross Total Income.

Next step for calculation of taxable income is the deduction. The Gross Total Income is reduced by the deductions mentioned in Chapter VIA (If applicable). It is important to note that such deductions cannot exceed the Gross Total Income. After the deductions are made the resulting figure is total income which is subjected to tax at the rate or rates mentioned in the Finance Act.

The Basic Concept of Income Tax, Definition such as Person, Assessee, Assessment Year, Previous Year, Residential Status, Computation of Total Income under each head of Income, Deductions, Set-off and carried forward, and Clubbing provisions have already discussed in details at Executive Level.

Further, the above steps are illustrated below for better understanding. Taxable income of an assessee shall be calculated in the following manner:

1. Determine the residential status of the person.
2. Determine the Taxation Regime whether Old Taxation regime (OTR) or New Taxation Regime (NTR)
3. Calculate the Income as per the provisions of respective Heads of Income. Section 14 classifies the income under five heads.
 - (i) Income from Salaries
 - (ii) Income from House Property
 - (iii) Profits and Gains from Business or Profession
 - (iv) Capital Gains
 - (v) Income from Other Sources.
4. Consider all the Deductions and Allowances given under the respective heads before arriving at the net under each head. Exclude the Incomes exempt under section 10 of the Act.
5. Aggregate of Incomes computed under the 5 heads of income after applying Clubbing provisions and making adjustments of set off and carry forward of losses to derive Gross Total Income.
6. Deduct therefrom the deductions admissible under Sections 80C to 80U (If applicable). The balance is called Total Income.

7. The total income is rounded off to the nearest multiple of Rupees ten. (Section 288A)
8. Add Agriculture Income (if any) in the total income. Then calculate tax on the aggregate as if such aggregate income is the Total Income.
9. Calculate income tax on the net agricultural income as increased by Rs. 2,50,000 / 3,00,000 / 5,00,000 as the case may be, as if such increased net agricultural income were the total income.
10. The amount of income tax determined above will be deducted from the amount of income tax determined above.
11. Calculate income tax on capital gains under Section 112, 112A, 111A and on other income at specified rates.
12. The balance of amount of income tax left as per (10) above plus the amount of income tax at (11) above will be the income tax in respect of the total income.
13. Deduct the following from the amount of tax calculated under (12) above.
 - (i) Rebate under section 87A (if applicable).
 - (ii) Tax deducted and collected at source.
 - (iii) Advance tax paid.
 - (iv) Double taxation relief (Section 90 or 91).
14. The balance of amount left after deduction of items given in (13) above, shall be the net tax payable or net tax refundable for the assessee. Net tax payable/refundable shall be rounded off to the nearest multiple of Ten rupees (Section 288B).
15. Along with the amount of net tax payable, the assessee shall have to pay late fee, penalties or fines, if any, imposed on him under the Income-tax Act.

For calculation of income, amount received is classified under 5 heads of income; it is then to be adjusted with reference to the provisions of the Income Tax laws in the following manner.

Computation of Tax Liability	Sections	Amount
1. Income from Salary Less: Deduction's u/s 16 <ol style="list-style-type: none"> i. Standard Deduction of Rs. 50,000 or Gross Salary, whichever is lower in Old Tax regime. From FY 2024-25 onwards, Standard Deduction of Rs. 75,000 or Gross Salary, whichever is lower in New Tax regime. ii. Entertainment Allowance (allowed only for Old Tax Regime) iii. Professional Tax Paid (allowed only for Old Tax Regime) 	15 to 17	XXX
2. Income from House Property Less: Deduction u/s 24 Standard Deduction Interest on House Property Loan	22 to 27	XXX

Computation of Tax Liability	Sections	Amount
3. Income from Profits and Gains from Business and Profession Turnover / Receipts / Fees / Sales Less: Deduction's u/s 30 to 37(1)	28 to 44	XXX
4. Income from Capital Gains Full value of consideration Less: Cost of acquisition/Cost of Improvement/Transfer expenses Less: Exemption u/s 54/54B/54EE etc.	45 to 55A	XXX
5. Income from Other Sources Income u/s 56 Less: Deduction's u/s 57	56 to 59	XXX
Add: Clubbing of Income Less: Set Off & Carry Forward Provisions under respective heads		XXX (XXX)
Gross Total Income [GTI]		XXX
Less: Deductions under Chapter VIA (If applicable) (allowed only for Old Tax Regime except some exceptions)	80C to 80U	(XXX)
Total Income (Rounded off to nearest Rs.10 u/s 288A)		XXX
Tax on Total Income		XXX
Add: Surcharge on Total Tax (if applicable)		XXX
Less: Rebate u/s 87A		(XXX)
Add: 4% Health & Education Cess on [Total tax + Surcharge – Rebate]		XXX
Net Tax Liability		XXX
Less: (i). TDS/TCS (ii). Advance Tax (iii). Relief u/s 89		(XXX)
Balance Tax Payable on Self-Assessment [Section 140A]		XXX

TAX RATES FOR FY 2025-26 I.E. AY 2026-27**Calculation of Tax on Income**

- Tax rate depends upon the category of person
- Taxation Regime
- Amount of Income
- Residential status of person
- Age of Individual
- Type of Income

Components of Tax

$$\boxed{\text{Tax}} + \boxed{\text{Surcharge}} + \boxed{\text{Education Cess}} + \boxed{\text{SHEC}} = \boxed{\text{Tax Payable}}$$

Tax Rates for Different types of persons depending upon various parameters:

1. For:

- Resident Individual of the age below 60 years
- Non-Resident Individual
- Hindu undivided family
- Association of Persons
- Body of Individuals (other than Co-operative society)
- Artificial Juridical Person

Total Income (Rs.)	Tax Rate	Tax liability (Rs.)
Upto 2,50,000	Nil	Nil
2,50,001 – 5,00,000	5%	5% of (Total Income – 2,50,000)
5,00,001 – 10,00,000	20%	20% of (Total Income – 5,00,000) + 12,500
Above 10,00,000	30%	30% of (Total Income – 10,00,000) + 1,12,500

2. Applicable for:

Resident individual of the age of 60 years or more but less than eighty years at any time during the previous year

Total Income (Rs.)	Tax Rate	Tax liability (Rs.)
Upto 3,00,000	Nil	Nil
3,00,001 – 5,00,000	5%	5% of (Total Income – 3,00,000)

Total Income (Rs.)	Tax Rate	Tax liability (Rs.)
5,00,001 – 10,00,000	20%	20% of (Total Income – 5,00,000) + 10,000
Above 10,00,000	30%	30% of (Total Income – 10,00,000) + 1,10,000

3. Applicable for:

Resident Individual of the age of 80 years or more at any time during the previous year

Total Income (Rs.)	Tax Rate	Tax liability (Rs.)
Upto 5,00,000	Nil	Nil
5,00,001 – 10,00,000	20%	20% of (Total Income – 5,00,000)
Above 10,00,000	30%	30% of (Total Income – 10,00,000) + 1,00,000

CBDT has clarified vide Circular No. 28/2016 27.07.2016, that a person born on 1st April would be considered to have attained a particular age on 31st March, the day preceding the anniversary of his birthday.

Therefore, a resident individual, whose 60th / 80th birthday falls on 1st April, 2026 would be treated as having attained the age of 60 years/80 years in the P. Yr. 2025-26.

4. For Firm and Local Authorities:

Types of persons	Tax Rates
Firms (including LLP)	30% of total Income
Local Authorities	30% of total Income

Good to Know: Entity or individual other than a company whose adjusted total income exceeds Rs. 20 lakhs are liable to pay Alternate Minimum tax @ 18.5%.

5. For Co-operative Society:

Income Slabs		Tax Rates
i.	Where the taxable income does not exceed Rs. 10,000	10% of the income
ii.	Where the taxable income exceeds Rs. 10,000 but does not exceed Rs. 20,000	Rs. 1,000 + 20% of income in excess of Rs. 10,000
iii.	Where the taxable income exceeds Rs. 20,000	Rs. 3,000 + 30% of the amount by which the taxable income exceeds Rs. 20,000

Surcharge

Surcharge is an additional tax imposed on certain cases. It is imposed over the basic tax rate calculated on the income.

For example: Suppose total taxable income of an individual of 45 years is Rs. 1,30,00,000, then Base tax will be: Rs. 1,12,500 + 30% of (1,20,00,000) = Rs. 37,12,500.

Surcharge @ 15%* of Rs. 37,12,500 = Rs. 5,56,875. There are different rates of surcharge prescribed in the following manner:

S. No.	Types of persons	Income	Surcharge Rates
i.	Individuals, HUF, AOP, BOI	If Income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crores	10% of income tax
		If income exceeds Rs. 1 crore but does not exceed Rs. 2 crores	15% of income tax
		If income exceeds Rs. 2 crores but does not exceed Rs. 5 crores	25% of income tax
		If total income exceeds Rs. 5 crores	37% of income tax
ii	Firm/Local Authority	If income exceeds Rs. 1 crore	12% of income tax
iii	Co-operative Society	If income exceeds one crore rupees but not exceeding ten crore rupees	7%
		If total income exceeds ten crore rupees	12%

Marginal Relief in Surcharge

When an assessee's taxable income exceeds applicable slab mentioned above, for example, exceeds Rs. 1 crore, he is liable to pay Surcharge at prescribed rates mentioned above on Income Tax payable by him. However, the amount of Income Tax and surcharge on total income shall not exceed the amount of income that exceeds the respective slabs, for example, Rs. 1 crore.

Health and Education Cess 'HEC'

- Governments resort to imposition of cess for meeting specific expenditure.
- Education Cess and Secondary and Higher Education Cess are additional levy on the basic tax liability + surcharge, if applicable.
- Rate of Education Cess – 2%
- Rate of SHEC – 1%.
- Rate of Health Cess – 1%.
- Total HEC – 4%

Example: Suppose Mr. Ram an individual assessee of 42 years is having taxable income of Rs. 1,00,01,000/- assuming Mr. Ram is covered under Old Taxation regime

Particulars		Amount (Rs.)
1.	Income Tax	Rs. 28,12,800
2.	Surcharge @ 15% of Income Tax	Rs.4,21,920

Particulars		Amount (Rs.)
3.	Income Tax on income of Rs. 1 crore including 10% Surcharge	Rs 30,93,750
4.	Maximum Surcharge payable (Income over Rs. 1 crore i.e. Rs. 1,000)	Rs. 1,000
5.	(Income Tax + Surcharge) payable	Rs. 30,94,750
6.	Add 4% HEC	Rs. 1,23,790
7.	Total Tax Payable	Rs. 32,18,540

Thus, in the above case, though the surcharge @15% is Rs. 4,21,920. However, since the income of Mr. Ram exceeds Rs. 1 crore by just Rs. 1,000, Ram will be eligible for marginal relief and maximum surcharge will be restricted to Rs. 281250 plus Rs. 1,000 only.

SPECIAL TAX REGIME FOR INDIVIDUAL, HUFs, AOP, BOI, ARTIFICIAL JURIDICAL PERSON [SECTION 115BAC]

New Taxation regime u/s 115BAC was introduced from A/Y 2021-22 by Finance Act, 2020. The Finance Act, 2023, had made new Taxation regime as the default tax regime from Assessment Year 2024-25 onwards. Below rates are applicable from Assessment Year 2026-27:

Total Income (Rs)	Rate
Up to 4,00,000	Nil
From 4,00,001 to 8,00,000	5%
From 8,00,001 to 12,00,000	10%
From 12,00,001 to 16,00,000	15%
From 16,00,001 to 20,00,000	20%
From 20,00,001 to 24,00,000	25%
Above 24,00,000	30%

Surcharge: Surcharge is levied on the amount of income-tax at following rates if total income of an assessee exceeds specified limits:

Rs. 50 Lakhs to Rs. 1 Crore	Rs. 1 Crore to Rs.2 Crores	Exceeding Rs. 2 Crores excluding dividend & income u/s 111A, 112, 112A
10%	15%	25%

Note 1: The enhanced surcharge of 25% or 37% is not levied, on income by way of dividend or from income chargeable to tax under sections 111A, 112, 112A and 115AD(1)(b). Hence, the maximum rate of surcharge on tax payable on such incomes shall be 15%. Also, the surcharge rate for AOP with all members as a company, shall be capped at 15%.

Note 2: Marginal relief is available from surcharge.

Note 3: Health and Education Cess: Health and Education Cess is levied at the rate of 4% on the amount of income-tax plus surcharge.

Alternate Minimum Tax: The assessee who are paying tax as per section 115BAC have been kept out of the purview of Alternate Minimum Tax (AMT) of section 115JC. Further the provision relating to the computation, carry forward and set off of AMT credit shall not apply to these assesses.

Few Incentives not available for person paying tax u/s 115BAC:

1. Total Income of the assessee is calculated under the tax regime of section 115BAC without claiming the following deductions/exemptions (which are otherwise available under regular tax regime):
 - a) Leave Travel concession [Section 10(5)]
 - b) House Rent Allowance [Section 10(13A)]
 - c) Official and personal allowances (other than those as may be prescribed) [Section 10(14)]
 - d) Allowances to MPs/MLAs [Section 10(17)]
 - e) Allowances for income of minor [Section 10(32)]
 - f) Deduction for units established in Special Economic Zones (SEZ) [Section 10AA]
 - g) Exemption of perquisite in respect of free food and non-alcoholic beverage (i.e. Rs.50 per meal) provided through paid voucher [Section 17(2) read with Rule 3 (7)(iii)]
 - h) Entertainment Allowance [Section 16(ii)]
 - i) Professional Tax [Section 16(iii)]
 - j) Interest on housing loan in the case of one or two self-occupied properties [Section 24(b)]
 - k) Additional depreciation in respect of new plant and machinery [Section 32(1)(iia)]
 - l) Deduction for investment in new plant and machinery in notified backward areas [Section 32AD]
 - m) Deduction in respect of tea, coffee or rubber business [Section 33AB]
 - n) Deduction in respect of business consisting of prospecting or extraction or production of petroleum or natural gas in India [Section 33ABA]
 - o) Deduction for donation made to approved scientific research association, university college or other institutes for doing scientific research which may or may not be related to business [Section 35(1) (ii)]
 - p) Deduction for payment made to an Indian company for doing scientific research which may or may not be related to business [Section 35(1) (iia)]
 - q) Deduction for donation made to university, college, or other institution for doing research in social science or statistical research [Section 35(1) (iii)]
 - r) Deduction for donation made for or expenditure on scientific research [Section 35(2AA)]
 - s) Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc. [Section 35AD]

- t) Deduction for expenditure on agriculture extension project [Section 35CCC]
 - u) Deduction under section 80C – 80U (Except employer's contribution towards NPS under section 80CCD(2), deduction under section 80JJAA, Deduction u/s 80CCH(2) and deduction under section 80LA(1A)). Finance Act 2024 has increased tax deduction limit for employer contribution from 10% to 14% of basic salary.
2. Total income of the assessee is calculated after claiming depreciation under section 32, other than additional depreciation, and without adjusting brought forward losses and depreciation from any earlier year (if such loss or depreciation pertains to any deduction under the aforesaid sections). Further, loss under the head house property can't be set off against other heads of Income. Moreover, such loss and depreciation will not be carried forward.
 3. If the assessee has any unabsorbed depreciation, relating to additional depreciation, which has not been given full effect, the corresponding adjustment shall be made to WDV of the block of assets in the prescribed manner.
 4. In case the assessee has business or professional income, and no option is exercised, he will be governed by the New tax regime. The assessee can avail benefit of regular tax regime by exercising the option under section 115BAC (6). Such option can be exercised on or before the due date of submission of return of income under section 139(1) and such option once exercised shall apply to subsequent assessment year as well.
 5. However, the option once exercised for any previous year can be withdrawn only once for a previous year (other than year in which it was exercised) and thereafter the person shall never be eligible to exercise the option of availing the benefit of regular tax regime (except where such person ceases to have any income from business or profession.)
 6. If assessee does not have business or professional income, the option under section 115BAC(6) i.e. to opt for regular tax regime must be exercised along with return of income under section 139(1) for every previous year.

SPECIAL TAX REGIME APPLICABLE TO A CO-OPERATIVE SOCIETIES [SECTION 115BAD]

The Finance Act, 2020 has inserted a new section 115BAD in Income-tax Act to provide an option to the resident co-operative societies (Other than those mentioned in Section 115BAE) to get taxed at the rate of 22% plus 10% surcharge and 4% cess. The resident co-operative societies have an option to opt for taxation under newly introduced section 115BAD of the Act w.e.f. Assessment Year 2021-22. The option once exercised under this section cannot be subsequently withdrawn for the same or any other previous year.

If the new regime of Section 115BAD is opted by a co-operative society, its income shall be computed without providing for specified exemption, deduction or incentive available under the Act. The societies opting for this section have been kept out of the purview of Alternate Minimum Tax (AMT). Further, the provision relating to computation, carry forward and set-off of AMT credit shall not apply to these assesses.

The option to pay tax at lower rates shall be available only if the total income of cooperative society is computed without claiming following exemptions or deductions:

- a) Deduction for units established in Special Economic Zones (SEZ) [Section 10AA];
- b) Additional depreciation in respect of new plant and machinery [Section 32(1)(ia)];

- c) Deduction for investment in new plant and machinery in notified backward areas [Section 32AD];
- d) Deduction in respect of tea, coffee or rubber business [Section 33AB];
- e) Deduction in respect of business consisting of prospecting or extraction or production of petroleum or natural gas in India [Section 33ABA];
- f) Deduction for donation made to approved scientific research association, university college or other institutes for doing scientific research which may or may not be related to business [Section 35(1)(ii)];
- g) Deduction for payment made to an Indian company for doing scientific research which may or may not be related to business [Section 35(1)(ia)];
- h) Deduction for donation made to university, college, or other institution for doing research in social science or statistical research [Section 35(1)(iii)];
- i) Deduction for donation made to National Laboratory or IITs, etc. for doing scientific research which may or may not be related to business [Section 35(2AA)];
- j) Deduction in respect of capital expenditure incurred in respect of certain specified businesses, i.e., cold chain facility, warehousing facility, etc. [Section 35AD];
- k) Deduction for expenditure on agriculture extension project [Section 35CCC];
- l) Deduction in respect of certain incomes other than specified under Section 80JJAA [Part C of Chapter VI-A].

Where a co-operative society exercises option for availing benefit of lower tax rate under section 115BAD, it shall not be allowed to claim set-off of any brought forward losses or depreciation attributable to any restricted exemption or deduction in the Assessment Year for which the option has been exercised and for any subsequent Assessment Year.

TAX ON INCOME OF CERTAIN NEW MANUFACTURING CO-OPERATIVE SOCIETIES [SECTION 115BAE]

Conditions:

- The co-operative society is set up and registered on or after 01-04-2023;
- It is engaged in manufacture or production of any article or thing;
- It commences manufacturing on or before 31-03-2024; and
- It does not claim specified exemption, incentive or deduction.

Tax rate: 15% (Income from manufacturing activities)

Surcharge: The surcharge is levied at a rate of 10% on the amount of income-tax irrespective of the total income of such co-operative society.

Health & Education Cess: 4% of such income-tax and surcharge.

Special Tax Rates which are Taxable at Fixed Rates (Applicable for Both Regime)

- a. Section 111A: STCG: 20%
- b. Section 112: LTCG: 12.5%

- c. Section 112A: LTCG: 12.5% provided incomes greater than Rs. 1,25,000
- d. Section 115BB: Casual Incomes: 30%
- e. Section 115BBE: Income u/s 68 or 69 or 69A or 69B or 69C or 69D: 60%
- f. Section 11BBJ: Tax on winning from online games – 30%

REBATE [SECTION 87A]

In case of tax payable as per Old Taxation regime, an assessee, being an individual resident in India, whose total income does not exceed Rs. 5,00,000 shall be entitled to a deduction, from the amount of income-tax (as computed before allowing the deductions under this Chapter) on his total income with which he is chargeable for any assessment year, of an amount equal to 100% of such income-tax or an amount of Rs. 12,500, whichever is less.

The rebate under section 87A for the assessee paying tax under default scheme of section 115BAC shall be as follows:

Conditions:

- a. Assessee should be resident individual.
- b. The assessee wants to pay tax under default regime of section 115BAC and;
- c. Whose Total Income does not exceed Rs.12,00,000.
- d. Rebate u/s 87A will be not allowed from Incomes Taxable at Special rates eg Section 111A/112/112A/115BB etc.

Quantum of Rebate:

If the aforesaid conditions are satisfied, the amount of rebate under section 87A shall be 100% of Income Tax or; Rs.60,000, whichever is less.

Marginal Relief in Rebate for assessee paying tax u/s 115BAC:

If Net income exceeds Rs.12,00,000 income tax on such income cannot exceed the amount by which the net income exceeds Rs.12,00,000.

Example:

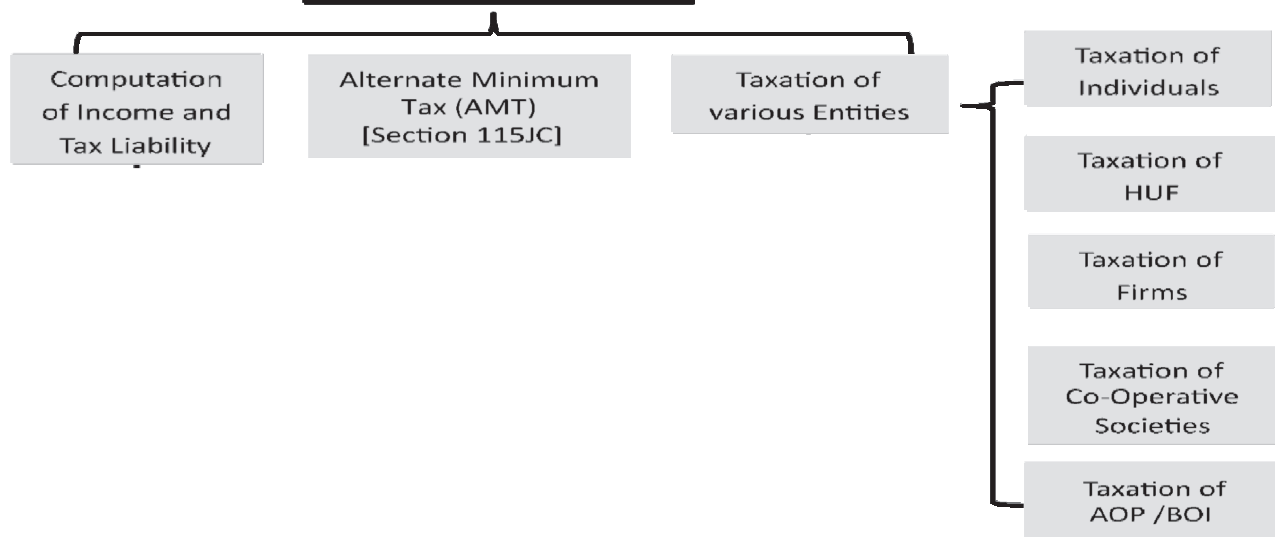
Compute Income Tax liability in following situations for Assessment Year 2026-27 given that in none of the cases assessee wants to opt for the regular tax regime i.e. computation is to be done under section 115BAC and the assesses are resident individuals. Given are the Total Incomes.

1. Mr. Ishank (30 years): Rs.10,00,000.
2. Ms. Shirin (29 years): Rs.12,00,000.
3. Mr. Aroha (21 years): Rs.12,40,000.
4. Mr. Nirvan (23 years): Rs.13,00,000.

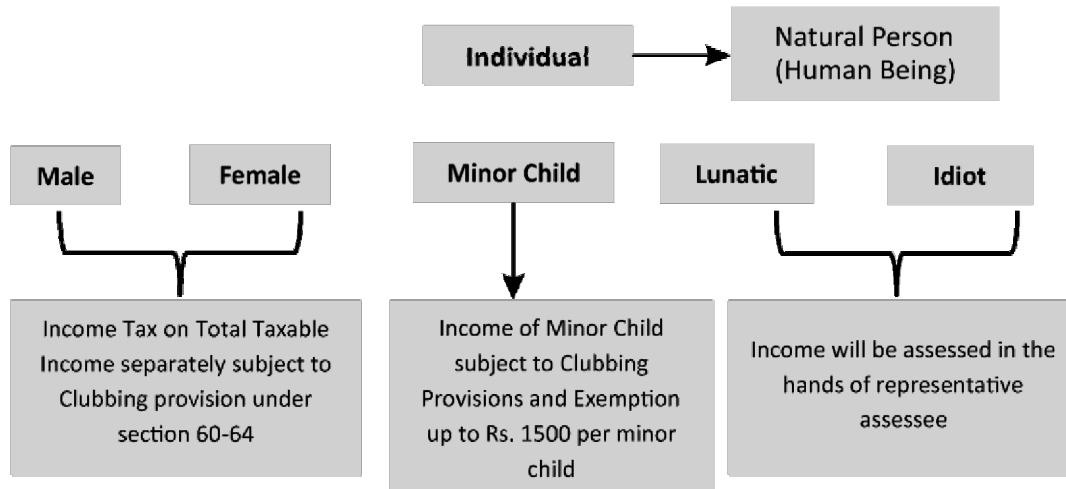
Solution:

Computation of Tax liability for the Assessment Year 2026-27:

Particulars	Mr. Ishank	Ms. Shirin	Mr. Aroha	Mr. Nirvan
Total Income (1)	10,00,000	12,00,000	12,40,000	13,00,000
Tax on Total Income as per section 115BAC	40,000	60,000	66,000	75,000
Less: Rebate u/s 87A	(40,000)	(60,000)	(Nil)	(Nil)
Less: Marginal relief Adjustment u/s 87A Applicable in case of Mr Aroha only as Increase in Tax beyond 12 lakhs is 66,000 is more than increase in Income beyond 12 lakhs i.e. 40,000. Hence Marginal relief is 66,000-40,000 = 26,000	(Nil)	(Nil)	(26,000)	(Nil)
Therefore, Income Tax after Rebate u/s 87A	Nil	Nil	40,000	75,000
Add: Health and Education Cess @ 4%	Nil	Nil	1,600	3,000
Therefore, Total Tax Liability	Nil	Nil	41,600	78,000

CHAPTER OVERVIEW

TAXATION OF INDIVIDUALS



Income of Individual and its Tax Treatment		
Taxable Income of Individual	Income	Taxability/Exemption
	Income earned by Individual	Based on Individual capacity
	Remuneration in terms of Salary, Bonus, Commission etc. received by partner (As Individual)	Taxable as Business Income
	Interest on capital/Loans to Firm/LLP received by partner (As Individual)	Taxable as Business Income
	Income received as Member of AOP or BOI	Share of Income from AOP/BOI is taxable
	Income from impartible estate of HUF	Income is taxable in hands of Karta
Exempted in the hands of Individuals	Share of Profit of Firm/LLP	Exempt in the hands of Partner [Section 10(2A)]
	Income of AOP/BOI is chargeable at Maximum Marginal Rate (MMR)	Share of income of member will not be included in taxable income
	Share of Income from HUF	Exempt in the hands of Individual [Section 10(2)]

List of deductions available to Individuals under Chapter VI-A covered in OTR (Old Tax Regime)	
Section	Particulars
80C	Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc.

80CCC	Deduction in respect of contribution to certain pension funds. Only Section 80CCD(2) allowed in NTR (New Tax Regime)
80CCD	Deduction in respect of contribution to pension scheme of Central Government
80CCE	Limit on deductions under sections 80C, 80CCC and 80CCD
80CCH	Contribution to Agniveer corpus fund. Only Section 80CCH(2) allowed in NTR (New Tax Regime)
80D	Deduction in respect of health insurance premia
80DD	Deduction in respect of maintenance including medical treatment of a dependent who is a person with disability
80DDB	Deduction in respect of medical treatment, etc.
80E	Deduction in respect of interest on loan taken for higher education
80EE	Deduction in respect of interest on loan taken for residential house property
80EEA	Deduction in respect of interest on loan taken for certain house property
80EEB	Deduction in respect of purchase of electric vehicle
80G	Deduction in respect of donations to certain funds, charitable institutions, etc.
80GG	Deductions in respect of rents paid
80GGA	Deduction in respect of certain donations for scientific research or rural development
80GGC	Deduction in respect of contributions given by any person to political parties
80-I	Deduction in respect of profits and gains from industrial undertakings after a certain date, etc.
80-IB	Deduction in respect of profits and gains from certain industrial undertakings other than infrastructure development undertakings
80-IBA	Deductions in respect of profits and gains from housing projects
80-IE	Special provisions in respect of certain undertakings in North-Eastern States
80JJA	Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste.
80JJAA	Deduction in respect of employment of new employees
80QQB	Deduction in respect of royalty income, etc., of authors of certain books other than text-books
80RRB	Deduction in respect of royalty on patents
80TTA	Deduction in respect of interest on deposits in savings account
80TTB	Deduction in respect of interest on deposits in case of senior citizens
80U	Deduction in case of a person with disability

CASE 1

Mr. DP, has earned gross salary of Rs. 6,55,000 including HRA of Rs. 45,000. He has paid Rs. 15,000 p.m. as rent for his residential accommodation in Delhi. Besides that, he earned Rs. 12,000 from saving bank deposit during the year 2025-26 and at the same time he has deposited to Rs. 65,000 to PPF. You are required to compute total income and tax payable by DP if

- He opts to pay tax as per regular scheme.
- He pays tax under Section 115BAC

Solution: Statement showing computation of Total income and tax liability

Particulars	Opts to pay tax as per regular scheme		He pays tax under section 115BAC	
	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)
Salary received	6,55,000		6,55,000	
Less: HRA Exempted u/s 10(13A)	(45,000)		Nil	
	6,10,000		6,55,000	
Less: Standard Deduction	(50,000)		(75,000)	
Income under the head salary		5,60,000		5,80,000
Income from saving bank deposit		12,000		12,000
Gross Total Income		5,72,000		5,92,000
Less:				
Deduction u/s 80C	65,000			
Deduction u/s 80TTA	10,000	(75,000)		Nil
(a) Actual 12,000				
(b) Limit 10,000				
Whichever is less				
Total Income		4,97,000		5,92,000
Tax on total Income		12,350		9,600
Less: Rebate u/s 87A				
(a) 100% of Tax				
(b) Limit 12,500 or Rs. 60,000 (as applicable)		(12,350)		(9,600)
Whichever is less				

Balance		Nil		Nil
Add: HEC @ 4%		Nil		Nil
Total Tax Payable (R/O)		Nil		Nil

Illustration 1:

Gross total income of Mr. X, a tax consultant based at Mumbai, is Rs. 18,00,000 (income from profession Rs. 17,00,000 and interest on bank fixed deposit Rs. 1,00,000). He pays Rs. 3,00,000 as house rent. He deposits Rs. 50,000 in public provident fund. Compute his taxable income for the assessment year 2026-27.

Option 1: Assessee has opted to pay tax under Old scheme

Option 2: Assessee is paying tax as per Section 115BAC

Solution:

Option 1: Assessee has opted to pay tax under old scheme

Computation of Taxable Income of Mr. X for the A.Y. 2026-27

Particular	Amount (Rs.)	Amount (Rs.)
Professional Income – PGBP		17,00,000
Interest on Bank Deposit – Other sources		1,00,000
Gross Total Income		18,00,000
Less: Deductions under Chapter VI-A u/s 80C (PPF)	(50,000)	
u/s 80 GG (Note-1)	(60,000)	(1,10,000)
Total Income		16,90,000

Note 1: Deduction u/s 80GG is least of the following:

- Rs. 60,000 (i.e., Rs. 5000 x 12 months)
- Rs. 4,37,500 [25% of Adjusted total income (Rs. 18,00,000- 50,000)]
- Rs. 1,25,000 [Excess of rent paid over 10% of Adjusted total income (Rs. 3,00,000 – 1,75,000)]

Option 2: Assessee pays tax as per section 115BAC

Computation of Taxable Income of Mr. X for the A.Y. 2026-27

Particular	Amount (Rs.)
Professional Income – PGBP	17,00,000
Interest on Bank Deposit – Other sources	1,00,000
Gross Total Income	18,00,000

Less: Deductions under Chapter VI-A	Nil
Total Income	18,00,000

Note 1: Deduction u/s 80C & 80GG not allowed.

Illustration 2:

From the following profit and loss account of Vinay for the year ended 31st March 2026, compute his total income and tax liability for the assessment year 2026-27:

Particulars	Amount Rs.	Particulars	Amount Rs.
Interest on capital	12,000	Gross profit	5,10,000
Insurance	2,000	Brokerage	30,000
Bad debts	30,000	Bad debts recovered (earlier allowed as deduction)	15,000
Depreciation	34,000	Sundry receipts	18,000
Advance tax	25,000	Interest on debentures (gross) [TDS Rs. 4,000]	40,000
General expenses	12,000		
Advertisement	5,000		
Salary (including salary to Vinay Rs.20,000)	85,000		
Interest on loan	8,000		
Net profit	4,00,000		
Total	6,13,000	Total	6,13,000

Additional information:

- (i) The amount of depreciation allowable as per income-tax rules is Rs.42,000.
- (ii) General expenses include Rs.5,000 given as Health insurance Premium for Mr. Vinay.
- (iii) Vinay pays Rs. 5,200 as premium on his own life insurance policy of Rs. 50,000 issued in 2020-21.
- (iv) Loan was obtained for payment of income-tax.

Option 1: Assessee has opted to pay tax as per Old scheme

Option 2: Assessee is paying tax as per Section 115BAC

Solution:**Option 1: Assessee has opted to pay tax as per old scheme**

Particulars	Amount (Rs.)	Amount (Rs.)
(I) Income from business		
Net profit for the year		4,00,000
<i>Add: Expenses not allowed under Income tax Act but debited to P & L A/c</i>		
Interest on capital (Note 2)	12,000	
Depreciation as per books of a/c	34,000	
Advance tax	25,000	
General Expenses	5,000	
Salary to Vinay	20,000	
Interest on loan (Note 2)	8,000	1,04,000
<i>Less: Income not related to business and profession but credited to P& L a/c</i>		
Interest on debentures	40,000	
Deductible expenses not debited to P&L Account		
Depreciation as per Income tax Act	42,000	(82,000)
Profits and Gains of Business & Profession		4,22,000
(II) Income from other sources Interest on debenture		40,000
Gross Total Income (I + II)		4,62,000
<i>Less: Deduction U/S 80C – 80U</i>		
(i) Premium on life insurance policy (u/s 80C) (Note 1)		(5,000)
(ii) Health insurance Premium (u/s 80 D)		(5,000)
Total Taxable Income		4,52,000

Note

- Under section 80C deduction of life insurance premium cannot exceed 10% of the sum assured.
- Under Section 36(1)(iii) Interest paid on borrowed capital is allowed as a deduction. Interest on own capital is not deductible. Similarly, interest on money borrowed to pay income tax is not allowed as a deduction.

Option 2: Assessee is paying tax as per Section 115BAC

Particulars	Amount (Rs.)	Amount (Rs.)
(I) Income from Business		
Net profit for the year		4,00,000
<i>Add: Expenses not allowed under Income tax act but debited to P & L A/c</i>		
Interest on capital (Note 2)	12,000	
Depreciation as per books of A/c	34,000	
Advance tax	25,000	
General Expenses	5,000	
Salary to Vinay	20,000	
Interest on loan (Note 2)	8,000	1,04,000
<i>Less: Income not related to business and profession but credited to P& L A/c</i>		
Interest on debentures	40,000	
Deductible expenses not debited to P&L Account		
Depreciation as per Income tax Act (Working Note)	42,000	(82,000)
Profits and Gains of Business & Profession		4,22,000
(II) Income from other sources Interest on debenture		40,000
Gross total income (I + II)		4,62,000
<i>Less: Deduction U/S 80C – 80U</i>		NIL
Total Taxable Income		4,62,000

Note:

1. Deduction u/s 80C is not allowed under section 115BAC.
2. Under Section 36(1)(iii) Interest paid on borrowed capital is allowed as a deduction. Interest on own capital is not deductible. Similarly, interest on money borrowed to pay income tax is not allowed as a deduction.
3. Depreciation u/s 115BAC is allowed except Additional depreciation as per prescribed manner.

Illustration 3:

For the Assessment Year 2026-27, Mr. Ram, who is 58 years old, resident in India, furnishes the following information:

Basic salary	Rs. 15,000 pm
Dearness Allowance (20% forming part for retirement benefits)	40% of basic salary
City Compensatory Allowance	Rs. 300 pm
Children education allowance	Rs. 200 pm per child for 2 children
Transport allowance	Rs. 2,000 pm
House Rent Allowance	Rs. 6,000 pm
Actual rent paid for a house in Delhi	Rs. 7,000 pm
He travels via Delhi metro from his residence to office and back in which he spends	Rs. 1,500 pm
Medical allowance	Rs. 1,000 pm
Lunch allowance	Rs. 200 pm

He owns a house property in Mumbai whose construction is completed in 2005 and which is let out for Rs. 40,000 pm. The standard rent as per Rent Control Act is Rs. 3,10,000. He pays Rs. 32,000 for municipal taxes and interest on capital borrowed for construction of house Rs. 75,000. Further, he incurs Rs. 10,000 on repairs of the house.

Long-term capital gains Rs. 225,000

Short term capital gains for the year Rs.1,01,000 (STT not applicable).

Dividend received from Indian Company X Ltd. Rs. 12,000.

Interest received @10% on listed debentures of face value 14,00,000

Diwali Gift of gold coins received from a friend. Market value Rs. 60,000

Share of profit from:

Firm	40,000
HUF	34,000
Income from Lotteries (gross)	50,000

Mr. Ram invested in PPF Rs.1,50,000 and also paid a life insurance premium of Rs. 21,000.

Donation to National Defence Fund Rs.10,000.

Compute the total income and Tax liability of Mr. Ram for the Assessment year 2026-27.

Option 1 : Assessee has opted to pay tax as per the old scheme

Option 2 : Assessee is paying tax as per section 115BAC

Solution:

Option 1: Assessee has opted to pay tax as per the old scheme

A. Computation of Total Income

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary		
Basic salary (15000 *12)		1,80,000
Dearness Allowance (180,000*0.40)		72,000
CCA (fully taxable) (300*12)		3,600
Children Education Allowance	4,800	
Less: Exempt	(2,400)	2,400
Transport allowance	24,000	
Less: Exempt (Exemption withdrawn by Finance Act, 2018)	NIL	24,000
House Rent Allowance (Note)		7,440
Lunch Allowance		2,400
Medical Allowance		12,000
Less: Deduction under section 16 (ia) Standard Deduction		(50,000)
Taxable Salary		2,53,840
Income from house property		
Gross Annual Value (Rent Received 40,000*12)		4,80,000
Less: Municipal Taxes		(32,000)
Net Annual Value		4,48,000
Less: Standard Deduction @ 30% of 4,48,000		(1,34,400)
Less: Interest on capital borrowed		(75,000)
Income from House property		2,38,600
Income from Business/Profession		
Firm (Exempt)		NIL
HUF (Exempt)		NIL

Income under the head Capital Gains		
Long-term capital gains u/s 112		2,25,000
Short term Capital Gain u/s 111A		1,01,000
Income from other sources		
Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,40,000	
Winning from Lotteries	50,000	
Gift in kind	60,000	2,62,000
Gross Total Income		10,80,440
Less: Deduction under section 80C to 80U		
(i) Under section 80C (maximum)		(150,000)
(ii) Under section 80G		(10,000)
Total Income		9,20,440

(B) Computation of Tax on Total Income

Tax on winning from lotteries (30% of Rs. 50,000)	15,000
Tax on long-term capital gains (12.5% of Rs. 2,25,000)	28,125
Balance of Total Income Rs. 6,45,440	41,588
Total tax	84,713
Add: Health and Education cess at 4%	3,388.52
Total tax liability	88,101.52
Total tax liability (round off)	88,101

Notes:

1. House Rent Allowance: Least of three is exempt
 - i. 50% of the salary* because the house is in Delhi = $0.50 * 1,94,400 = \text{Rs. } 97,200$
 - ii. HRA received = Rs. 72,000
 - iii. Rent paid – 10% of the salary = $(7000 * 12) - 0.10 * 1,94,400 = 84,000 - 19,440 = \text{Rs. } 64,560$

Exempted HRA = Rs. 64,560

Taxable HRA = 72,000 – 25,680 = Rs. 7,440

*Salary here = Basic salary + Dearness allowance (forming part only) = 1,80,000 + 1,80,000 *0.40*0.20 = Rs. 1,94,400

- The tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures.

Option 2: Assessee is paying tax as per section 115BAC

(A) Computation of Total Income

	Rs.	Rs.
Income from salary		
Basic salary (15,000 *12)		1,80,000
Dearness Allowance (1,80,000*0.40)		72,000
CCA (fully taxable) (300*12)		3,600
Children Education Allowance	4,800	
Less: Exempt	NA	4,800
Transport allowance	24,000	
Less: Exempt	NA	24,000
House Rent Allowance (Note)		72,000
Lunch Allowance		2,400
Medical Allowance		12,000
Less: Deduction under section 16		(75,000)
Taxable Salary		2,95,800
Income from House Property		
Gross Annual Value (Rent Received 40,000*12)		4,80,000
Less: Municipal Taxes		(32,000)
Net Annual Value		4,48,000
Less: Standard Deduction @ 30% of 4,48,000		(1,34,400)
Less: Interest on Capital Borrowed		(75,000)
Income from House property		2,38,600

Income from Business/Profession		
Firm (Exempt)	NIL	
HUF (Exempt)	NIL	NIL
Income under the head Capital Gains		
Long-term capital gains u/s 112		2,25,000
Short term Capital Gain other than 111A		1,01,000
Income from other sources		
Dividend received from Indian Company X Ltd.	12,000	
Interest received on listed debentures	1,40,000	
Winning from Lotteries	50,000	
Gift in kind	60,000	2,62,000
Gross Total Income		11,22,400
Less: Deduction under section 80C to 80U		NA
Total Income		11,22,400

(B) Computation of Tax on Total Income

Tax on winning from lotteries (30% of Rs. 50,000)	15,000
Tax on long-term capital gains (12.5% of Rs. 2,25,000)	28,125
Balance of Total Income Rs. 8,47,400	24,740
Total tax	67,865
Less : Rebate u/s 87A	24,740
Tax After Rebate	43,125
Add: Health and Education Cess at 4%	1,725
Total liability	44,850

Notes:

1. Exemption from House Rent Allowance / Children Education allowance, Deduction under section 80C & 80G is not allowed
2. The tax liability is subject to set-off of TDS for winning from lotteries and interest from listed debentures.

Illustration 4:

Mr. X aged 62 years; resident individual furnishes the following particulars relevant for the assessment year 2026-27:

Profit and Loss Account			
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Salaries	30,000	Gross profit	4,36,000
General Expenses	45,000	Commission	1,20,000
Bad Debts	15,000	Sundry Receipts	40,000
Reserve for losses	3,000	Short term capital gain	30,000
Insurance	5,200	Discount	2,000
Advertisement 10,000 Add: outstanding (2,000)	12,000	Profit on sale of import license	1,00,000
Interest on capital	4,500		
Interest on bank loan	12,500		
Expenditure on acquisition of patent and put to use on 30th June	16,000		
Depreciation on Plant	24,000		
Depreciation on Building	10,000		
Depreciation on Furniture	4,000		
Provision for outstanding GST liability	12,000		
Taxation reserve	12,000		
Loss by fire of a part of building (Uninsured)	8,000		
Net profit	5,14,800		
Total	7,28,000	Total	7,28,000

Other information

1. Bank loan is used for business purposes.
2. The amount of depreciation as per tax rates, in respect of plant, building, furniture, amounts to Rs. 20,000, 12,000, 7,400 respectively.

3. Salary includes payment to a relative which is unreasonable to the extent of Rs. 5,000.
4. Out of GST liability Rs. 2,000 is paid on 04.07.2026 and Rs. 6,000 is paid on 03.10.2026. The balance is still outstanding. Due date of filling the return of income is 31.7.2026.
5. Income of X from other sources is Rs. 24,000.
6. X paid medical insurance premium Rs. 16,000 for himself and Rs. 16,000 for his mother (dependent)
7. X repaid housing loan to the extent of Rs. 45,000.

Determine the taxable income and tax liability of Mr. X for the assessment year 2026-27 assuming STT is not applicable on STCG.

Assume Assessee has opted out of section 115BAC.

Solution:

Computation of total income of Mr. X for the AY 2026-27

Particulars	Rs.
Profit and gain from business profession (Note)	5,37,900
Income under the head capital gain [STCG]	30,000
Income from other sources	24,000
Gross Total Income	5,91,900
<i>Less: Deduction</i>	
Repayment of Housing Loan (Section 80C)	(45,000)
Medical Insurance Premium (Section 80D)	(32,000)
Total Income	5,14,900

Computation of Tax on Total Income

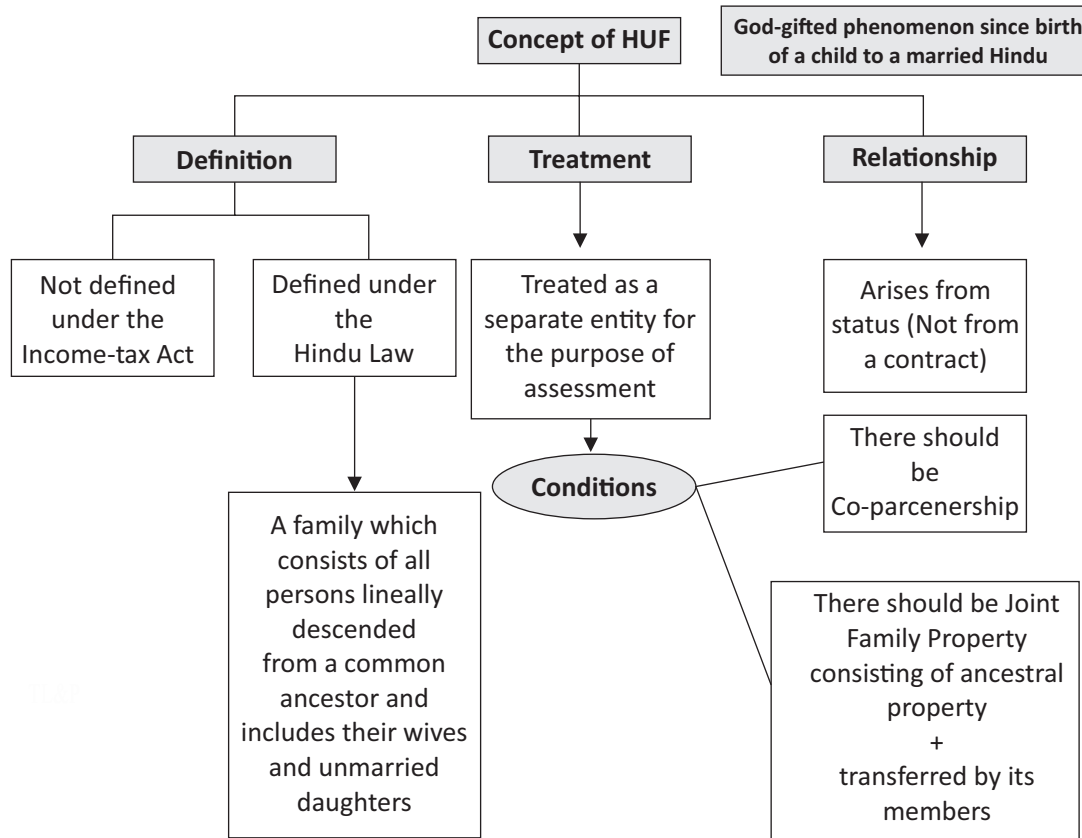
Tax on Rs. 3,00,000	Nil
Tax on Rs. 2,00,000 @ 5%	10,000
Balance of Total Income 14,900 @ 20%	2,980
Total tax	12,980
Add: Health and Education Cess at 4%	519.2
Total Liability	13,499.2
Total Liability (round off)	13,500

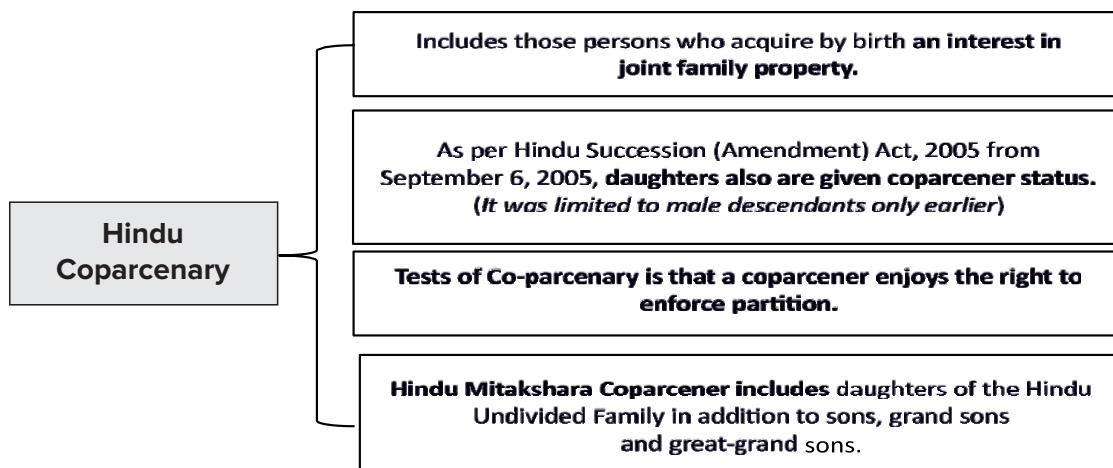
Working Note:

Calculation of Business Income

Particulars	Rs.
Profit as per P&L A/C	5,14,800
<i>Add:</i> Inadmissible Expenses	
Reserve for losses	3,000
Interest on capital	4,500
Patent right [16,000 - 25% of 16,000]	12,000
Excess salary paid to relative	5,000
Outstanding GST liability [12,000-2,000]	10,000
Taxation reserve	12,000
Loss by fire of part of building	8,000
<i>Less:</i> Admissible Expenses Depreciation [39,400-38,000]	(1,400)
<i>Less:</i> Income taxable under head capital gain (STCG)	(30,000)
Business Income	5,37,900

TAXATION OF HINDU UNDIVIDED FAMILIES (HUF)





The term 'Hindu undivided family' has not been defined in the Income-tax Act but it is treated as a separate entity or person under section 2(31) of the Income-tax Act, 1961 for the purpose of assessment under the Act. Under Hindu Law, an HUF is a family which consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters. Jain and Sikh families even though are not governed by the Hindu Law, but they are treated as HUF under the Act. An HUF cannot be created under a contract and is created automatically in a Hindu Family. Creation of a HUF is a God-gifted phenomenon since birth of a child to a married Hindu, automatically creates a new HUF. It is not at all necessary that every HUF must have joint property or family income. [R. Subramania Iyer v. CIT (1955) 28, ITR, 352]. However, to become an assessee under the Income-tax Act, there must be 'income-yielding' joint property of the family.

A HUF may consist of a number of smaller HUFs. A smaller HUF has a legal existence and may be assessable as a unit distinct from the apex joint family even when the bigger HUF is in place [CIT v. Khanna (1963) 49 ITR 232].

The Supreme Court's decision in the case of Surjit Lal Chhabra v. CIT (1975 101 ITR 776) has come to stay as one of the leading case laws. The ratio laid down by the Supreme Court had been applied by the Andhra Pradesh, Orissa and Madras High Courts, followed by Bombay, Patna, Madhya Pradesh and Delhi High Courts and relied upon by the Punjab High Court. In the latest case, the Delhi High Court held in Commissioner of Income-tax v. S.P. Chopra (1991, 191 ITR 455) that the income from the half share of the property had to be treated as the individual income of the assessee under the personal law and not as income of the family. The character of the property had to be determined in accordance with the personal law of the assessee and not on the basis of how the property had been treated by the revenue in respect of earlier assessments.

A son conceived or in his mother's womb is equal in many respects to a son actually in existence, viz., inheritance, partition, survivorship etc. But this doctrine does not apply to the Income-tax Act. Hence, a son conceived is not treated a member of the H.U.F. for Income-tax purposes. [S. Srinivasan v. C.I.T., (1966) 60, ITR, p.36 (S.C.)].

Jain and Sikh undivided families are also treated as Hindu undivided families unless, under special circumstances, the assessee claims not to be treated as such. If such claim is made, the assessee shall have to prove that there is some such custom in his family on account of which it cannot be treated as a Hindu undivided family.

If a Hindu gets converted as a Christian, the family of such a person will not be a HUF. However, a Hindu, along with his son (by a Christian wife) who has been brought up as a Hindu will be a HUF. [CWT v. R. Sridharan (1976) 104, ITR, 436 (S.C.)].

A Hindu Joint Family consists of two types of members:

1. **Coparceners:** The lineal male descendants of a person up to the third generation of such person are

known as coparceners. The coparceners acquire, on birth, ownership in the ancestral properties of such ascendant and have a right to claim partition of such property at any time. However, w.e.f. 09.09.2005 due to amendment of Hindu Succession Act, the daughter of a coparcener shall by birth become a coparcener in her own right in the same manner as the son. Hence, the daughter can also ask for partition.

2. **Other members:** Such members include wives of male members of the family and other male members. Widow or widows of deceased male member or members. [Gowli Buddanna v. C.I.T. (1966) 60, ITR, p. 293 (S.C.)]

However, an unmarried coparcener who receives share on the partition of joint family properties, cannot form a Hindu undivided family unless he marries. After his marriage, he can hold the property received from family as joint family property consisting of himself and his wife. [C. Krishna Prasad v. C.I.T. (1974) 97, p. 493 (S.C.)].

The joint property of the HUF is managed through Karta: Property of the family is ordinarily managed by the father or other senior member for the time being of the family. He is called Karta. However, the senior member may give up his right of management and a junior member may be appointed as Karta with the consent of all other members. [Narendra Kumar J. Modi v. CIT (1976) 105, ITR, 109 (S.C.)]. In the absence of a male member in the family or when all male members are minors, a woman member can be treated as manager of the family for income- tax purposes. [Smt. Champa Kumari Singhi v. Addl. Member of the Board of Revenue (1962) 46, ITR, p. 81].

Views of different schools of Hindu law under taxation of HUF	
School of Hindu Law	<ul style="list-style-type: none"> ● Dayabhaga School of law ● Mitakshara School of law
<p>Dayabhaga School of law (Summarized Provision)</p> <p style="text-align: center;">↓</p> <p>No coparcener till the death of father</p>	<ul style="list-style-type: none"> ● It prevails in West Bengal and Assam. ● Son does not acquire any interest by birth in an ancestral property but acquires such interest only after the death of his father. (i.e., No enjoyment of right to demand partition during the lifetime of his father) ● On the other hand, the father enjoys an absolute right to dispose of the property of the family according to his desire. ● Father is assessed as an individual (Not as HUF)
Mitakshara School of law	<ul style="list-style-type: none"> ● Applicable to the whole of India except West Bengal and Assam ● Both son and daughter acquire by birth an equal right in the ancestral property along with their father. ● The Co-parcenary is a fluctuating body which is enlarged at the time of each birth and reduced at the time of each death of a Co-parcenary child. ● As per Hindu Succession Act, 2005 (Amendment), Daughter and Her Children (In case of pre-deceased daughter) are eligible for share in the family assets on partition. ● Ancestral property refers to property which a man inherits from any of his 3 immediate male ancestors (i.e., His father, grandfather and great grandfather) ● Jain and Sikh families will not be governed as per Hindu Law but treated as HUF for the purpose of Income Tax Act.

Position under Hindu Succession Act, 1956

This Act came into force on and from 17th June, 1956. It lays down a uniform and comprehensive system of inheritance and applies to persons governed by the Mitakshara as well as the Dayabhaga Schools, superseding and abrogating all previous law or customs or usage having the force of law.

Under this Act, the heirs of a male Hindu dying intestate on or after 17th June, 1956 are divided into three classes. Class I heirs get the right to the deceased's property simultaneously to the exclusion of all other Classes of heirs. Class II relations succeed only if there is no class I relation and, the heirs in the first entry of class II being preferred to heirs in the second entry, and so on, but heirs in any one entry taking in equal shares amongst themselves.

The students should note that Section 4 of the Hindu Succession Act, 1956 clearly lays down that "save as otherwise expressly provided in the Act, any text, rule or interpretation of Hindu Law or any custom or usage as part of that law in force immediately before the commencement of the Act shall cease to have effect with respect to any matter for which provision is made in the Act." And, Section 8 of the Hindu Succession Act, 1956, lays down the scheme of succession to the property of a Hindu dying intestate. The schedule classifies the heirs on which such property shall devolve.

The preferential heirs of class I are as under:

(1) Son, (2) Daughter, (3) Widow, (4) Mother, (5) Son/daughter/widow of a predeceased son, (6) son/daughter of a predeceased daughter and (7) Son/daughter/ widow of a predeceased son of a predeceased son.

A son's son is not mentioned as an heir under Class I of the schedule and, therefore, he cannot get any right in the property of his grandfather under the provision. The right of a son's son in his grandfather's property during the lifetime of his father which existed under the Hindu Law as in force before the Act, is not saved expressly by the Act and, therefore the earlier interpretation of Hindu Law giving a right by birth in such property 'ceased to have effect'.

Therefore, the property which devolves on a Hindu on the death of his father intestate after coming into force of the Hindu Succession Act, 1956, does not constitute H.U.F. property consisting of his own branch including his sons. [Shri Vallabhdas Modani v. C.I.T. (1982) 138, ITR, p. 673].

The Allahabad High Court's decision supra in the case of Shri Vallabhdas Modani v. Commissioner of Income-tax was followed by the Andhra Pradesh High Court (1983, 144 ITR 18) and later approved by the Supreme Court in the case of Commissioner of Wealth-Tax v. Chander Sen (1986, 161 ITR 370) holding that it is not possible to say that when a son inherits the property in the situation contemplated by the Hindu Succession Act, 1956, he takes as Karta of his own undivided family.

COMPUTATION OF INCOME OF HINDU UNDIVIDED FAMILY 'HUF'

Income of the HUF is assessed as joint family income of HUF if there exists a co-parcenership and joint property of the family till partition is claimed by any of its coparceners.

Joint Property of the family consists of:

- (i) ancestral property which a man inherits from any of his three immediate male ancestors, namely, father, grandfather, great grandfather;
- (ii) accretion thereto;
- (iii) acquisition with joint funds; and
- (iv) self-acquired property of any member thrown by him into the common stock to be treated as family property. In the case of Pushpa Devi v. C.I.T. the Supreme Court has held that a Hindu female, not being

a coparcener, cannot blend her separate property with Joint family property. However, she can make a gift of her property or sell the property to the family. [(1977) 109, ITR p. 730].

The gross total income of the family for the relevant previous year shall be computed under the relevant heads (as per the provisions of the Income-tax Act) as it is computed for other assessee's. Incomes exempt under section 10 to 13A are exempt and deductions allowable under chapter VIA are to be provided. However, in this connection the following points are worth noting:

- (i) The holder, who is the senior most male member of the family, of an impartible estate is liable to tax on income from that estate in his individual capacity though the estate belongs to HUF.
- (ii) Conversion of self-acquired property into joint family property- Section 64(2) provides that where an individual being a member of Hindu undivided family transfers his separate property after 31st December, 1969 to the family for the common benefit of the family, otherwise than for adequate consideration, such property is known as converted property. The income derived from the converted property or any part thereof shall be included in the total income of the transferor individual and not in the income of the family.
- (iii) If the funds of a Hindu Undivided family are invested in a company or a firm, fees or remuneration received by the member as a director, or a partner in the company or firm may be treated as income of the family in case the fees or remuneration is earned essentially as a result of investment of funds. But, if the fees or remuneration is earned essentially for services rendered by the member in his personal capacity, the income shall constitute the personal income of the member.
- (iv) Where a member of a HUF is a partner in a firm on behalf of the family and on partition of the property of the family, the share in the firm is allotted to such a member, subsequent to such allotment when the firm settles its accounts the whole income for that year would be the income of the individual member and no part of the income would be added to the income of the family. [CIT v. Ashok Bhai Chiman Bhai (1965) 56, ITR, 42 (SC)].
- (v) The personal earning, including income from self-acquired property of a member of the HUF, even though he has sons, would not be included in the income of the family. Such income shall be assessed as income of that individual. [Kalyanji Vithal Das v. CIT (1937) 5 ITR 90 (PC)].
- (vi) Any sum paid by an HUF to a member of the family out of its income is not deductible in computing the income of the family. However, such amount will not be included in the income of such individual whether the family had paid tax on its income or not [Section 10(2)].
- (vii) If any remuneration is paid by the Hindu Undivided family to the Karta or any other member for services rendered by him in conducting family's business, the remuneration is deductible if remuneration is (a) paid under a valid and bona fide agreement; (b) in the interest of, and expedient for, the business of family; and (c) genuine and not excessive. Jugal Kishore Baldeo Sahai v. CIT [1967] 63 ITR 238 (SC).
- (viii) If salary is paid by the Hindu undivided family to its Karta for looking after its interest in firms in which it is partner through said Karta, such salary is allowable as deduction – CIT v. Prakash Chand Agarwal [1982] 11 Taxman 55 (MP).
- (ix) Income from 'stridhan' is not includible in the income of the family. Property derived by a woman from her father or brother or husband or any other relative either before or after her marriage is known as 'stridhan'.
- (x) Under the Dayabhaga School of law, as stated in a preceding page, no son has any right in the ancestral property during the lifetime of his father. If, therefore, the father does not have any brother as a coparcener, income arising from ancestral property is taxable as his individual income.

Partition of a Hindu Undivided Family [Section 171]

'Partition' signifies division of property. In the cases of property capable of physical division, share of each member is determined by making physical division thereof. It must be noted that a division of income without physical division of property does not amount to partition. Where, however, the property is not capable of physical division, partition implies such division as the property may admit.

Who is entitled to share on partition?

Though only coparceners can demand partition, once the partition takes effect, the following persons are entitled to a share:

- i. all coparceners;
- ii. a son in the womb of his mother at the time of partition;
- iii. mother, who gets an equal share if the partition takes place among her sons after the death of her husband; and
- iv. wife, who gets a share equal to that of a son at the time of a partition between father and sons.

Assessment after partition (Section 171)

Section 171 applies to an HUF which is assessed as such. Therefore, if in case a family is not assessed as a Hindu Undivided Family, this section does not apply. A joint family, once assessed as a HUF, continues to be assessed as such till one or more coparceners claim partition. Such claim must be made by the coparceners before the assessment of the income of the HUF for the relevant assessment year is completed. On the receipt of such a claim, the Assessing Officer must make an inquiry after giving due notice to the members and record a finding whether there has been a partition and, if so, the date of the partition. The income of the family from the first day of the previous year to the date of partition is assessed as income of the HUF and from the next date of the partition to the date of close of the previous year, as the individual income of the recipient-members. If the recipient member forms another HUF along with his wife and son(s), the income of the property which was subject to partition is chargeable to tax in the hands of the new H.U.F.

A partition of the HUF can be both total partition and partial partition

Where the entire joint family property is divided among all coparceners and the family ceases to exist as an undivided family, the partition is total. A partial partition may be as regards: (a) the persons constituting the joint family, or (b) the properties belonging to the joint family, or (c) both. In case of partial partition, some coparceners continue as a joint family or some properties continue as a joint estate as against some coparceners or properties which separate from HUF. The device of partial partition has been used as a medium for reduction of proper tax liability. To curb such a practice, the Finance (No. 2) Act, 1980 inserted Sub-section 9 in Section 171 which lays down that partial partitions of HUFs assessed as such (Union of India vs. MV Valliappan 1999 AIR SCW 2689), effected after 31st December, 1978 will not be assessed for tax purposes.

The provisions made by Sub-section (9) in Section 171 are as follows:

- (i) In a case where a partial partition of a HUF has taken place after 31.12.1978, no claim of such partition will be enquired into and the Assessing Officer will not record a finding as to whether there has been a partition of the family property. Further, any finding regarding partial partition recorded under Section 171(3) will be null and void and of no legal effect.

- (ii) Such family will continue to be assessed as if no such partial partition has taken place, i.e., the property or source of income will be deemed to continue to belong to the Hindu undivided family and no member will be deemed to have separated from the family.
- (iii) Each member or group of members of such family will be jointly and severally liable for any tax, interest, penalty, fine or other sum payable under the Act by the family, whether before or after such partition. The several liability of any member or group of members of such family will be computed according to the portion of the joint family property allotted to him on such partial partition. This amendment has come into force with effect from April 1, 1980 and has, accordingly, been applicable with effect from assessment year 1980-81 and onwards.

Illustration 5:

Ram Manhar & Sons HUF, running Raghuvver Departmental Stores consists of Karta, his wife, two sons and daughter. Both the sons who are having professional/technical qualifications as a Company Secretary and as an Automobile Engineer started in partnership, a garage for the repairing of motor cars, with a clear understanding that the technical side of the business be looked after by the Engineer while the general administration and finance part be taken care by the Company Secretary. They had taken an interest-free loan of Rs. 5,00,000 from the HUF for starting the venture. The business of garage resulted in a net profit of Rs. 15,00,000 for the year ended 31.03.2026. The Assessing Officer proposes to assess the income from the business of motor garage in the hands of HUF. Examine the validity of the proposition of the Assessing Officer in the light of a decided case law.

Solution:

The facts of the case are similar to that of the case of CIT v. Charan Dass Khanna & Sons (1980) 123 ITR 194, where the Delhi High Court observed that if the investment made by the HUF in the business started by the coparceners plays a minor role and it is primarily the personal efforts, specialized skill and enterprise of the individual coparceners which resulted in setting up of a new business and earning of goods profits, then it may not essentially be said that the income belongs to the HUF.

The Supreme Court has also supported this view in the case of K.S. Subbiah Pillai v. CIT (1999) 237 ITR 11 and held that where the remuneration and commission earned by the Karta were on account of the personal qualifications and exertions and not on account of the investment of the family funds, such income cannot be treated as income of the HUF.

Thus, in the given case, profits were earned primarily because of the specialized skills acquired by both the partners in their respective fields and used in the business of motor garage. The initial capital taken from the HUF as interest free loan, of course, has its role but it is nevertheless a minor one. Therefore, the income from the business set up by the brothers is assessable in their individual hands and not as the income of the family.

Further, the proposition of the Assessing Officer to tax the profits of the business of motor garage earned by the two sons in the hands of the HUF is not valid.

Illustration 6:

Ram (59 years) and his two brothers (Ramesh (57 years) and Somesh (50 years) are engaged in family business of cultivation of wheat. Last year they had losses to the extent of Rs. 12,000 but this year, due to good season the Business earned a Profit of Rs. 2,20,000.

The family owns a house property, the municipal valuation of which is Rs. 280000 and the market rent of similar property is Rs. 2,85,000. The standard rent as per Rent Control Act is Rs. 3,50,000. The family pays Rs. 48,000 for municipal taxes during the previous year out of which Rs. 20,000 pertains to earlier year which could not be paid due to business loss. Interest on capital borrowed for repaying original loan for construction of house Rs. 75,000. Further, the rental income of the property is Rs. 3,10,000.

Dividend received from Indian Company X Ltd. Rs. 12,000. Interest received on listed debentures Rs.8,10,000 (net).

Compute the total income and Tax liability of the family X (HUF) for the Assessment year 2026-27.

Option 1: Assessee has opted to pay tax as per the old scheme.

Option 2: Assessee is paying tax as per Section 115BAC.

Solution:

Option 1: Assessee has opted to pay tax as per the old scheme:

Computation of Total Income of X (HUF) for the Assessment Year 2026-27

Income from House Property	(Rs.)
Gross Annual Value	3,10,000
Less: Municipal Taxes	(48,000)
Net Annual Value	2,62,000
Less: Standard Deduction @ 30% of 2,62, 000	(78,600)
Less: Interest on Capital borrowed	(75,000)
Income from House Property	1,08,400
Income from Business/Profession	
Agricultural income (Exempt)	NIL
Income from other Sources	
Dividend received from Indian Company X Ltd.	12,000
Interest on Listed Debentures $8,10,000/90 \times 100$	9,00,000
Gross Total Income	10,20,400
Less: Deduction under Section 80C to 80U	NIL
Total Income	10,20,400

Note: The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2)

Computation of tax on Total Income of X (HUF) for the Assessment Year 2026-27

Particulars		Amount (Rs.)
(a)	Agricultural income (2,20,000-12,000)	2,08,000
(b)	Non-agricultural income	10,20,400
(c)	Total of (a) and (b)	12,28,400
(d)	Tax payable on (c)	1,81,020
	Tax on first 2,50,000 NIL	
	Tax on next 250,000 @ 5% = Rs. 12,500	
	Tax on next 500,000 @ 20% = Rs. 100,000	
	Tax on remaining income Rs. 2,28,400@ 30% = 68,520	
(e)	Total of agricultural income and basic exemption limit	4,58,000
(f)	Tax payable on (e) (As per slab rates)	10,400
(g)	Net tax payable = (d) – (f)	1,70,620
(h)	Add: Health and Education cess of 4% on Rs.170620	6,824
(i)	Total tax (round off)	1,77,440

Option 2: Assessee is paying tax as per section 115BAC**Computation of Total Income of X (HUF) for the Assessment Year 2026-27**

Income from House Property	(Rs.)
Gross Annual Value	3,10,000
Less: Municipal Taxes	(48,000)
Net Annual Value	2,62,000
Less: Standard Deduction @ 30% of 2,62,000	(78,600)
Less: Interest on capital borrowed	(75,000)
Income from House property	1,08,400
Income from Business/Profession	(Rs.)
Agricultural income (Exempt)	NIL

Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest on listed debentures	9,00,000
Gross Total Income	10,20,400
Less: Deduction under section 80C to 80U	NIL
Total Income	10,20,400

Note: The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2).

**Computation of Tax on Total Income of X (HUF) for the
Assessment Year 2026-27**

Particulars		Amount (Rs.)
(a)	Agricultural income (2,20,000-12,000)	2,08,000
(b)	Non-agricultural income	10,20,400
(c)	Total of (a) and (b)	12,28,400
(d)	Tax payable on (c)	64,260
	Tax on first 4,00,000 NIL	
	Tax on next 4,00,000 @ 5% = Rs. 20,000	
	Tax on next 4,00,000 @ 10% = Rs. 40,000	
	Tax on next 28,400 @ 15 % = Rs.4,260	
(e)	Total of agricultural income and basic exemption limit	6,08,000
(f)	Tax payable on (e) (As per slab)	10,400
(g)	Net tax payable = (d)-(f)	53,860
(h)	Add: Health and Education cess of 4% on Rs. 53,860	2,154.40
(i)	Total tax (round off)	56,010

Illustration 7: Ram, 66 years is the Karta of a HUF with his two sons Ramesh (39 years) and Somesh (25 years). The family owns a house property, the rental income of the same is Rs. 3,10,000. Family business profits Rs. 2,80,000. Long-term capital gains Rs. 25,000 and short-term capital gains for the year Rs.11,000 (STT applicable). Dividend received from Indian Company X Ltd. Rs. 12,000. Interest received on listed debentures Rs.8,000 (gross) Ram invested in PPF Rs. 1,50,000 out of family funds and received share of profits from a firm in which he represented HUF being Karta. Ram gifts Rs. 1,00,000 to family. Salary income of Ramesh Rs. 6,00,000 Interest on Government Securities Rs. 10,000(gross) out of own funds of Ram.

Compute the total income and Tax liability of the family X (HUF) and Ram, Ramesh and Somesh for the Assessment year 2026-27. Assume that assessee are opting to pay tax as per old scheme.

Solution:

Computation of Total Income of X (HUF) for the Assessment Year 2026-27

Income from House Property	Amount (Rs.)
Rent	3,10,000
Less: Standard Deduction @ 30%	93,000
Income from House property	2,17,000
Income from Business/Profession	
Business Profits	2,80,000
A Firm (Exempt)	NIL
Income under the Head Capital Gains	
Long-term Capital Gain	25,000
Short term Capital Gain	11,000
Income from other sources	
Dividend received from Indian Company X Ltd.	12,000
Interest received on listed debentures	8,000
Gift (Exempt)	NIL
Gross Total Income	5,53,000
Less: Deduction under section 80C to 80U	
Under section 80C (maximum)	1,50,000
Total Income	4,03,000

Note: The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2)

Computation of tax on Total Income of HUF for the Assessment Year 2026-27

Tax on long-term capital gains (12.5% of Rs. 25,000)	3,125
Tax on short-term capital gains (20% of Rs. 11,000)	2,200
Balance of Total Income Rs. 3,67,000	5,850
Total tax	11,175
Add: Health and Education Cess at 4%	447
Total liability (round off)	11,620

Note: The share of Karta and other coparceners in the profits of HUF will be exempt under section 10(2)

Computation of taxable income of Ram, Ramesh and Somesh for the Assessment Year 2026-27

Particulars	Ram	Ramesh	Somesh
Salary Income		6,00,000	
Business Income:			
Profit share in HUF	Exempt	Exempt	Exempt
Income from other sources			
Interest on Government Securities	10,000		
Gross Total Income	10,000	6,00,000	
Deduction's u/s 80C to 80U			
Taxable Income	10,000	6,00,000	
Tax liability	NIL	33,800	NIL

TAXATION OF FIRMS

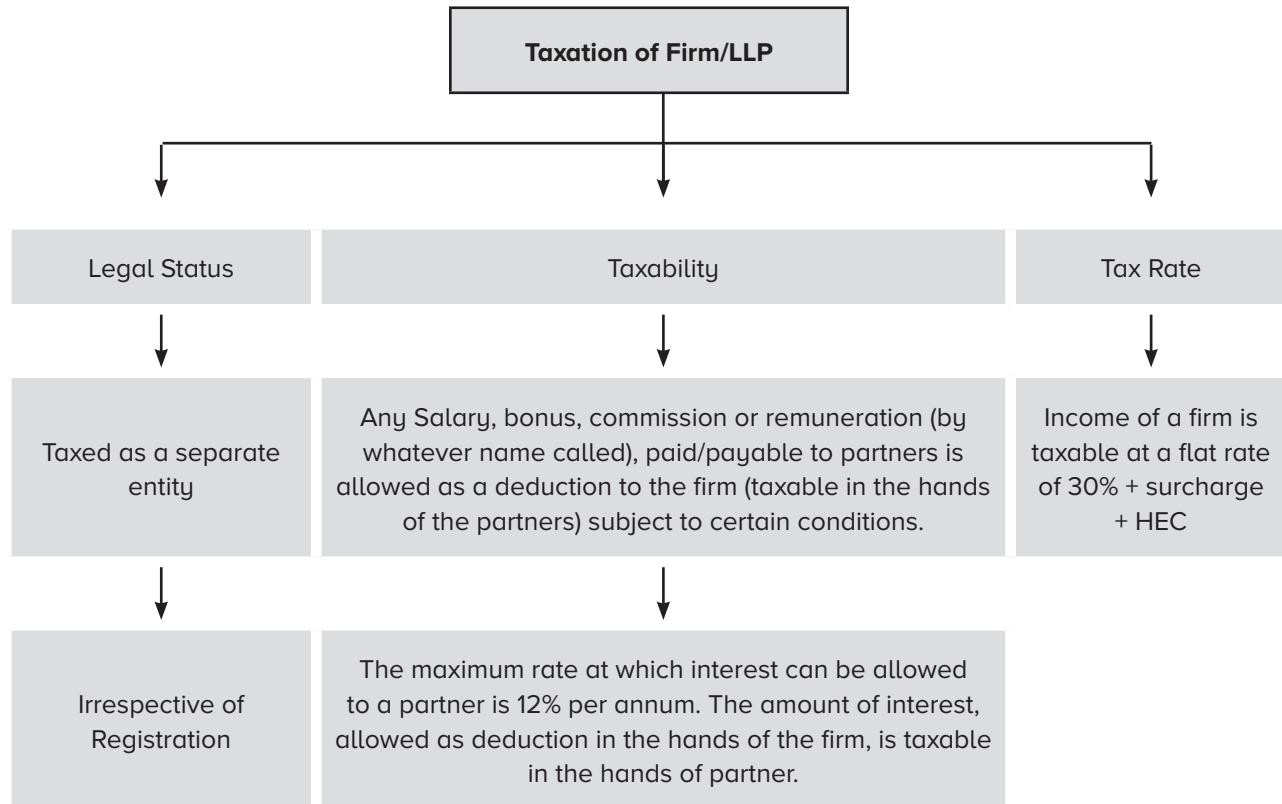
Under Section 2(23) of the Income-tax Act, the terms “firm”, “partner”, and “partnership” have the meanings respectively assigned to them in the Indian Partnership Act, 1932 and Limited Liability Partnership Act, 2008.

The expression “partner” also includes a minor who has been admitted to the benefits of partnership and a partner of a Limited Liability Partnership Act, 2008. However, a minor cannot validly enter into any partnership as a ‘full partner’ with other persons but he can be admitted to the benefits of partnership only.

A joint Hindu family as such cannot be a partner in a firm. However, through its Karta it may enter into a valid partnership with a third person or with a member of the undivided family in his individual capacity. In such a case, the Karta occupies a dual position. On the partnership he functions in his individual capacity; on the relations to other members of the Hindu undivided family, in his representative capacity.

An incorporated company being a legal person may form a partnership with an individual or with another company. In considering the maximum number of partners comprising a firm, the company will be considered as one person only.

A partnership firm as such is not entitled to enter into a partnership with another firm, H.U.F., individual, or a company. However, its partners in their individual capacity can enter into another partnership.



Assessment as a Firm [Section 184]

As per the scheme, a partnership firm in the first assessment year shall be assessed as a firm if the following conditions are satisfied:

1. The partnership is evidenced by an instrument, i.e., partnership deed which is to be in writing containing necessary clauses.
2. The individual shares of the partners as specified in that instrument (including how the loss will be borne by major partners in case of a minor admitted for benefits only).

A copy of the partnership deed certified by all the partners or their duly authorized agents, in writing (other than the minors) is submitted along with the return of income in respect of which assessment as a firm is first sought.

Where the return is made after the dissolution of the firm, the copy of the partnership deed should be certified in writing by all persons (excluding minors) who were partners of the firm immediately before its dissolution and by the legal representative of any deceased partner.

When a firm is assessed as such for any assessment year, it shall be assessed in the same capacity for every subsequent year if there is no change in the constitution of the firm or in the shares of partners as evidenced by the partnership deed on the basis of which assessment as a firm was first sought.

Where any such change has taken place in the previous year, the firm shall furnish a certified copy of the revised instrument of partnership along with the return of income for the assessment year relevant to such previous year. In doing so all the provisions of Section 184 will apply to the firm. Further, any change in remuneration or interest to partners is to be notified in the same manner to comply with section 40(b).

Circumstances where the firm will be assessed as a firm but shall not be eligible for deduction on account of interest, salary, bonus, etc.

Where the firm—

1. fails to make the return required under Section 139(1) and has not made a return or revised return under Section 139(4) or 139(5), or
2. fails to comply with all the terms of a notice issued under Section 142(1) or fails to comply with a direction issued under Section 142(2A), or
3. having made a return, fails to comply with all the terms of a notice issued under Section 143(2)(d) does not comply with three conditions mentioned above u/s 184.

Then the firm shall not be eligible for any deduction on account of interest to a partner and remuneration to a working partner although the same is mentioned in the partnership deed.

Computation of Income and Tax Liability of Firm

The income of the firm shall be computed as per the normal provisions of the Act under various heads of income excluding incomes exempt from tax and deductions under section 80 as applicable.

Rate of Tax: In the case of a firm which is assessable as such (i.e., as a firm), tax is chargeable on its total income at the rate of 30%.

Surcharge @12% shall be applicable where the total income exceeds Rs. 1 crore.

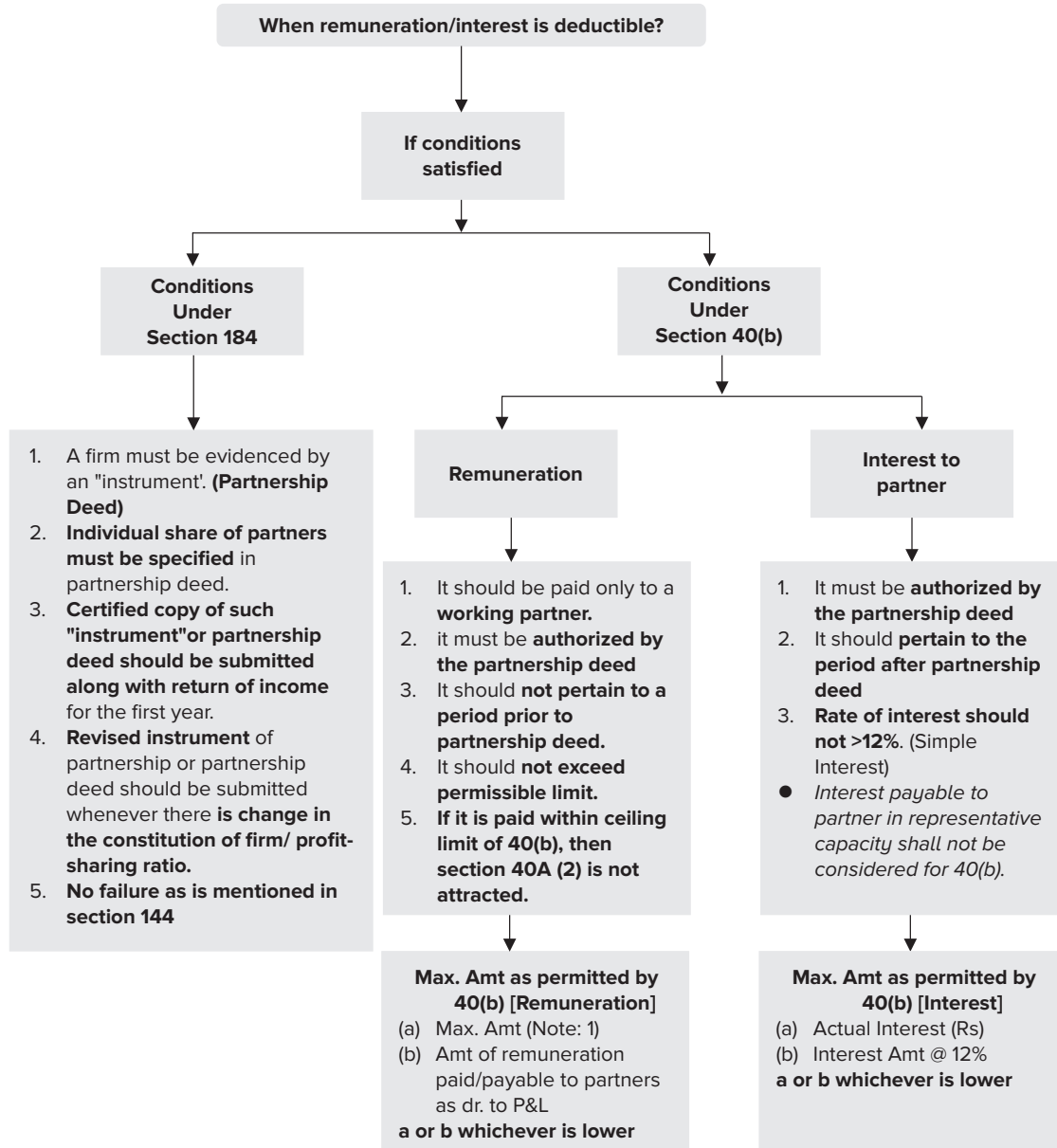
Health and Education Cess shall be added as 4% of tax plus surcharge. However, firm and LLP is subject to Alternate Minimum Tax 'AMT' under section 115JC (discussed in detail later in this chapter).

Partnership is not a separate entity distinct from the partners, but for tax purposes a partnership is taxed as a separate entity and therefore total income will be computed under various heads of income. A partnership firm is also entitled for deductions under section 30 to 38 for expenditures incurred. However, for payment of remuneration to partners and interest on capital are allowed subject to conditions laid down under section 40(b).

Section 40(b), contains the following conditions which need to be complied with while making payment of remuneration and interest on borrowed capital to the partners:

- (i) Payment of salary, bonus, commission or remuneration by whatever name called to a non-working partner shall not be allowed as deduction. Such payments are allowed only to working partners if it is assessed by the partnership deed and are in accordance with partnership deed. Also, such payments should pertain to the period after the partnership deed.
- (ii) Interest payable to a partner, assessed by the partnership deed for period after the partnership deed shall be allowable as deduction subject to a maximum of 12% p.a. If the partnership deed provides for interest at less than 12% p.a, the deduction of interest shall be allowed to the extent provided by the partnership deed.
- (iii) the payment of remuneration to working partner, although assessed by partnership deed however it is subject to maximum of the following limits.

Uniform limits for both Professional Firms and Non-Professional Firms	
On the first Rs. 6,00,000 of the book-profit or in case of a loss.	Rs. 3,00,000 or 90% of the book-profit, whichever is more.
On the balance of the book-profit	60% of the book profits.



Meaning of Book Profit [Explanation 3 to section 40(b)]

Book-profit” means the net profit, as shown in the profit and loss account and make the additions and deductions as per section 28 to 44DB explained under the head income from Business and Profession increased by the aggregate amount of the remuneration paid or payable to all the partners of the firm if such amount has been deducted while computing the net profit. Interest paid/payable to partners in excess of 12% shall also be disallowed as per section 40(b).

Net profit as per P&L account	**
Add/less: Adjustments as provided by sections 28 to 44DB	
Add: Remuneration to partners if debited to the P & L	
Book profit	**

Note:

- Income chargeable to tax under the heads “Income from house property,” “Capital gains” and “Income from other sources” is not part of “book profit”
- Brought forward business losses are not to be deducted from “book profit” (Adjust b/f unabsorbed depreciation from earlier years); and for allowing unabsorbed depreciation, b/f business loss shall have to be notionally allowed first from current business income.
- Permissible deductions from gross total income under sections 80C to 80U shall be ignored for computing “book profit”.
- Interest on FD is a considered to be business income and hence it will be included in book profit. CIT v. J.J. Industries [2013] 216 Taxman 162(Guj.)

CASE 1

D Patel & Associates, a firm carrying on business provides details for the FY 2025-26 stated a book profit before adjusting unabsorbed depreciation and b/f business loss of Rs 1,85,000. However, the unabsorbed depreciation of earlier years and b/f business loss would be Rs. 85,000 and Rs. 1,15,000 respectively. Kindly advise towards treatment of Brought forward business losses and allowable remuneration under section 40(b).

Solution:

Provision for Brought forward business losses

Brought forward business losses are not to be deducted from “book profit” (Adjust b/f unabsorbed depreciation from earlier years); and for allowing unabsorbed depreciation, b/f business loss shall have to be notionally allowed first from current business income.

Computation of allowable remuneration under section 40(b)

Particulars	Amount Rs
Book profit before adjusting unabsorbed depreciation and b/f business loss	1,85,000
Less: B/F business loss (Notional Deduction)	(1,15,000)
Balance	70,000
Less: Set off unabsorbed depreciation (To the extent of Rs. 70,000)	(70,000)
Balance	0
Add: B/F business loss (Notional Deduction) but not allowed to be set off as carried under section 72	1,15,000
Book Profit	1,15,000
Allowable Remuneration under section 40(b)	
(a) 3,00,000	3,00,000
(b) 90% of Book profit (i.e. 90% of 1,15,000) = 1,03,500	
Whichever is higher	

Summarized provisions of carry forward and set off of loss in the case of Firm		
Points to be noted	<ul style="list-style-type: none"> ● No separate provision of carry forward and set off of loss of firms. ● Same as applicable in case of other assesses ● Losses and unabsorbed depreciation of firm can be carried forward by firm only. 	
Set off and carry forward in case of Change in the constitution of firm	<ul style="list-style-type: none"> ● Section 78 provides that where there is a change in the constitution of the firm on account of death/ retirement, the firm shall not be entitled to carry forward of so much of the loss as is attributable to such partner. ● This provision covers when a partner goes out of the firm (i.e., the case of retirement or death). ● It does not cover the case of change in profit-sharing ratio or the case of admission of a partner. ● Section 78 is not applicable in the case of unabsorbed depreciation and unabsorbed capital expenditure on scientific research. 	
Tax Treatment in case of change in constitution of firm	Step 1: Compute Share of outgoing partner in the profit of the firm in the year of change in the constitution of firm	**
	Step 2: Compute the share of loss of outgoing partner in the brought forward loss.	**
	Step 3: Set off share in b/f loss of outgoing partner for his share of profit of current year.	**

CASE 2

XL and Associates (A firm) having 3 partners sharing profit in the ratio of 2:2:1 provides you the following details for the PY 2025-26.

Profit (Before) setting of b/f loss and depreciation	3,60,000
B/F depreciation for AY 2025-26 (i.e. P.Y 2024-25)	1,50,000
B/F loss of AY 2025-26	2,00,000

You are requested to advice on Tax Treatment in case of change in constitution of firm when one of the partners retired on 31.8.2025 from the firm.

Solution:

Particulars	Amount
Step 1: Share of outgoing partner in the profit of the firm in the year of change in the constitution of firm $(3,60,000 \times \frac{2}{5} \times \frac{5}{12})$ [Period from 1.4.2025-31.8.2025]	60,000

Step 2: Share of loss of outgoing partner in the brought forward loss. $(2,00,000 \times 2/5)$	80,000
Step 3: Set off loss to the extent of profit	
Loss 80,000	
Less: Set off of profit (60,000)	60,000
Balance of Loss (Can't be carried forward and set off by firm)	20,000
Firm is allowed to set off b/f loss $(2,00,000 - 20,000)$ to the extent of	1,80,000

Assessment of Partners

As per Section 10(2A) of the Act, any person who is a partner of a firm which is assessed as such, his share in the total income of the firm will not be included in computing his total income. Partner includes a minor admitted to the benefits of partnership as per Section 2(23) of the Act.

Further, the explanation to Sub-clause (2A) provides that the share of a partner in the total income of the firm assessed as a firm shall be an amount which bears to the total income of the firm the same proportion as the amount of his share in the profits of the firm (in accordance with the partnership deed) bears to such profits.

In terms of a formula, the amount exempt would be: Partners share in the profit of the firm = as shown in the partnership deed Total Profits of the Firm \times Total income of the firm.

Any interest, salary, bonus, commission or remuneration by whatever name called which is due to or received by a partner of a firm from the firm will be chargeable to tax in the hands of the partner (to the extent allowed as deduction to the firm) under the head "profits and gains of business or profession". However, if such salary, interest, bonus, commission or remuneration (or any part thereof) has not been allowed as deduction as per Section 40(b) in the hands of the firm, the amount not allowed as deduction shall not be charged to tax in the hands of partners.

Further, deductions under Sections 32 to 37 can be claimed by a partner from any income where any expenditure was incurred to earn such income.

Succession of one firm by another firm [Section 188]

When all the partners in the predecessor firm are replaced by new partners in the successor firm, it is known as succession of one firm by another firm. If a firm is dissolved and some of the partners take over the firm's business or carry on a similar business with or without new partners, it would be a case of succession by a new firm (62 I.T.R. 75).

In CIT v. K.H. Chambers (1965) 55 ITR 674, the Supreme Court laid down the following requisites of succession:

- (i) There is a change of ownership.
- (ii) The whole business is transferred.
- (iii) Substantially the identity and the continuity of the business are preserved.

Where the partnership deed does not provide specifically for continuance of the firm on the death of a partner, there would be no change in constitution of the firm but it would be a case of succession. [Addl. CIT v. Thyagasundara Mudaliar (1981) 127 ITR 520].

Where a firm is succeeded by another firm, separate assessments are made on the predecessor and successor firms respectively in accordance with the provisions of Section 170. Section 170 provides that the predecessor shall be assessed in respect of the income of the previous year in which the succession took place up to the date of succession and the successor shall be assessed in respect of the income of the previous year after the date of succession. If the predecessor cannot be found, or the tax assessed on the predecessor cannot be recovered from him for the previous year (in which the succession took place) and the previous year immediately preceding such previous year, the assessed tax payable by the predecessor shall be recovered from the successor.

However, the successor firm is entitled to recover from the predecessor firm any tax paid by it on behalf of the former. If any tax is due against any partner of the predecessor firm, it cannot be recovered from the successor firm.

Joint and Several Liabilities of Partners for Tax Payable by Firm [Section 188A]

Section 188A provides that every person who was, during the previous year, a partner of a firm, and the legal representative of any such person who is deceased, shall be jointly and severally liable along with the firm for the amount of tax, penalty or other sum payable by the firm for the assessment year to which such previous year is relevant, and all the provisions of Income-tax Act, so far as may be, shall apply to the assessment of such tax or imposition or levy of such penalty or other sum.

Firm Dissolved or Business Discontinued [Section 189]


Where any business or profession carried on by a firm has been discontinued or where a firm is dissolved, the assessment of the total income of the firm shall be made as if no such discontinuance or dissolution had taken place and all the provisions of the Act, including the provisions relating to penalty or any other sum (interest, fine) chargeable under the Act, shall apply. Consequently, every person who was a partner of the firm at the time of discontinuance of business or dissolution of the firm and legal representative of the deceased partner shall be jointly and severally liable to the amount of tax penalty and any other sum. Where the dissolution or discontinuance of business takes place after any proceedings in respect of an assessment year have commenced, the proceedings may be continued against the partners or legal representative of a deceased partner from the stage at which the proceedings stood at the time of such dissolution or discontinuance.

Thus, every partner of the firm and the legal representative of the deceased partner is liable to pay the tax which is already due or may have become due after the dissolution, irrespective of his interest in the firm.

However, if there was any irrecoverable amount at the time of dissolution or discontinuance of business and later on it was recovered by the partners, the partners shall personally pay the tax on their share so recovered.

ALTERNATE MINIMUM TAX (AMT) [SECTION 115JC]

Summarized provisions of Alternate Minimum Tax [AMT]	
Chapter	XIIBA (Special provisions relating to certain persons other than a company)
Section	115JC to 115JF

Applicability  Non Corporate Assessee	Non Corporate Assessee	Condition												
	Individual/HUF/AOP/BOI/AJP	If Adjusted Total Income (ATI) > Rs. 20 Lakh												
	LLP/Any other firm/Any person other than company	If claimed deduction <ul style="list-style-type: none"> ● u/s 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or ● u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards 												
Non-Applicability	<ul style="list-style-type: none"> – Non-Corporate Assessee whose adjusted total income (ATI) is Rs 20,00,000 or less. – Person who has opted to pay tax under section 115BAC/115BAD/115BAE. 													
Tax Rate (AMT)	<table border="1"> <tr> <td>Normal Tax Rate</td> <td>18.5% of ATI</td> </tr> <tr> <td>Co-Operative Society</td> <td>15% of ATI</td> </tr> <tr> <td>Units located in IFSC and derived income solely in convertible forex</td> <td>9% of ATI</td> </tr> </table>		Normal Tax Rate	18.5% of ATI	Co-Operative Society	15% of ATI	Units located in IFSC and derived income solely in convertible forex	9% of ATI						
Normal Tax Rate	18.5% of ATI													
Co-Operative Society	15% of ATI													
Units located in IFSC and derived income solely in convertible forex	9% of ATI													
Tax liability	A. Tax on total income as per normal provision of Income Tax Act. B. 18.5% (+SC+HEC) of Adjusted Total Income. Amount of tax payable = (A) or (B) whichever is higher													
A > B	<ul style="list-style-type: none"> ● Non-Corporate has to pay normal income tax. ● Non-Corporate can utilize amount of AMT credit in that year if available. Maximum Amount of Credit Utilized = A-B													
A < B	<ul style="list-style-type: none"> ● Non-Corporate has to pay AMT u/s 115JC. ● Non-Corporate can only avail AMT credit. AMT Credit Available = B-A													
How to compute ATI	<table border="1"> <tr> <td>Net Income or Total Income</td> <td>**</td> </tr> <tr> <td>Add:</td> <td></td> </tr> <tr> <td>● Deduction under section 10AA</td> <td>**</td> </tr> <tr> <td>● Deduction under section 80H to 80RRB (Except 80P)</td> <td>**</td> </tr> <tr> <td>● Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed).</td> <td>**</td> </tr> <tr> <td>Adjusted Total Income</td> <td>**</td> </tr> </table>		Net Income or Total Income	**	Add:		● Deduction under section 10AA	**	● Deduction under section 80H to 80RRB (Except 80P)	**	● Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed).	**	Adjusted Total Income	**
Net Income or Total Income	**													
Add:														
● Deduction under section 10AA	**													
● Deduction under section 80H to 80RRB (Except 80P)	**													
● Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed).	**													
Adjusted Total Income	**													

Set off and Carry forward AMT credit	<ul style="list-style-type: none"> ● Not beyond 15th Assessment year ● From AY 2018-19, AMT Credit shall not be carried forward to subsequent year to the extent such credit relates to difference between Foreign Tax Credit (FTC) allowed against AMT. ● No interest is payable on AMT credit. ● AMT can't be adjusted in case of person who has opted for the Alternative Tax regime under section 115BAC/115BAD/115BAE.
Report	The assessee will have to obtain a report in Form No. 29C electronically from a chartered accountant one month prior to the due date of submission of return certifying that the ATI and AMT have been computed in accordance with the provisions of this Chapter.
Other Provisions	Advance tax, interest u/s 234A/B/C shall apply to assessee

The provisions of section 115JC are applicable to all assessee except companies where the regular income tax payable for a previous year is less than the alternate minimum tax payable for such previous year then the adjusted total income shall be deemed to be the total income of that person for such previous year and it shall be liable to pay income tax on such adjusted total income @ 18.5% plus Health and Education Cess @ 4%.

12% surcharge if Adjusted Total income of the firm or LLP exceeds INR 1 crore plus 4% Health & Education cess in all cases. In case of individual surcharge will be 10% if Adjusted Total income exceeds INR 50 Lacs and 15% if it exceeds INR 1 crore and 25% if it exceeds INR 2 crores and 37% if it exceeds INR 5 crores.

It is further provided that the provisions of AMT under Chapter XII-BA shall only apply to an individual or a Hindu undivided family or an association of persons or a body of individuals (whether incorporated or not) or an artificial juridical person if the adjusted total income of such person exceeds **twenty lakh rupees**.

However, AMT is levied @ 9% in case of a non-corporate assessee being a unit located in International Financial Services Centre and deriving its income solely in convertible foreign exchange.

For Co-operative Society rate of AMT will be 15% from AY 2025-26 onwards. Surcharge and cess as applicable will also be levied.

The regular income tax payable shall be the income-tax payable for a previous year by a person other than a company on his total income in accordance with the provisions of the Act other than the provisions of Chapter XII- BA, i.e., section 115JC to 115JF.

Adjusted total income shall be the total income before giving effect to the provisions of Chapter XII-BA as increased by the deductions claimed under any section 80H to Section 80RRB (other than section 80P) included in Chapter VI-A under the heading "C – Deductions in respect of certain incomes" and deduction claimed under section 10AA. Further, total income shall be increased by the deduction claimed under section 35AD for purpose of computation of adjusted total income. The amount of depreciation allowable under section 32, as if no deduction u/s 35 AD in respect of such assets was allowed, shall however, be reduced in computing the adjusted total income.

Particulars	(Rs.)
Taxable income of the taxpayer	XXXX

Particulars	(Rs.)
Add: Amount of deduction claimed under section 80H to 80RRB (except 80P)	XXXX
Add: Amount of deduction claimed under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32)	XXXX
Add: Amount of deduction claimed under section 10AA	XXXX
Adjusted total income	XXXX

The provisions can be summarized as:

1. If regular income tax payable is more than or equal to the alternate minimum tax (18.5% plus Health and Education cess @ 4% of adjusted total income), the regular income tax payable is the tax liability of the assessee.
2. If regular income tax payable is less than the alternate minimum tax (18.5% plus Health and Education cess @ 4% of adjusted total income), the adjusted total income is the deemed income of the assessee for that year and alternate minimum tax is the tax liability.

However, the credit for tax (tax credit) paid by a person on account of AMT under Chapter XII- BA shall be allowed to the extent of the excess of the AMT paid over the regular income-tax. This tax credit shall be allowed to be carried forward up to the fifteen assessment years immediately succeeding the assessment year for which such credit becomes allowable and set off against regular tax liability. In other words, it shall be allowed to be set off for an assessment year in which the regular income-tax exceeds the AMT, to the extent of the excess of the regular income-tax over the AMT.

The amount of AMT credit shall not be allowed to be carried forward to the subsequent year to the extent such credit relates to the difference between the amounts of foreign tax credit (FTC) allowed against AMT and FTC allowable against the tax computed under regular provisions of the Act.

Every person to which this section applies shall obtain a report, before the specified date referred to in section 44AB, in such form as may be prescribed, from an accountant referred to in the Explanation below sub-section (2) of section 288, certifying that the adjusted total income and the alternate minimum tax have been computed in accordance with the provisions of this Chapter and furnish such report by that date.

All other provisions of the Act, like advance tax, interest u/s 234A/B/C shall apply to assessee who is liable to pay AMT.

The provisions of AMT shall not apply to a person who has exercised the option referred to in section 115BAC or section 115BAD or section 115BAE.

Illustration 8:

A, B and C are the partners for 3:2:1 share respectively, in a firm engaged in medical profession. Compute the total income of the firm for the year ended 31st March, 2026:

Particular	Rs.	Particular	Rs.
Office Expenses	15,400	Gross Profit	40,000
Income Tax	1,000	Net Loss A	8,700

Salary to A	5,000	Net Loss B	5,800
Salary to B	4,000	Net Loss C	2,900
Salary to C	10,000		
Bonus to A	10,000		
Bonus to B	12,000		
Total	57,400	Total	57,400

Solution:

Computation of Book Profit of the Firm	Rs.	Rs.	Rs.
Net Loss as per P & L A/c			(17,400)
Add: Inadmissible Expenses:			
Income-tax		1,000	
Salary to partners:			
A	5,000		
B	4,000		
C	10,000	19,000	
Bonus to partners			
A	10,000		
C	12,000	22,000	42,000
Book Profit			24,600

Permissible Remuneration to Partners

90% of first Rs. 6,00,000 of Book-profit or Rs. 3,00,000 whichever is more, is allowed as deduction. Here the permissible remuneration comes to Rs. 3,00,000, but as the partners have claimed Rs. 41,000 only, hence the entire amount will be allowed.

Computation of total income of the firm

Book Profit		24,600
Less: Salary to Partners	19,000	
Bonus to Partners	22,000	(41,000)
Loss of the Firm		(16,400)

Note: Loss of the firm will be carried forward by the firm to the next year(s).

Illustration 9:

M, N and O are partners sharing profits and losses in the ratio of 2:1:1 respectively. Their summarized Profit and Loss A/c for the year ending 31st March, 2026 is appended below:

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Office salaries	5,680	Gross Profit	60,570
Telephone and Telegram	2,000	Rent received	6,000
Interest on loan from M	2,000	Interest on securities	4,000
Local taxes (let out property)	1,000		
Salary to N	3,000		
Commission to partners			
M	4,000		
N	5,000		
O	6,000		
Collection charges of interest on securities	50		
Bad debts reserve	1,000		
Net Profit to partners:			
M	20,420		
N	10,210		
O	10,210		
Total	70,570	Total	70,570

Compute total income of the firm for the Assessment Year 2026-27 and tax liability thereon. Interest paid to M has been calculated at the rate of 20% p.a.

Solution:**Computation of Book-Profit**

Particulars	Rs.	Rs.
Net Income as per P & L A/c		40,840
Add: Inadmissible items -		
Local taxes (on let out property)	1,000	

Salary to N (Partner)	3,000	
Commission to partners	15,000	
Collection charges	50	
Bad debts reserve	1,000	20,050
		60,890
Less: Other Incomes -		
Rent received	(6,000)	
Interest on securities	(4,000)	(10,000)
Book Profit		50,890

Maximum remuneration payable to partners

Here Rs. 3,00,000 will be allowed as maximum remuneration. But as the partners have drawn only Rs. 18,000 by way of salary and commission, the entire amount will be allowed as deduction.

Computation of Total Income of the Firm [Assessment Year 2026-27]

Particulars	Rs.	Rs.
Book Profit:		50,890
Less: Salary and commission to partners		(18,000)
– Taxable Business Profit		32,890
– Income from house property		
Rent received		6,000
Less: Municipal taxes		(1,000)
Net adjusted annual value (NAAV)		5,000
Less: Repairs (30% of NAAV) u/s 24		(1,500)
Income from House Property		3,500
– Income from other sources:		
Interest on Securities	4,000	
Less: Collection charges	(50)	3,950
Gross Total Income (32,890 + 3,500 + 3,950)		40,340

The firm will have to pay tax on Rs. 40,340 @ 30%, which comes to Rs. 12,102 plus health and education cess @ 4% on 12,102 making the total liability as Rs. 12,586.

Illustration 10:

Compute tax liability of the firm X & Co. for the assessment year 2026-27 considering the provisions of Section 115JC. The business income of the firm is Rs. 21,00,500 before deduction under section 32 and before deduction under section 35AD Rs. 11,00,000, because of which depreciation of Rs. 40,000 cannot be claimed. Deduction under section 80IB Rs. 1,00,000. Donation paid to a political party Rs. 85,000.

Solution:

Particulars	(Rs.)
GTI – Business Income (Rs. 21,00,500 less 11,00,000)	10,00,500
Less: Deductions	
Under section 80IB	1,00,000
Under section 80GGC	85,000
Net Income	8,15,500
Tax on Rs. 8,15,500 @ 30%	2,44,650
Add: Health and Education Cess @ 4%	9,786
Tax liability	2,54,436
Adjusted total income and alternate minimum tax for the purpose of section 115JC	
Net Income	8,15,500
Add: Under section 80IB	1,00,000
Add: under section 35AD (Rs. 11,00,000 less 40,000)	10,60,000
Adjusted total income	19,75,500
AMT on Rs. 19,75,500 @ 18.5%	3,65,467
Add: Health and Education Cess @ 4%	14,618
AMT liability	3,80,085
AMT liability (round off)	3,80,090
Tax payable is Rs. 3,80,090 being higher of tax liability Rs. 2,54,436 and AMT Rs. 3,80,090.	

Illustration 11:**Income & Expenditure A/c of Lawyers & Co. for the year ending March 31, 2026**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Expenses	1,50,000	By Professional Receipts	3,80,000
To Depreciation	20,000	By Other fees	90,000
To Remuneration to partners	1,50,000		
Interest on Capital to partners @ 20%	20,000		
To Net Profit	1,30,000		
Total	4,70,000	Total	4,70,000

Other Information:

- Expenses include Rs. 18,000 and Rs. 12,000 paid in cash as brokerage to a single party on a single day.
- Depreciation calculated as per section 32 is Rs. 40,000.

Compute the Total Income of the Firm.

Solution:**Computation of Total Income of Lawyers & Co. for A. Y. 2026-27**

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit as per profit and loss account		1,30,000
Add: Expenses not allowable		
Section 40A(3)- Cash payments to a broker exceeding Rs. 10,000 (Note 1)	30,000	
Section 40(b)-Excess interest on capital to partners 20%-12%, i.e., (20000*8/20) (Note 2)	8,000	38,000
Add: Remuneration to partners debited to profit and loss account		1,50,000
Less: Depreciation u/s 32 (Rs. 40,000 – Rs. 20,000 debited in profit and loss account)		(20,000)
Book profit (Note 3)		2,98,000
Maximum permissible remuneration (higher of the two: (i.e., 90 per cent of Rs. 2,98,000 or Rs. 3,00,000)	3,00,000	

Actual (Subject to actual)	1,50,000	(1,50,000)
Business Income of the Firm		1,48,000
Tax Liability (30% of 1,48,000)		44,400
Add: Health and Education Cess @ 4%		1,776
Total Tax Liability R/O		46,180

Notes:

1. As per section 40A(3) of the Act, if the aggregate payment made (otherwise than by an account payee cheque/draft) to the same person during a day exceeds Rs. 10,000/- the entire amount of such payment is disallowed.
2. As per section 40 (b) of the Act, if the interest payable to the partners exceeds simple interest of 12% per annum, the excess amount is not deductible.
3. The remuneration paid to the working partners cannot exceed the permissible limits specified under section 40 (b) of the Act.

Illustration 12:

Mr. X, carrying on the business of operating a warehousing facility for storage of sugar, has a total income of Rs. 80 lakhs. In computing the total income, he had claimed deduction under section 35AD to the tune of Rs. 70 lakhs on investment in building (on 1.4.2025) for operating the warehousing facility for storage of sugar. Compute his tax liability for A.Y. 2026-27. Show the calculations of Alternate Minimum Tax also.

Option 1: Assessee paying tax under old tax regime

Option 2: Assessee paying tax under Section 115BAC

Solution:

Option 1: Assessee paying tax under old tax regime

Computation of Tax payable by Mr. X for AY 2026-27

Computation of Normal Tax

Particulars	Amount (Rs. In lakh)
Tax liability under the normal provisions of the Income-tax Act, 1961 on Total Income of 80 Lakhs	22.125
Add: Surcharge @ 10% of Total income > 50 lacs	2.2125
Add: Health and Education Cess @ 4% of 24.3375	0.9735
Total Tax Liability	25.311

Computation of Alternate Minimum Tax

Particulars	Amount (Rs. In lakh)
Actual Total Income	80.00
Add: Deduction under section 35AD	70.00
Less: Depreciation under section 32	(7.00)
Adjusted Total Income	143.00
AMT @18.5%	26.46
Surcharge @ 15% (since adjusted total income > Rs. 100 lakh)	3.97
Tax	30.43
Add: Health and Education Cess @ 4%	1.217
Total tax Liability	31.647

Since the regular income tax payable is less than the AMT payable, the adjusted total income of Rs. 143 lakhs shall be deemed to be the total income of Mr. X and tax is payable @18.5% thereof plus surcharge @ 15% and cess @4%. Therefore, tax liability is 31.647 lakhs.

However, Mr. X would be eligible for credit in 15 subsequent years to the extent of difference between the AMT and Normal Tax, i.e. Rs., 6.336 lakhs.

Option 2: : Assessee paying tax under Section 115BAC**Computation of Tax payable by Mr. X for AY 2026-27****Computation of Normal Tax**

Particulars	Amount (Rs. In lakh)
Tax liability under the normal provisions of the Income-tax Act, 1961 on Total Income of 143 Lakhs	38.70
Add: Surcharge @ 15% of Total income > 100 lacs	5.805
Add: Health and Education Cess @ 4% of 44.505	1.7802
Total Tax Liability	46.2852

Note: Alternate Minimum Tax is not applicable if assessee covered u/s 115BAC

Illustration 13:

Mr. A, 42 years, and Mr. B, 50 years, are equal partners in a partnership firm AB and Co. engaged in furniture business. From the profit and loss account of the firm compute net income and tax liability of the firm as well as the partner's for the assessment year 2026-27.

Profit and Loss Account
For the year ending March 31, 2026

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Cost of goods sold	5,10,000	Sales	19,00,000
Salary to staff	6,00,000	Long term capital gain	1,00,000
Depreciation	1,20,000	Lottery prize	35,000
Fees for technical service	40,000	Other business receipts	1,47,000
Remuneration to partners A 1,40,000 B 60,000	2,00,000		
Other Expenses	2,10,000		
Interest on capital @ 20%			
A 43,000			
B 60,000	1,03,000		
Provision for bad debts	10,000		
Net profit	3,89,000		
Total	21,82,000	Total	21,82,000

Other Information

- 1) Remuneration and interest to partners is paid as per partnership deed.
- 2) Depreciation as per income tax rules Rs. 1,00,000.
- 3) Firm paid bonus to employees Rs. 20,400 relating to last year on 15-12-2025.
- 4) Other expenses include donation to approved charitable institution for the purpose of family planning Rs. 45,000.
- 5) Fees for technical services are paid out of India wherein TDS rules apply. Tax has been deducted at source on time on 31 July, 2025 but it is deposited to Government 21 days late on 28 August, 2025.
- 6) The firm complies with conditions of section 184 and 40(b).
- 7) Income and investments of Mr. A and Mr. B are as follows:

Particulars	Mr. A (Rs.)	Mr. B (Rs.)
Interest on Government Securities	60,000	56,000
Interest on Bank Deposit (gross)	4,500	5,000
Dividend from Indian Company	20,000	22,000
Contribution to PPF	1,00,000	1,10,000
Interest on listed Debentures (net)	6,300	6,300

8) Mr. A received gift of Rs. 80,000 from a friend.

9) Assessee paying tax under normal tax regime.

Solution:

Computation of Total Income of AB and Co. for the Assessment Year 2026-27

Calculation of Business Income

Particulars	Amount (Rs.)
Net Profit as per P&L A/C	3,89,000
Add: Inadmissible Expenses	
Excess depreciation [1,20,000-1,00,000]	20,000
Remuneration to partners	2,00,000
Interest on capital in excess of 12% p.a.	
A: $43,000 \times 8/20 = 17,200$	
B: $60,000 \times 8/20 = 24,000$	41,200
Provision for bad debts	10,000
Donations	45,000
Less: Admissible Expenses	
Bonus to employees	(20,400)
Less: Income taxable under head capital gain and other sources	
LTCG	(1,00,000)
Lottery prize	(35,000)
Book profit	5,49,800

Less: Remuneration to partners	
On First 6,00,000 of book profit @ 90%	4,94,820
4,94,820 or Rs. 2,00,000 whichever is less	(2,00,000)
Business Income	3,49,800
Income under the head capital gain [LTCG]	1,00,000
Income from other sources	
Lottery prize 35,000*100/70	50,000
Gross total income	4,99,800
Less: Deduction u/s 80	
80G [100% of 45,000 or 10% of [[4,49,820 – 1,00,000]]	(34,980)
Taxable Income	4,64,820

Share of A and B in the income of the firm Rs. 2,32,410 (4,64,820/2)

Computation of Tax on Total Income of AB and Co. for the Assessment Year 2026-27

Particulars	Amount (Rs.)
Tax on winning from lotteries (30% of Rs. 50,000)	15,000
Tax on long-term capital gains (12.5% of Rs. 1,00,000)	12,500
Balance of Total Income 3,14,820 @ 30%	94,446
Total tax	1,21,946
Add: Health and Education Cess @ 4%	4,877.84
Total Liability	1,26,823.84

Rs. 1,26,820 (round off, subject to setoff of TDS for winning from lotteries)

Computation of Taxable Income of partners for the Assessment Year 2026-27

Particulars	A (Rs.)	B (Rs.)
Business Salary		
Remuneration	1,40,000	60,000
Interest on capital	25,800	36,000

Profit share in firm	Exempt	Exempt
Income from other sources		
Interest on Government securities	60,000	56,000
Interest on Bank deposits	4,500	5,000
Dividend from Indian companies	20,000	22,000
Interest on listed debentures (6,300*100)/90	7,000	7,000
Gift from a friend	80,000	-
Gross Total Income	3,37,800	1,86,000
Deduction's u/s 80-80C PPF	1,00,000	1,10,000
Taxable Income	2,37,800	76,000
Tax liability	NIL	NIL
TDS amounting to Rs. 700 to be claimed for refund		

Illustration 14:

Mr. A (40 years) and Mr. B (49 years) are equal partners in a firm of company Secretary, AB Co. On April 1, 2025 they amended their partnership deed and provided for salary and interest to partners as follows:

Particulars	Amount (Rs.)
Salary to A	2,50,000 p.a.
Salary to B	3,00,000 p.a.
Interest to A and B	24 % p.a.

From the income and expenditure account of the firm compute net income and tax liability of the firm as well as the partners for the assessment year 2026-27. Assessee has not opted for section 115BAC and paying tax under normal tax regime.

Income and Expenditure Account For the year ending March 31, 2026

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Office expenses	2,51,000	Receipts from clients	8,40,000
Salary to staff	82,000	Interest on drawings	3,500
Income Tax	39,000		
Salary to A	2,50,000		

Salary to B	3,00,000		
Interest on loan to minor son of X @ 15%	6,000		
Interest on capital @ 24%			
A 17,000			
B 19,000	36,000		
Net profit	1,14,500		
Total	8,43,500	Total	8,43,500

Other Information

- 1) The firm does not comply with conditions of section 184 and 40(b).
- 2) The firm has received funds from minor son of X as loan.
- 3) Income and investments of Mr. A and Mr. B are as follows:

Particulars	Mr. A (Rs.)	Mr. B (Rs.)
Investment in 5% Government Loan	12,00,000	11,20,000
Interest from Post office savings bank	4,500	5,000
Medical Insurance Premium	12,000	15,000
Dividend from Foreign Companies	40,000	30,000

Solution:**Computation of Total Income of AB and Co. for the Assessment Year 2026-27****Calculation of Business Income**

Particulars	Rs.
Net Profit as per P&L A/C	1,14,500
Add: Inadmissible Expenses	
Income Tax	39,000
Salary to A	2,50,000
Salary to B	3,00,000
Interest on capital in excess of 12% p.a.	
A: $17000 \times 12/24$ 8,500	
B: $19000 \times 12/24$ 9,500	18,000

Book profit	7,21,500
Less: Remuneration to partners [not allowed as conditions of section 184 & 40(b) are not met]	NIL
Business Income	7,21,500
Taxable Income	7,21,500

Share of A and B in the income of the firm Rs. 7,21,500/2= 3,60,750

Computation of tax on Total Income for the Assessment Year 2026-27

Particulars	Amount (Rs.)
Tax on Rs. 7,21,500 @ 30%	2,16,450
Add: Health and Education Cess @ 4%	8,658
Total liability	2,25,108
Total (round off)	2,25,110

Computation of taxable income of partners for the Assessment Year 2026-27

Particulars	A	B
Business Salary		
Remuneration	–	–
Interest on capital	8,500	9,500
Profit share in firm	Exempt	Exempt
Income from other sources		
Interest on Government Loan (5% of 12,00,000; 5% of 11,20,000)	60,000	56,000
Interest on Post office savings bank (exempt upto Rs. 3,500 u/s 10(15)(i))	1,000	1,500
Dividend from Foreign companies	40,000	30,000
Gross Total Income	1,09,500	97,000
Deductions u/s 80		
80D Mediclaim Insurance	(12,000)	(15,000)
Taxable Income	97,500	82,000
Tax liability	NIL	NIL

CASE 4

Tax on total income as per normal provision of Income Tax Act is Rs. 2,05,000 and AMT is Rs. 3,05,000. Compute the tax liability and implications assuming Foreign Tax Credit (FTC) will be Rs. 45,000 and Rs. 60,000 attributable to Normal provision and AMT respectively.

Solution:

Computation of tax liability and adjustment of FTC

Particulars	Amount (Rs.)	Amount (Rs.)
Tax on total income as per normal provision of Income Tax Act	2,05,000	
Less: FTC attributable to Normal Tax	(45,000)	
A. Tax on total income as per normal provision of Income Tax Act		1,60,000
Alternate Minimum Tax	3,05,000	
Less: FTC attributable to AMT	(60,000)	
B. Tax as per AMT		2,45,000
Amount of Tax payable = (A) or (B) whichever is higher		2,45,000

Tax Implications:

A<B

- Non-Corporate has to pay AMT u/s 115JC
- Non-Corporate can only avail AMT credit.
- AMT Credit Available = B-A = 2,45,000-1,60,000 = Rs. 85,000

CASE 5

The taxable income for the year 2025-26 of Mr. Shah (resident and age 40 years) computed as per the provisions of Income-tax Act is Rs. 28,40,000. The taxable income has been computed after deduction of Rs. 2,00,000 under section 80QQB in respect of royalty on books. Compute the tax liability and tax implications with reference to AMT assuming Mr. Shah does not opt to be taxed under section 115BAC/BAD and paying tax under normal tax regime.

Solution:

Check the eligibility

Applicable to Non-Corporate Assessee (i.e. Mr. Shah)	Yes
If claimed deduction	Yes
<ul style="list-style-type: none"> ● u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or ● u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards 	

ATI > Rs. 20,00,000 (i.e. 30,40,000)		Yes	
Provision of AMT apply		Yes	
Computation of Adjusted Total Income (ATI)			
Net Income or Total Income		28,40,000	
Add:			
<ul style="list-style-type: none"> ● Deduction under section 10AA ● Deduction under section 80H to 80RRB (Except 80P) (i.e. 80QQB) ● Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction under that section is claimed). 		Nil 2,00,000 Nil	
Adjusted Total Income (ATI)		30,40,000	
A	Tax on total income as per normal provision of Income Tax Act		6,91,080
	Tax on 28,40,000	6,64,500	
	Less: Rebate u/s 87A	N.A.	
	Balance	6,64,500	
	Add: Surcharge	N.A.	
	Tax and Surcharge	6,64,500	
	Add: HEC @ 4%	26,580	
	Total Tax Payable	6,91,080	
B	18.5% (+SC+HEC) of Adjusted Total Income		5,84,896
	18.5% on 30,40,000	5,62,400	
	Add: Surcharge	N.A.	
	Tax and Surcharge	5,62,400	
	Add: HEC @ 4%	22,496	
	Total Tax Payable	5,84,896	

Amount of tax payable = (A) or (B) whichever is higher		6,91,080
A > B	Tax Implications <ul style="list-style-type: none"> - Non-Corporate (i.e. Mr. Shah) has to pay normal income tax - Non-Corporate can utilize amount of AMT credit in that year if available. Maximum Amount of Credit Utilized = A-B = 6,91,080 – 5,84,896 = 1,06,184	

CASE 6

The taxable income for the financial year 2025-26 of Mr. Jay (resident and age 35 years) computed as per the provisions of Income-tax Act is Rs. 20,84,000. The taxable income has been computed after deduction of Rs. 5,00,000 under section 80JJA. Will he be liable to AMT? What will be his tax liability for the year? Assuming Mr. Jay does not opt to be taxed Under section 115BAC/BAD and paying tax under normal tax regime.

Solution:

Check the eligibility	
Applicable to Non-Corporate Assessee (i.e. Mr. Jay)	Yes
If claimed deduction u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	Yes
ATI >Rs. 20,00,000 (i.e. 25,84,000 Refer Note:2)	Yes
Provision of AMT apply	Yes

Computation of Adjusted Total Income (ATI)	
Net Income or Total Income	20,84,000
Add:	
- Deduction under section 10AA	Nil
- Deduction under section 80H to 80RRB (Except 80P) (i.e. 80JJA)	5,00,000
- Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction is claimed).	Nil
Adjusted Total Income (ATI)	25,84,000

A	Tax on total income as per normal provision of Income Tax Act		4,55,208
	Tax on 20,84,000	4,37,700	
	Less: Rebate u/s 87A	N.A.	
	Balance	4,37,700	
	Add: Surcharge	N.A.	
	Tax and Surcharge	4,37,700	
	Add: HEC @ 4%	17,508	
	Total Tax Payable	4,55,208	
B	18.5% (+SC+HEC) of Adjusted Total Income		4,97,162
	18.5% on 25,84,000	4,78,040	
	Add: Surcharge	N.A.	
	Tax and Surcharge	4,78,040	
	Add: HEC @ 4%	19,122	
	Total Tax Payable	4,97,162	
Amount of tax payable = (A) or (B) whichever is higher			4,97,162
A<B	<p>Tax Implications</p> <ul style="list-style-type: none"> - Non-Corporate (i.e. Mr. Jay) has to pay AMT u/s 115JC - Non-Corporate (i.e. Mr. Jay) can only avail AMT credit. <p>AMT Credit Available = B-A = 4,97,162-4,55,208 =Rs 41,954</p>		

CASE 7

The tax liability of SP Enterprises (a partnership firm) for the financial year 2025-26 under the normal provisions of the Income-tax Act is Rs. 8,40,000 and the liability as per the provisions of AMT is Rs. 10,00,000. Will it be entitled to claim any AMT credit in the subsequent year(s)?

Solution:

A	Tax on total income as per normal provision of Income Tax Act	8,40,000
B	18.5% (+SC+HEC) of Adjusted Total Income	10,00,000
Amount of tax payable = (A) or (B) whichever is higher		10,00,000

Note: Tax Implications**A<B**

- Non-Corporate has to pay AMT u/s 115JC
- Non-Corporate can only avail AMT credit.

AMT Credit Available = B-A = 10,00,000-8,40,000 = **Rs. 1,60,000**

CASE 8

The taxable income for the financial year 2025-26 of Mr. Dixy (resident and age 35 years) who established **unit located in IFSC** and derived income solely in convertible forex computed as per the provisions of Income-tax Act is Rs. 20,84,000. The taxable income has been computed after deduction of Rs. 5,00,000 under section 80JJA. Will he be liable to AMT? What will be his tax liability for the year? Assuming Mr. Jay does not opt to be taxed under section 115BAC/BAD.

Check the eligibility

Applicable to Non-Corporate Assessee (i.e. Mr. Jay)	Yes
If claimed deduction	Yes
- u/s/ 10AA/80H to 80RRB (Except 80P) for AY 13-14 or 14-15 or	
- u/s 10AA/35AD/80H to 80RRB (Except 80P) for AY 15-16 onwards	
ATI >Rs. 2000000 (i.e. 25,84,000 Refer Note:2)	Yes
Provision of AMT apply	Yes

Computation of Adjusted Total Income (ATI)

Net Income or Total Income	20,84,000
Add:	
- Deduction under section 10AA	Nil
- Deduction under section 80H to 80RRB (Except 80P) (i.e. 80JJA)	5,00,000
- Deduction claimed, if any, under section 35AD (as reduced by the amount of depreciation allowable in accordance with the provisions of section 32 as if no deduction under section 35AD was allowed in respect of the assets on which the deduction is claimed).	Nil
Adjusted Total Income (ATI)	25,84,000

A	Tax on total income as per normal provision of Income Tax Act		4,55,208
	Tax on 20,84,000	4,37,700	
	Less: Rebate u/s 87A N.A Balance	4,37,700	
	Add: Surcharge	N.A.	
	Tax and Surcharge	4,37,700	
	Add: HEC @ 4%	17,508	
	Total Tax Payable	4,55,208	
B	9% (+SC+HEC) of Adjusted Total Income		2,41,862
	9% on 25,84,000	2,32,560	
	Add: Surcharge	N.A.	
	Tax and Surcharge	2,32,560	
	Add: HEC @ 4%	9,302	
	Total Tax Payable	2,41,862	
Amount of tax payable = (A) or (B) whichever is higher			4,55,208
A	Tax Implication		
>	- Non-Corporate (i.e. Mr. Dixy) has to pay normal income tax		
B	- Non-Corporate can utilize amount of AMT credit in that year if available.		
	Maximum Amount of Credit Utilized = A-B		
	= 4,55,208 – 2,41,862 = 2,13,346		

TAXATION OF ASSOCIATION OF PERSONS / BODY OF INDIVIDUALS

'Association of Persons' has not been defined in the Income-tax Act. However, in the case of CIT v. Indira Balkrishna [(1960) 39 ITR 546] the Supreme Court has defined it as:

“**Association of Persons**” means an association in which two or more persons join in for a common purpose or common action to produce income, profits or gains.

An association of persons may consist of non-individuals (Companies, Firms, Joint Families) [Ipoth v. CIT (1968) 67 ITR 106 (S.C.)]. A minor can join an AOP if his lawful guardian gives his consent. [Murugesan & Bros. v. CIT (1973) 88 ITR 432 (SC)].

Applying the ratio laid down by the Supreme Court in the case of G Murugesan and Bros. v. Commissioner of Income- tax (1973, 88 ITR 432), the Kerala High Court held in the case of Commissioner of Income-tax v. Goel Dalal and Perin C. Dalal (1990, 184 ITR 248) that in order to acquire the status of an association of persons, the

persons must join in a common purpose or action and the object of the association must be to produce income. It is not enough that the persons receive the income jointly.

For the formation of an AOP, the association need not necessarily be on the basis of a contract, consent and understanding may be presumed [Shanmugham & Co. v. CIT(1971) 81 ITR 310 (S.C.)].

Applying the ratio laid down by the Supreme Court in the case of N.V. Shanmugham & Co. v. Commissioner of Income- tax (1971, 81 ITR 310) the Calcutta High Court held in the case of Gopal Chand Sen v. Income-tax Officer and others (1977, 109 ITR 820) that an assessment of business income has to be done in the hands of receivers and in such an assessment, the receivers are never assessed as independent earners of income. The income in the hands of the receiver is assessable in the like manner and to the same extent as it would have been assessed on the real owners.

However, co-owners, co-heirs or co-legatees do not constitute an AOP in respect of the income of the joint or common asset by reason only of their jural relationship. But if they write themselves with the objective of earning income they constitute an AOP for assessment purposes. [Estate of Mohamed Rowther v. CIT (1963, 49 ITR 39)]. Section 26 of the Income-tax Act provides that where property consisting of building or buildings and lands appurtenant thereto is owned by two or more persons in definite and ascertainable shares, such persons shall not, in respect of such property be assessed as an AOP, but on their respective share of income therefrom.

In order to constitute an association of persons, there must be joining together in a common purpose or in a common action, the object of which is to produce income, profits and gains. Though a body of individuals is not identical with an association of persons, they have some similarities. An association of persons may consist of non-individuals also but a body of individuals has to consist only of human beings. The word 'body' would require an association for some common purpose or for a common cause or there must be unity under some common tie or occupation. A mere collection of individuals without a common tie or common aid cannot be taken to be a body of individuals failing under Section 2(31) of the Income-tax Act, 1961. [See CIT v. Deghamwala Estates (1980, 121 ITR 684)].

Tax Liability of Association of Persons / Body of Individuals

With effect from assessment year 1989-90, the following provisions are applicable to assessee other than companies, co-operative societies and societies registered under the Societies Registration Act, 1860 or any law corresponding to that Act in force in any part of India.

- (1) Interest paid by the AOP to a member will not be allowed as deduction from the income of the AOP [(Section 40(ba)]. In cases where interest is paid by the AOP to any member, who has also paid interest to the AOP, the amount of interest, that will be disallowed, is the amount of interest paid by the AOP to the member less the amount of interest paid to the AOP by the member. Explanation 1 to section 40(ba).
- (2) In cases where an individual is a member of an AOP in a representative capacity, any interest paid by the AOP to such individual or by such individual to the AOP, otherwise than in a representative capacity will not be subject to disallowance under explanation 2(i) to Section 40(ba).
- (3) In the cases of interest paid by AOP to such individual or by such individual to the AOP in a representative capacity any interest paid by the AOP to the person represented by such person or vice versa, will not be allowed under Section 40(ba) [Explanation 2(ii) to Section 40(ba)].
- (4) Explanation 3 to Section 40(ba) further provides that where an individual is a member of the AOP otherwise than as member in a representative capacity, any interest paid by the AOP to such individual will not be disallowed if the interest is received by him on behalf of any other person.
- (5) Any salary, bonus, commission or remuneration (by whatever name called) paid by the AOP to a member will not be allowed as a deduction.

Section 167B makes the following provisions as regards the incidence of charge of tax on the association of persons.

A. Where Shares of Members are Determinate

In this case, tax is chargeable on the income of the association of persons at the same rate as applicable to an individual. However, where the total income of any member of the association of persons for the previous year (excluding his share of income from the association of persons) exceeds the maximum amount not chargeable to tax in the case of an individual, tax will be charged on the total income of the AOP at the maximum marginal rate of 30%, i.e., the highest slab applicable to an individual.

More so, where the total income of any member of the AOP, irrespective of whether or not it exceeds the maximum amount not chargeable to tax in the case of an individual, is chargeable to tax at a rate higher than the maximum marginal rate (e.g. foreign company), tax will be charged on the total income of the AOP at such higher rate for that portion of the income of AOP which relates to the share of such member and the balance of income at a maximum marginal rate of tax.

Note:

1. Some incomes are taxable at special rates.
2. Provisions of alternate minimum tax under section 115JC to 115JF shall apply.

Illustration 15:

Mr. A, Mr. B and a foreign company X Ltd. Are members of a AOP sharing profits and losses in the ratio of 2:2:1. The total income of the AOP is Rs. 2,50,000 including long term capital gains Rs. 40,000. Calculate tax liability of the AOP for AY 2026-27.

Solution: Foreign Company X Ltd. is taxable at a rate higher than maximum marginal rate (i.e., 35%)

Tax on LTCG	40,000 at 12.5%	5,000
Tax on share of X Ltd. (2,10,000 *35%*1/5)		14,700
Balance	(2,10,000 *35%*4/5)	58,800
Total Tax		78,500
Add Cess (4%)		3,140
Tax liability		81,640

B. Where the Shares of the Members are Indeterminate

In this case, tax will be charged on the total income of the AOP at the maximum marginal rate, that is, the rate of tax as well as surcharge, if any, applicable to the highest slab of income in the case of an individual as specified in the Finance Act of the relevant year. However, if income of any member of AOP is chargeable to tax at a rate higher than maximum marginal rate, then the rate of tax for the entire income of AOP shall be such higher rate.

The individual shares of the members in the whole or any part of the income of the AOP will be deemed to be indeterminate or unknown if such shares are indeterminate or unknown on the date of formation of the AOP, or at any time thereafter.

Method of Computing Share of Member of Association of Persons / Body of Individuals [Section 67A]

Section 67A seeks to provide for the method of computing a member's share in the income of an association of persons or a body of individuals, wherein the shares of the members are determinate, in the same manner as provided for in Sub-sections (1) to (3) of Section 67 for computing a partner's share in a firm.

This section lays down the following methods of computing the member's share:

- (a) Any interest, salary, bonus, commission or remuneration, by whatever name called, paid to any member in respect of the previous year shall be deducted from the total income of the association or body and the balance ascertained and apportioned among the members in the proportion in which they are entitled to share the income of the association or body.
- (b) Where the amount apportioned to a member under (a) hereinabove is a profit, any interest, salary, bonus, commission or remuneration paid to the member by the AOP in respect of the previous year shall be added to that amount – the result shall constitute the member's share in the income of the association or body.
- (c) Where the amount apportioned to a member under (a) is a loss, any interest, salary, bonus, commission or remuneration aforesaid paid to the member by the association or body in respect of the previous year shall be adjusted against that amount, the result shall be adjusted against that amount, and the result shall be treated as the member's share in the income of the association or body.

Notes:

1. The share of each member of AOP/BOI shall be apportioned under the various heads of income as is determined while computing the income of the AOP/BOI.
2. Deductions under section 80 to the extent allowed to AOP/BOI shall not be allowed to the members.

Taxation of share of income of a member of AOP/BOI

Section 86 relates to shares of members of an association of persons or a body of individuals in the income of the association or body. This section provides that if the assessee is a member of an association of persons or a body of individuals (other than a company or a Co-operative society or a Society registered under the Societies Registration Act, 1860, or any law corresponding to that Act in force in any part of India), his share in the income of the association or body, computed in the manner provided in Section 67A shall not be liable to tax.

Further, the taxability of share of income of a member of AOP/BOI depends on the rate at which income of such AOP/BOI is taxable:

1. Where AOP/BOI is chargeable to tax on its total income at the maximum marginal rate or any higher rate, the share of the member shall not be included in his total income.
2. Where AOP/BOI is chargeable to tax on its total income at the rate applicable to individuals (normal rate) and tax is paid, share of income of a member shall be chargeable to tax as part of his total income and rebate under section 86 shall be claimed.
3. Where AOP/BOI is chargeable to tax on its total income at the rate applicable to individuals (normal rate) and no tax is chargeable, share of income of a member shall be chargeable to tax as part of his total income and no rebate under section 86 shall be claimed.

Assessment in case of Dissolution of an Association of Persons [Section 177]

Where any business or profession carried on by an AOP has been discontinued or an AOP is dissolved, the Assessing Officer shall make an assessment of the total income of the AOP as if no such discontinuance or

dissolution had taken place, and all provisions of this Act, including the provisions relating to the levy of penalty or any other sum chargeable under any provisions of the Income-tax Act shall apply.

Every person who was at the time of such discontinuance or dissolution a member of the AOP and the legal representative of any such person who is deceased, shall jointly and severally be liable for the amount of tax, penalty or other sum payable.

Where such discontinuance or dissolution takes place after any proceeding in respect of an assessment year have commenced, the proceedings may be continued against the members from the stage at which the proceedings stood at the time of such discontinuance or dissolution.

CASE 9

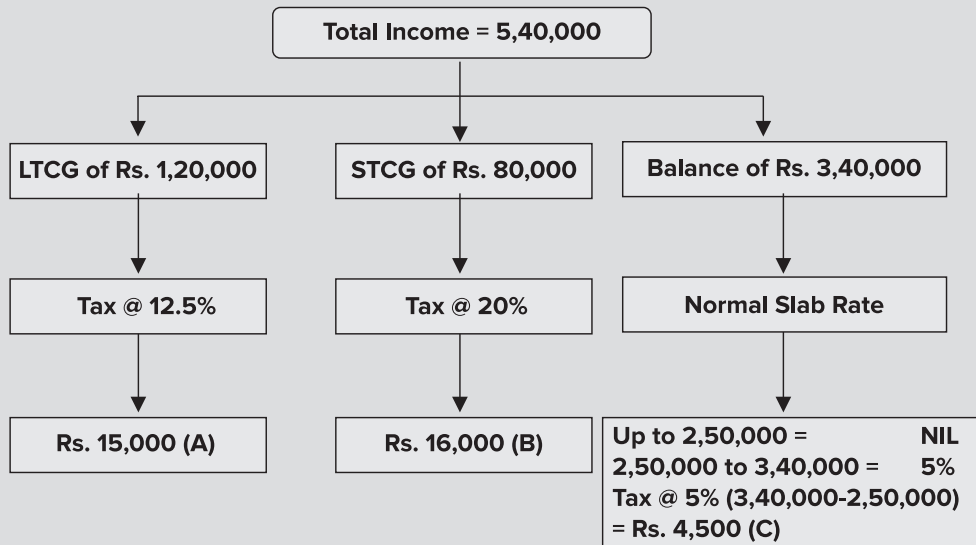
DD, D and P are the three partners of AOP having profit sharing ratio of 2:2:1. Details of income provided are as follows:

	Rs.
DD	1,00,000
D	90,000
P	1,10,000

Total income of AOP 5,40,000 (Including LTCG Rs. 1,20,000 and STCG under 111A Rs. 80,000) You are required to compute tax liability of AOP for AY 2026-27 assuming opted for old taxation regime.

Solution:

Here, in this case, AOP will be assessed and taxed like an individual assuming



Total Tax [A+B+C]	35,500
Add: HEC @4%	1,420
Tax Payable	36,920

TAXATION OF CO-OPERATIVE SOCIETIES

Meaning [Section 2(10)]

'Co-operative Society' means a co-operative society registered under the Co-operative Societies Act, 1912, or under any other law for the time being in force in any state for the registration of co-operative societies. The Income of the co-operative society is computed in the same manner as provided for other assesses. A co-operative society is entitled to the deductions from its gross total income u/s 80G, 80GGA, 80GGC, 80IA, 80-IB, 80JJA and 80P.

A regional rural bank (to which provisions of the Regional Rural Bank Act, 1976, apply) is deemed to be a co-operative society.

Computation of Income of Co-operative Societies

The income of a co-operative society is computed in the same manner as provided for other assesses under the Act. The provisions under various heads of income, clubbing of incomes, set off and brought forward losses, deductions under section 80 shall apply.

Further, the subsidy given by the government to a co-operative society for meeting managerial expenses and admission fee collected by the society is treated as revenue receipt and liable to tax. [Ludhiana Central Co-operative Consumers' Stores Ltd. V. C.I.T. (1980) 122 I.T.R. 942]. There is, however difference of opinion with regard to tax treatment of 'subsidy' received from the Government. Distinguishing the ratio laid down by the Punjab & Haryana High Court in the case of Ludhiana Central Co-operative Consumers' Stores Ltd. Commissioner of Income-tax (1980, 122 ITR 942), the Punjab & Haryana High Court held in the case of Commissioner of Income-tax v. Jindal Brothers Rice Mills (1989, 179 ITR 470) that depreciation is allowable on the cost of the machinery or plant reduced by the amount of the subsidy as actual cost stands reduced by the percentage allowed by the subsidy. Though this case was followed by it in the case of Commissioner of Income-tax v. Janak Steel Tubes (Pvt.) Ltd. (1989, 179 ITR 536) (the capital subsidy should be deducted from the value of plant and machinery) but had been dissented from by the Bombay, Madras and Rajasthan High Courts in the following cases:

- (i) Srinivas Industries v. Commissioner of Income-tax (1991, 188 ITR 22): The Madras High Court held that the subsidy really partook the character of cash grant expendable for any purpose-consequently, the amount of subsidy granted could not be deducted from the capital cost of the machinery.
- (ii) In Commissioner of Income-tax v. Elys Plastics Pvt. Ltd. (1991, 188 ITR 11) the Bombay High Court held that the subsidies were not deductible in computing the cost of plant and machinery for purposes of allowing depreciation.
- (iii) In Commissioner of Income-tax v. Ambica Electrolytic Capacitors (P) Ltd. And others (1991, 191 ITR 494) the Rajasthan High Court held that the subsidy or investment subsidy given by the Government cannot be deducted from the actual cost for purposes of investment or depreciation allowance.

Rates of Income-tax on Co-operative Society

The rates of income-tax applicable to a co-operative society for the assessment year 2026-27 are as follows:

1. Where the total income does not exceed Rs. 10,000	10% of total income
2. Where the total income exceeds Rs. 10,000 but total income does not exceed Rs. 20,000.	Rs. 1,000 plus 20% of the amount by which income exceeds Rs. 10,000
3. Where the total income exceeds Rs. 20,000	Rs. 3,000 plus 30% of the amount by which income exceeds Rs. 20,000

Health and Education Cess @ 4%.

Surcharge: The amount of income-tax shall be increased by a surcharge at the rate of 7% of such tax, where total income exceeds one crore rupees but not exceeding ten crore rupees and at the rate of 12% of such tax, where total income exceeds ten crore rupees.

Note:

1. Some incomes are taxable at special rates.
2. Provisions of alternate minimum tax under section 115JC to 115JF shall apply.

Note:- The special tax Regime and Tax Rates applicable for Co-operative under Section 115BAD/115BAE is already discussed in detail at the beginning of the lesson.

Deduction in respect of Income of Co-operative Societies [Section 80P]

Section 80P provides for certain deductions from the gross total income of a Co-operative Society. These deductions are:

- (a) In the case of Co-operative Society engaged in:
 - (i) the business of Banking or providing credit facilities to its members, or
 - (ii) a cottage industry, or
 - (iii) the marketing of the agricultural produce grown by its members, or
 - (iv) the purchase of agricultural implements, seeds, livestock or other articles intended for agriculture for purpose of supplying them to its members, or
 - (v) the processing, without the aid of power, of the agricultural produce of its members, or
 - (vi) the collective disposal of the labour of its members, or
 - (vii) fishing or allied activities, i.e., catching, curing, processing, preserving, storing or marketing of fish or the purchase of materials and equipment in connection therewith for the purpose of supplying them to its members, the whole of the amount of profits and gains of business attributable to any one or more of such activities shall be deducted from the gross total income provided that in the case of a co-operative society falling under Sub-clause (vi) or (vii), the rules and bye-laws of the society restrict the voting rights to the following classes of its members:
 - (i) the individuals who contribute their labour or carry on the fishing or allied activities;
 - (ii) the co-operative credit societies which provide financial assistance to the society;
 - (iii) the State Government
- (b) In the case of primary co-operative society engaged in supplying milk, oilseeds, fruits, vegetables raised or grown by its members to a federal co-operative society engaged in supplying the above-mentioned products; or a Government or a local authority; or a Government Company or a Corporation established by or under a Central, State or a Provincial Act (being a company or corporation engaged in supplying the above-mentioned products to the public).
The whole of the amount of profits and gains of such business shall be deducted from the gross total income.
- (c) In the case of a co-operative society engaged in activities other than those specified in clauses (a) or (b) either independently of, or in addition to, profits and gains attributable to the activities mentioned at

clauses (a) and (b) deduction from the gross total income will be allowed to the extent of Rs. 50,000. However, where such co-operative society is a Consumers' Co-operative Society, the deduction shall be Rs. 1,00,000.

- (d) In the case of every co-operative society, the whole of the income by way of interest or dividends derived from its investments with any other co-operative society shall be deducted from the gross total income.
- (e) In the case of every co-operative society, the whole of the income derived by the society from the letting of godowns or warehouses for storage, processing or facilitating the marketing of commodities shall be deducted from its gross total income.
- (f) In the case of every co-operative society, not being a housing society or an urban consumers' society, or a society carrying on transport business or a society engaged in the performance of any manufacturing operations with the aid of power, where the gross total income does not exceed Rs. 20,000 the amount of any income by way of interest on securities or any income from house property shall be deducted from the gross total income.

Urban Consumers' Co-operative Society

An urban consumers' co-operative society means a society for the benefit of consumers, within the limits of a municipal corporation, municipality, notified areas committee, town area, or cantonment [Explanation to Section 80P(2)].

The provisions of this Section shall not apply in relation to any cooperative bank other than a primary agricultural credit society or a primary cooperative agricultural and rural development bank.

Other points

- Amount received for letting of godowns, incidental services of taking delivery of stock at rail-head and transporting it to godowns were also rendered and amount received was described as 'commission' was wholly exempt. I.T. v. South Arcot District Co-operative Marketing Society Ltd. (1989) 43 Taxman 328/176 ITR 117 (SC).
- Income from ginning and pressing of cotton is exempt. Broach Distt. Co-operative Cotton Sales, Ginning & Pressing Society Ltd. V. CIT (1989) 177 ITR 418/44 Taxman 439 (SC).
- Where assessee, an apex co-operative society, derived (i) interest on cash security furnished by it for carrying on sugar agency business, and (ii) interest on temporary loans given by it for financing sugar business, while former interest was not exempt, latter was exempt under Section 14(3)(iii) of the 1922 Act, CIT v. U.P. Co-operative Federation Ltd. (1989) 176 ITR 435/43 Taxman 20 (SC).
- Amount of subsidy received by assessee from National Co-operative Development Corpn. Towards loss incurred on account of price fluctuation qualifies for deduction under Section 81(1)© – CIT v. Punjab State Co-operative Supply & Marketing Federation Ltd. (1989) 46 Taxman 156 (Punj. & Har.).
- Proportionate expenditure relating to such business activities of assessee co-operative society as are contemplated by Section 80P(2) is not to be disallowed. Baghapurana Co-operative Marketing Society Ltd. V. CIT (1989) 178 ITR, 653/44 Taxman 92 (Punj. & Har.).
- In the cases of agricultural produce, the agricultural produce marketed by assessee co-operative society need not have been produced by assessee's members – CIT v. Punjab State Co-operative Supply & Marketing Federation Ltd. (1989) 46 Taxman 156 (Punj. & Har.).

- The expression ‘the marketing of the agricultural produce of its members means that agricultural produce should be owned by its members, whether supplied by them (that is, the members) or purchased from the market or acquired from any other producer. C.I.T. v. Haryana State Co-operative Supply & Marketing Federation Ltd. (1989) 79 CTR (Punj. & Har.) 94.
- Short-term call deposits are investment within the meaning of Section 80P(2)(d). CIT v. Haryana Co-operative Sugar Mills Ltd. (1989) 46 Taxman 28 (Punj. & Har.).

Assessment of Co-operative Societies

The following are the provisions which are specifically applicable to the assessment of Co-operative Societies.

Co-operative Housing Society: Under Section 27(iii), a member of co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a house building scheme of the society, company or association, as the case may be, shall be deemed to be owner of that building or part thereof.

Clause (iiia) further provides that a person who is allowed to take or retain possession of any building or part thereof in part performance of a contract of the nature referred to in Section 53A of the Transfer of Property Act, 1882 shall be deemed to be the owner of that building or part thereof; and

As per Clause (iiib), a person who acquires any rights (excluding any rights by way of a lease from month to month or for a period not exceeding one year) in or with respect to any building or part thereof, by virtue of any such transaction as is referred to in Clause (f) of Section 269UA, shall be deemed to be the owner of that building or part thereof.

Clause (f) of Section 269UA, it may be noted, defines “transfer” for the purposes of Chapter XX-C of the Income-tax Act, dealing with purchase by Central Government of immovable properties in certain cases of transfer.

Profits and Gains of Co-operative Society from Insurance Business [Section 44]: The profits and gains of any business of insurance carried on by a Co-operative Society shall be computed in accordance with the rules contained in the First Schedule.

In this connection, the First Schedule and Rule 6E of the Income-tax Rules, 1962 provides as under:

The profits of non-life insurance business, e.g., Fire insurance business, marine insurance business, general insurance business etc. shall be the profits disclosed by the annual accounts required to be prepared under the Insurance Act, 1938 subject to the following adjustments:

- (a) If such profits are arrived at after deducting any expenditure or allowance which is not admissible under Sections 30 to 43B of the Income-tax Act, such expenditure or allowance shall be added back to the profits.
- (b) The reserve for unexpired risks shall be allowed as a deduction to the following extent:
 - (c) where the insurance business relates to fire insurance or miscellaneous insurance – 50% of the net premium income of such business of the previous year;
 - (d) where the insurance business relates to marine insurance, 100% of the net premium income of such business of the previous year.

‘Net premium income’ means the amount of premium received, as reduced by the amount of re-insurance premiums paid during the relevant previous year.

In the context of computing the total income of co-operative society, the following cases are worth noting.

- (1) Where the credit facility is extended to members of the society by virtue of sale of goods to them by

consumers' co-operative society, the exemption is not available. When the society sells goods on credit to its members, such transaction cannot be construed as a credit society to which the benefit of Section 80P(2)(a)(i) can be extended. [Rodier Mill Employees' Co-operative Stores Ltd. V. CIT (1982) 135 ITR 355].

Following the ratio laid down by the Madras High Court in the case of Rodier Mill Employees' Co-operative Stores Ltd. V. Commissioner of Income-tax (1982, 135 ITR 355), the Kerala High Court held in the case of Kerala Co-operative Consumers Federation Ltd. V. Commissioner of Income-tax (1988, 170 ITR 455) that the words 'providing credit facilities', occurring in Section 80P(2)(a)(i) of the Income-tax Act, 1961 should be construed as similar to, or akin to the 'carrying on the business of banking', preceding the words "or providing credit facilities" in the same sub-section. The words 'providing credit facilities to its members' means providing credit by way of loans and not selling goods on credit.

- (2) Where society purchases auto-rickshaws and sells them to members on hire-purchase, it is not providing credit facility to members and not entitled to exemption [C.I.T. v. Madras Auto Rickshaw Drivers' Co-operative Society (1983) 143 ITR 981]. In this case it was held that the tax relief under Section 80P(2)(a)(i) of the Income- tax Act, is a grant not to a category of income but to a category of assessee namely, a co-operative society answering the description of a society engaged in carrying on the business of providing credit facilities to its members. If the society in question does not answer to this description, it is not entitled to the relief.
- (3) In Bihar State Co-operative Bank Ltd. V. C.I.T. [(1960) 39 I.T.R. 114] the Supreme Court has held that if a co- operative society carrying on banking business invests its circulating capital in such a manner that it is readily available, the interest on such investment shall constitute income from banking business and therefore shall be exempt in the hands of the co-operative society.
- (4) Interest received on Government Securities held by co-operative society as its stock-in-trade qualifies for deduction from gross total income. But the deduction is inapplicable to interest received from Government Securities held as investments. [CIT v. Bombay State Co-operative Bank Ltd. (1968) 70 ITR 86 (SC)].

The Madhya Pradesh High Court held in the case of M.P. State Co-operative Bank Ltd. V. Addl. Commissioner of Income-tax (1979, 119 ITR 327) that income from investment of reserve capital in securities was not a part of the income from banking business and did not qualify for exemption. Similarly, the interest income from investment of provident fund income did not form part of the income from the banking business and did not qualify for exemption under Section 80(i)(a) (now Section 80P). Distinguishing the ratio laid down in this case, the Madhya Pradesh High Court held in the case of Commissioner of Income-tax v. Bhopal Co-operative Central Bank Ltd. (1987, 164 ITR 713) that the security deposits made are in accordance with the Banking Regulation Act, 1949 and interest income received on deposits formed part of income from business of banking and exempt under Section 80P(2)(i) of the Income-tax Act, 1961.

The Allahabad High Court held in the case of Addl. Commissioner of Income-tax v. U.P. Co-operative Cane Union (1978, 114 ITR 70) that selling goods on credit was only a mode of carrying on business. It did not become a business of providing credit facility. Following this case, the Allahabad High Court held in the case of Commissioner of Income-tax v. U.P. Co-operative Cane Union Federation Ltd. (1980, 122 ITR 913) that the expression 'providing credit facilities' in Section 80P(2)(a)(i) would comprehend the business of lending money on interest. It would also comprehend the business of lending services on profit for guaranteeing payments because guaranteeing payment is as much a part of banking business for affording credit facility as advancing loans.

However, where a co-operative society holds securities as per requirements of Banking Regulation Act and directions of the RBI, the deduction is available on such interest income. Similarly, subsidy from

Government for opening new branches and giving loans to poorer sections at lower rate of interest, is income attributable to banking business [CIT v. Madurai District Central Co-operative Bank Ltd. (1984) 148 ITR 196].

- (5) The Income earned by a co-operative society carrying on the business of banking and providing credit facilities to its members from commission and brokerage by dealing in bills of exchange, subsidy from Government, admission fee from members, incidental charges and financial penalties is attributable to the business of banking of providing credit facilities to its members and hence deductible under Section 80P(2)(a) [CIT v. Dhar Central Co-operative Bank (1984) 149 ITR 438 (MP)].

Following its decision in the case of Commissioner of Income-tax v. Dhar Central Co-operative Bank (1984, 149 ITR 438), the Madhya Pradesh High Court held in the case of Commissioner of Income-tax v. Bhopal Co-operative Central Bank Ltd. (1988, 172 ITR 423) that a co-operative society carrying on the business of banking is entitled to exemption in respect of interest on securities, commission, subsidy, donation and locker rent. Again, the said decision was followed by it in the case of Madhya Pradesh Rajya Sahakari Bank v. Commissioner of Income-tax (1988, 174 ITR 150) holding that the income from commission, exchange and other miscellaneous income was attributable to the business of banking and that the assessee was entitled to exemption under Section 81 (now 80P) of the Income-tax Act, 1961 in respect thereof.

- (6) A society which buys and sells products of other societies or individuals is not entitled to exemption.

Where a society manufactures and sells its own products or the products of its members, such society is entitled to exemption. Hence, the Central Cottage Industries Emporium, New Delhi, is not entitled to exemption under Section 80P [Addl. C.I.T. v. Indian Co-operative Union Ltd. (1982) 134 ITR 108(Delhi)].

If the godown or warehouse is let for a purpose other than storage, processing of facilitating the marketing of commodities, the income derived therefrom by a co-operative society would not be deductible under Section 80P. In C.I.T. v. Ahmedabad Maskati Cloth Dealers Co-operative Warehouses Society Ltd. [(1986) 162 ITR 142 (Guj.)] it was also held that shops in which wholesale or retail business in cloth is carried on cannot come within the meaning of 'godowns' or 'warehouses'.

The Gujarat High Court's decision in the case of Commissioner of Income-tax v. Ahmedabad Maskati Cloth Dealers Co-operative Warehouses Society Ltd. (1986, 162 ITR 142) had since been approved by the Supreme Court in the case of South Arcot District Co-operative Marketing Society Ltd. (infra). The Gujarat High Court had, inter alia, held that the words facilitating the marketing of commodities' would not lend colour to the words 'godowns or warehouses' so as to enlarge their meaning.

CASE 10

P Co-operative Society engaged in procession of agriculture produce and running its activities without aid of power furnishes following details of income, compute taxable income and tax liability for the purpose of A.Y. 2026-27 if it does not opt to be taxed under section 115BAD and if opts to be taxed under section 115BAD.

- Income from processing of agricultural produce of its member	38,500
- Income from marketing of the agricultural produce	12,000
- Dividend from another co-operative society	41,400
- Income from letting of godown	24,000
- Commission income	91,000

Solution:**Statement showing computation of Total income and tax liability**

Particulars	Remarks	Not opt to be taxed under section 115BAD	Opts to be taxed under section 115BAD
Income from letting of godown [a]		24,000	24,000
Income from processing of agricultural produce of its member		38,500	38,500
Income from marketing of the agricultural produce		12,000	12,000
Commission income		91,000	91,000
Income from PGBP [b]		1,41,500	14,1,500
Dividend from another co-operative society		41,400	41,400
Income from other Source [c]		41,400	41,400
Gross Total Income [a+b+c]		2,06,900	2,06,900
Deduction under section 80C to 80U			
Deduction under section 80P			
Income of agricultural produce	38,500*100%	38,500	Nil
Income from marketing of the agricultural produce	12,000*100%	12,000	Nil
Commission income	Exempt up to 50,000	50,000	Nil
Letting out of godowns	24,000*100%	24,000	Nil
Dividend income	41,400*100%	41,400	Nil
Total Income		41,000	2,06,900
Tax on total income		At Slab rate	At 22%
Up to 10,000 = 10% (10%*10,000)=1,000 10,000-20,000=20%(20%*10,000) =2,000 20,000-41,000=30% (30%*21,000)=6,300		9,300	45518
Add: Surcharge		NA	NA
Tax and Surcharge		9,300	45,518
Add: HEC@4%		372	1,821
Tax Payable (Rounded off)		9,670	47,340

Illustration 16:

Delhi Co-operative Society derived the following incomes during the previous year 01.4.2025 to 31.3.2026

(1)	Marketing of agricultural produce of its members	10,000
(2)	Interest from members on delayed payment of the price of goods purchased	1,000
(3)	Processing (without aid of power) of agricultural produce of its members	8,000
(4)	Supplying milk to the Government (raised by its members)	15,000
(5)	Agency business	25,000
(6)	Dividends from other Co-operative Societies	15,000
(7)	Income from letting of godowns	20,000
(8)	Income from House Property	30,000

Solution:**Option 1: Assessee has not opted for Section 115BAD****Computation of total income of Delhi Co-operative Society**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property	30,000	
Letting of godowns	20,000	50,000
Income from Business		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	58,000
Income from other sources		
Interest from members	1,000	
Dividends	15,000	16,000
Gross Income		1,24,000
Deductions under Section 80P		
Letting of godowns	20,000	
Marketing of agricultural produce	10,000	

Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	
Dividends	15,000	(93,000)
Total income		31,000

Notes:

- (1) Interest from members Rs. 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [Rodier Mill Employees' Co-operative Stores Ltd. V. CIT (1982) 135 ITR 355].
- (2) The gross total income of the society exceeds Rs. 20,000 hence deduction regarding income from house property is not available.

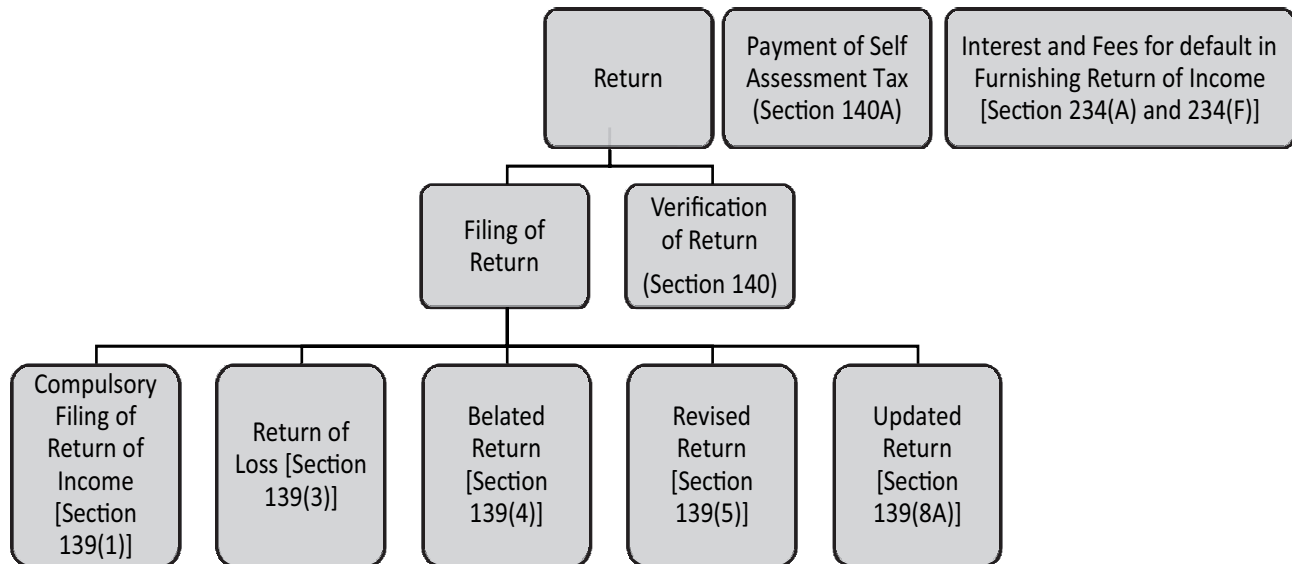
Option 2: Assessee has opted for Section 115BAD**Computation of total income of Delhi Co-operative Society**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from House Property	30,000	
Letting of godowns	20,000	50,000
Income from Business		
Marketing of agricultural product	10,000	
Processing of goods	8,000	
Supplying milk	15,000	
Agency business	25,000	58,000
Income from other sources		
Interest from members	1,000	
Dividends	15,000	16,000
Gross Income		1,24,000
Deductions under Section 80P		NA
Total income		1,24,000

Notes:

- (1) Interest from members Rs. 1,000 is not deductible as it is not from the credit facilities provided to the member and for this purpose society cannot be said to be a credit society [Rodier Mill Employees' Co-operative Stores Ltd. V. CIT (1982) 135 ITR 355].
- (2) The gross total income of the society exceeds Rs. 20,000 hence deduction regarding income from house property is not available.
- (3) Deduction under section 80P is not allowed u/s 115BAD.

INCOME TAX RETURNS



ITR stands for Income Tax Return. It is a prescribed form through which the particulars of income earned by a person in a financial year and taxes paid on such income are communicated to the Income-tax Department. It also allows carry -forward of loss and claim refund from income tax department. Different forms of returns of income are prescribed for filing of returns for different Status and Nature of income. These forms can be downloaded from <https://www.incometax.gov.in/iec/foportal>

Under the Income Tax Law, different forms of returns are prescribed for different classes of taxpayers. The return forms are known as ITR forms (Income Tax Return Forms). The forms of return prescribed under the Income-tax Law for filing of return of income for the assessment year 2025-26 (i.e., financial year 2024-25) are as follows:

Return Form	Brief Description
ITR - 1	Also known as SAHAJ is applicable to resident other than not ordinarily resident) having total income up to Rs.50 lakh, having Income from Salaries, one house property, other sources (Interest etc.), and agricultural income up to Rs.5,000
ITR - 2	It is applicable to an individual or an Hindu Undivided Family not having income chargeable to income-tax under the head "Profits or gains of business or profession"
ITR - 3	It is applicable to an individual or a Hindu Undivided Family who has any income chargeable to tax under the head business or profession

Return Form	Brief Description
ITR - 4	Also known as SUGAM is applicable Individuals, HUFs and Firms (other than LLP) being a resident having total income upto Rs.50 lakh and having income from business and profession which is computed under sections 44AD, 44ADA or 44AE.
ITR - 5	This Form can be used by a person being a firm, LLP, AOP, BOI, artificial juridical person referred to in section 2(31)(vii), cooperative society and local authority. However, a person who is required to file the return of income under section 139(4A) or 139(4B) or 139(4C) or 139(4D) shall not use this form (i.e., trusts, political parties, institutions, colleges)
ITR - 6	It is applicable to a company, other than a company claiming exemption under section 11 (exemption under section 11 can be claimed by charitable/religious trust).
ITR - 7	It is applicable to a persons including companies who are required to furnish return under section 139(4A) or section 139(4B) or section 139(4C) or section 139(4D) (i.e., trusts, political parties, institutions, colleges).
ITR - V	It is the acknowledgement of filing the return of income.

Manner and Mode of Filing Return of Income

The applicable return of income shall be furnished by a person mentioned in column (ii) of the Table below to whom the conditions specified in column (iii) apply, in the manner specified in column (iv) thereof:

Sl. No.	Person	Condition	Manner of furnishing return of income
(i)	(ii)	(iii)	(iv)
1	Individual or Hindu undivided family	(a) Accounts are required to be audited under section 44AB of the Act;	(A) Electronically under digital signature; or (B) Transmitting the data electronically in the return under electronic verification code;
		(b) A super senior citizen (whose age is 80 years or above at any time during the previous year) who furnishes the return either in ITR-1 or ITR-4	(A) Electronically under digital signature; or (B) Transmitting the data electronically in the return under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V; or (D) Paper form;

Sl. No.	Person	Condition	Manner of furnishing return of income
(i)	(ii)	(iii)	(iv)
		(c) In any other case	(A) Electronically under digital signature; or (B) Transmitting the data electronically in the return under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V;]
2	Company	In all cases.	Electronically under digital signature.
3	A person required to furnish the return in Form ITR-7	(a) In case of a political party;	Electronically under digital signature;
		(b) In any other case	(A) Electronically under digital signature; or
			(B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V.
4	Firm or limited liability partnership or any person (other than a person mentioned in Sl. 1 to 3 above) who is required to file return in Form ITR-5	(a) Accounts are required to be audited under section 44AB of the Act;	Electronically under digital signature;
		(b) In any other case.	(A) Electronically under digital signature; or
			(B) Transmitting the data in the return electronically under electronic verification code; or (C) Transmitting the data in the return electronically and thereafter submitting the verification of the return in Form ITR-V

Compulsory Filing of Income Tax Return [Section 139(1)]

As per the provision of section 139(1) of the Income Tax Act, 1961, it is compulsory to file a return of income or loss for every previous year of or before the due date in the prescribed form as under:

Person	Compulsorily filing of Return of Income or Loss
Company and Firm	In any case
Person other than a company or a firm	If his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income-tax

Further a person, being a resident other than not ordinarily resident in India within the meaning of clause (6) of section 6, who is not required to furnish a return under this sub-section and who at any time during the previous year,—

- (a) holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India; or
- (b) is a beneficiary of any asset (including any financial interest in any entity) located outside India,

shall furnish, on or before the due date, a return in respect of his income or loss for the previous year.

“beneficial owner” in respect of an asset means an individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, direct or indirect, of himself or any other person.

“beneficiary” in respect of an asset means an individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person other than such beneficiary.

Further also a person referred to in clause (b), who is not required to furnish a return under this sub-section, and who during the previous year—

- (i) has deposited an amount or aggregate of the amounts exceeding one crore rupees in one or more current accounts maintained with a banking company or a co-operative bank; or
- (ii) has incurred expenditure of an amount or aggregate of the amounts exceeding two lakh rupees for himself or any other person for travel to a foreign country; or
- (iii) has incurred expenditure of an amount or aggregate of the amounts exceeding one lakh rupees towards consumption of electricity; or
- (iv) fulfils such other conditions as may be prescribed,

shall furnish a return of his income on or before the due date in such form and verified in such manner and setting forth such other particulars, as may be prescribed.

Accordingly, the CBDT has vide Notification No. 37/2022 Dated 21.04.2022 inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish return of income u/s 139(1) and who fulfil any of the following conditions during the previous year has to file their return of Income on or before the due date as specified in the prescribed form and manner.

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business exceeds sixty lakh rupees during the previous year; or

- (ii) if his total gross receipts in profession exceeds ten lakh rupees during the previous year; or
- (iii) if the aggregate of tax deducted at source and tax collected at source during the previous year, in the case of the person, is twenty-five thousand rupees or more; or
- (iv) the deposit in one or more savings bank account of the person, in aggregate, is rupees fifty lakh or more during the previous year:

Provided that in the case of an individual resident in India who is of the age of sixty years or more, at any time during the relevant previous year, the provision of clause (iii) shall have effect as if for the words “twenty-five thousand”, the words “fifty thousand” had been substituted.

Due Date for Filing Income Tax Return [Section 139(1)]

Due Date for Filing Income Tax Return [Section 139(1)]		
	Assessee	Due Date
(i)	Company or a Firm	31st October of the Assessment Year
(ii)	a person (other than a company) whose accounts are required to be audited under this Act or under any other law for the time being in force	
(iii)	a partner of a firm whose accounts are required to be audited under this Act or under any other law for the time being in force or the spouse of such partner if the provisions of section 5A applies to such spouse	
(iv)	in the case of an assessee, including the partners of the firm or the spouse of such partner (if the provisions of section 5A applies to such spouse), being such assessee, who is required to furnish a report referred to in section 92E	30th November of the Assessment Year
(v)	in the case of any other assessee	31st day of July of the Assessment Year

Note: The Provisions related to Return of Loss, Belated Return, Revised Return, Defective Return & Updated Returns as well as Interest and Fees for Default in furnishing Return of Income etc. has been discussed in detail in Lesson No. 2.

VERIFICATION OF RETURN OF INCOME [SECTION 140]

Circumstances	Authorized Person
In the case of an individual	<ul style="list-style-type: none"> (i) by the individual himself; (ii) where he is absent from India, by the individual himself or by some person duly authorised by him in this behalf; (iii) where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf; and (iv) where, for any other reason, it is not possible for the individual to verify the return, by any person duly authorised by him in this behalf

	Note: In the situation (ii) and (iv) above, the person verifying the return holds a valid power of attorney from the individual to do so, which shall be attached to the return
In the case of a Hindu undivided family	By the karta, and, where the karta is absent from India or is mentally incapacitated from attending to his affairs, by any other adult member of such family;
In the case of a firm	By the managing partner thereof, or where for any unavoidable reason such managing partner is not able to verify the return, or where there is no managing partner as such, by any partner thereof, not being a minor;
In the case of a limited liability partnership	By the designated partner thereof, or where for any unavoidable reason such designated partner is not able to verify the return, or where there is no designated partner as such, by any partner thereof or any other person, as may be prescribed for this purpose
In the case of a local authority	By the principal officer thereof
In the case of a political party	by the chief executive officer of such party (whether such chief executive officer is known as secretary or by any other designation)
In the case of any other association	By any member of the association or the principal officer thereof
In the case of any other person	By that person or by some person competent to act on his behalf

Self-Assessment Tax (Section 140)

Where any tax is payable on the basis of any return required to be furnished under section 139 or section 142 or section 148 or section 153A or, as the case may be, section 158BC, after taking into account:

- (i) the amount of tax, if any, already paid under any provision of this Act;
- (ii) any tax deducted or collected at source;
- (iia) any relief of tax claimed under section 89;
- (iii) any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;
- (iv) any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section;
- (v) any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD; and
- (vi) any tax or interest payable according to the provisions of sub-section (2) of section 191,

the assessee shall be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, before furnishing the return and the return shall be accompanied by proof of payment of such tax, interest and fee.

Illustration 1

State with reasons whether return of income is to be filed in the following cases for the Assessment Year 2026-27:

- i. Mr. Y, a resident individual, aged 80 years, has a total income of Rs. 2,85,000. He has claimed deduction of Rs. 1,50,000 under section 80C. Long-term capital gains of Rs. 80,000 is not taxable by virtue of the exemption available upto specified threshold under section 112A. Assume that he has opted for the old provisions of the Income-tax Act.
- ii. Would your answer change if Mr. Y has incurred Rs. 1,02,000 towards payment of electricity bills for F.Y. 2025-26?
- iii. XYZ, a partnership firm, has a loss of Rs. 10,000 during the previous year 2025-26.
- iv. A registered association, eligible for exemption under section 10(23B), has income from house property of Rs. 6,60,000.
- v. Mr. X, aged 45 years, an employee of ABC (P) Ltd, draws a salary of Rs. 5,90,000 and has income from fixed deposits with bank of Rs. 10,000.

Solution:

- i. No. As per the provisions of section 139(1), every person, whose total income without giving effect to the provisions of Chapter VI-A exceeds the maximum amount not chargeable to tax, is required to furnish the return of income for the relevant assessment year on or before the due date. The gross total income of Mr. Y before giving effect to deduction of Rs. 1,50,000 under section 80C is Rs. 4,35,000, which is less than the basic exemption limit of Rs. 5,00,000 applicable to an individual aged 80 years or more. Therefore, Mr. Y need not furnish his return of income for the A.Y. 2026-27.
- ii. Yes, the answer would change, since Mr. Y has incurred expenditure of an amount exceeding ₹ 1 lakh towards the consumption of electricity and he is not liable to file return of income under section 139(1). In such a case, he would have to file his return for A.Y.2026-27 on or before the due date u/s 139(1).
- iii. Yes. As per section 139(1), it is mandatory for a firm to furnish its return of income or loss on or before the specified due date. Therefore, M/s XYZ has to furnish its return of loss for the A.Y. 2026-27 on or before the due date under section 139(1), even if it has incurred a loss.
- iv. Yes. As per section 139(4C), every institution referred to, inter alia, in section 10(23B), whose total income without giving effect to the provisions of section 10 exceeds the maximum amount not chargeable to tax, is required to furnish the return of income for the relevant assessment year on or before the due date u/s 139(2). In the above case, the registered association has income from house property of Rs. 6,60,000 before exemption under section 10, which exceeds the basic exemption limit of Rs. 3,00,000. Therefore, it is under an obligation to furnish its return of income for the A.Y. 2026-27
- v. Yes, As per the provisions of section 139(1), every person, whose gross total income exceeds the maximum amount not chargeable to tax, is required to furnish the return of income for the relevant assessment year on or before the due date. Mr. X's salary income is Rs. 5,40,000 (i.e., Rs. 5,90,000 less standard deduction of Rs. 50,000). The gross total income of Mr. X is Rs. 5,50,000 (Rs. 5,40,000 + Rs. 10,000) which exceeds the basic exemption limit of Rs. 4,00,000 applicable to an individual as per default regime of section 115BAC. Therefore, Mr. X has to furnish his return of income for the A.Y. 2026-27

Illustration 2

The Assessing Officer issued a notice under section 142(1) on the assessee on 24th February, 2026 calling upon him to file return of income for Assessment Year 2025-26. In response to the said notice, the assessee furnished a return of loss and claimed carry forward of business loss and unabsorbed depreciation. State whether the assessee would be entitled to carry forward as claimed in the return.

Solution:

As per the provisions of section 139(3), any person who has sustained loss under the head 'Profit and gains of business or profession' is allowed to carry forward such a loss under section 72(1) or section 73(2), only if he has filed the return of loss within the time allowed under section 139(1). Also, the provisions of section 80 specify that a loss which has not been determined as per the return filed under section 139(3) shall not be allowed to be carried forward and set-off under, inter alia, section 72(1) (relating to business loss) or section 73(2) (losses in speculation business) or section 74(1) (loss under the head "Capital gains") or section 74A(3) (loss from the activity or owning and maintaining race horses) or section 73A (loss relating to a "specified business"). However, there is no such condition for carry forward of loss from house property under section 71B or unabsorbed depreciation under section 32.

In the given case, the assessee has filed its return of loss in response to notice under section 142(1). As per the provisions stated above, assessee furnished return in response to notice under section 142(1) after the due date specified under section 139 (1) and therefore, the benefit of carry forward of business loss under section 72(1) or section 73(2) or section 73A shall not be available. The assessee shall, however, be entitled to carry forward the unabsorbed depreciation as per provisions of section 32(2).

Illustration 3

State whether the following assessee have to file return of income and if so, the due date for the assessment year 2026-27:

- (i) A registered trade union having income from let out property of Rs. 2,00,000.
- (ii) A public trust hospital having an aggregate annual receipt of Rs. 510 lacs and availing exemption of Rs. 3,10,000 under section 10(23C) with total income of Rs. 2,40,000

Solution

- (i) A registered trade union is having income from house property, which is exempt under section 10(24). Section 139(4C) mandates filing of return only when the total income exceeds the maximum amount which is not chargeable to tax without giving effect to the provisions of section 10. In this case, even without giving effect to section 10(24), the total income of the registered trade union is below basic exemption limit and therefore, there is no mandatory requirement to file the return of income.
- (ii) Since the total income without giving effect to the exemption under section 10(23C) is Rs. 5,50,000, which exceeds Rs. 3,00,000, the trust has to file its return of income by 31st October, 2026.

TECHNOLOGICAL ASPECTS IN TAX COMPLIANCES

The transition to electronic filing (e-filing) and digital services represents a significant leap forward in tax administration. E-filing refers to the submission of tax returns and related documents through online platforms, rather than traditional paper-based methods. This shift has brought about several advantages that enhance the overall tax administration experience.

E-filing systems offer taxpayers a convenient and efficient way to submit their tax returns. Instead of mailing paper forms or visiting tax offices in person, taxpayers can file their returns from the comfort of their homes or offices. This convenience is particularly beneficial during peak tax seasons, reducing the need for long queues and wait times at tax offices. Digital services extend beyond e-filing. Tax authorities now offer various online services that enable taxpayers to perform a range of functions electronically. These services include checking the status of a return, making tax payments, updating personal information, and accessing tax records. The availability of these services online means that taxpayers can manage their tax affairs more efficiently and at their own convenience.

E-filing systems are also designed to reduce errors and improve accuracy. Many platforms incorporate built-in validation checks that automatically detect common mistakes or inconsistencies before submission. This proactive approach helps ensure that returns are filed correctly and reduces the likelihood of issues that might arise from errors or omissions. From the perspective of tax authorities, e-filing provides several benefits as well. It streamlines the processing of returns, reducing the need for manual data entry and allowing for faster processing times. Electronic submissions are also easier to manage and analyze, enabling tax authorities to process large volumes of returns more efficiently. Additionally, e-filing systems enhance data security. Electronic submissions are encrypted and transmitted through secure channels, reducing the risk of data loss or unauthorized access compared to handling paper documents. This increased security helps protect sensitive taxpayer information and ensures that it is transmitted and stored safely.

Enhanced Compliance and Enforcement

Technology has significantly enhanced compliance and enforcement in tax administration by providing tools and systems that improve monitoring, detection, and response to non-compliance. Enhanced compliance and enforcement are critical for ensuring that taxpayers meet their obligations and that tax laws are enforced effectively. One of the key technologies supporting enhanced compliance is data analytics. By analyzing large volumes of data from tax returns, financial statements, and other sources, tax authorities can identify patterns and anomalies that may indicate non-compliance or fraudulent behavior. For example, data analytics can detect discrepancies between reported income and known financial activities, flagging cases for further investigation. Advanced technologies also support more targeted and effective enforcement actions. For instance, predictive analytics can help tax authorities assess the risk of non-compliance and prioritize audits or investigations accordingly. This risk-based approach allows tax authorities to focus their resources on high-risk areas, improving the overall effectiveness of enforcement efforts. In addition to data analytics, technology also supports enhanced compliance through automated systems and tools. Automated systems can streamline the monitoring of tax payments, ensuring that payments are processed accurately and on time. They can also detect and flag potential issues, such as missing or incorrect information, for further review.

Benefits of Technological Innovations in Tax Compliance

The adoption of technological innovations in tax compliance has yielded several benefits for both taxpayers and the tax administration in India:

- **Increased Efficiency:** Automation and digitization have streamlined tax processes, reducing the time and effort required for compliance.
- **Enhanced Transparency:** Technology has improved the transparency of transactions, making it easier to detect and prevent tax evasion.
- **Better Compliance:** With simplified processes and user-friendly platforms, taxpayers are more likely to comply with tax regulations.
- **Reduced Litigation:** Technology-driven dispute resolution mechanisms have expedited the settlement of tax disputes.
- **Data-Driven Decision Making:** Advanced analytics and AI have enabled data-driven decision-making, improving the effectiveness of tax administration.

Tax e-services available at Income Tax Portal <i>https://incometaxindia.gov.in/Pages/tax-services.aspx</i>
Return Filing
Registration of Taxpayer on e-Filing website
File Income tax Return
File SFT Return
View e-Filed Returns/ Forms
Outstanding Tax Demand Status
Submit Response to Outstanding Tax Demand
How to Submit Request for Rectification
Status of Tax Refund
How to Request for Refund Re-issue? (in case of refund failure)
Download Intimation 143(1)
Register as Legal Heir (applicable in case of any deceased taxpayer)
Response to Defective Notice
Compliance Module
Tax Payments
Challan Status Inquiry
Pay Tax Online
View Tax Credit Statement (Form 26AS)> Online view through E-filing Website
View Your Tax Credit > Online view through internet banking
View Your Tax Credit > Online view through TRACES
View Your Tax Credit > Status of TDS/TCS Statement
TDS Certificate (Form 16A) Verification by the Taxpayer
PAN
Apply for PAN
Status of PAN > Protean (formerly NSDL eGov)
Status of PAN > UTITSL
Know Your PAN
Instant e-PAN
Link Aadhaar

TDS Related
Apply for TAN Online
Change Your TAN Data
Know Your TAN
Status of TAN
Online TAN Registration
Online Filing of TDS Return
TDS/TCS Statement > Default Status
TDS/TCS Correction Statement
Applications form for AIN Allotment
e-TDS/e-TCS / File Validation Utility (FVU)
TDS/TCS Statement > Protean (formerly NSDL eGov) Form 24G Preparation Utility
TDS/TCS Statement > Status of Form 24G
Online TDS Statement Corrections > Online corrections
Online TDS Statement Corrections > Tag / Replace challan
Consolidated demand
View default summary
Statement and challan status
Online PAN Verification
Form 16A Download by The Deductor
Downloads > Forms 16B
Downloads > Form 27D
Downloads > Transaction based report for non-resident
Downloads > Consolidated statement file
Downloads > Justification report
Downloads > TAN-PAN Consolidated file
Downloads > Aggregate TDS compliance report
Downloads > E -tutorials and FAQs
Tax Information's Network-Facilitation Centre Locator

Note: "Students may refer to Lesson 13 titled "Procedural Compliance" of Paper 7 " Tax laws and Practice" of Executive Programme for procedural compliances related provisions including TDS and TCS."

LESSON ROUNDUP

- The term 'Hindu undivided family' has not been defined in the Income-tax Act. However, in general parlance it means an undivided family of Hindus. Creation of a HUF is a God-gifted phenomenon. As soon as a married Hindu gets a child, a new HUF comes into existence. It is not at all necessary that every HUF must have joint property or family income.
- A Hindu Joint Family consists of Coparceners & members.
- The gross total income of the family for the relevant previous year shall be computed under the relevant heads (as per the provisions of the Income-tax Act) as it is computed for other assesses.
- 'Partition' signifies division of property. In the cases of property capable of physical division, share of each member is determined by making physical division thereof. It must be noted that a division of income without physical division of property does not amount to partition.
- **Partnership Firm:** Under Section 2(23) of the Income-tax Act, the terms "firm", "partner", and "partnership" have the meanings respectively assigned to them in the Indian Partnership Act, 1932 and Limited Liability Partnership Act, 2008.
- As per the scheme, a partnership firm shall be assessed as a firm if the following conditions are satisfied:
 - The partnership is evidenced by an instrument i.e. partnership deed.
 - The individual shares of the partners are specified in that instrument.
- A copy of the partnership deed certified by all the partners in writing (other than the minors) is submitted along with the return of income in respect of which assessment as a firm is first sought.
- As per Section 10(2A) of the Act, any person who is a partner of a firm which is assessed as such, his share in the total income of the firm will not be included in computing his total income. Partner includes a minor admitted to the benefits of partnership as per Section 2(23) of the Act.
- When all the partners in the predecessor firm are replaced by new partners in the successor firm, it is known as succession of one firm by another firm. If a firm is dissolved and some of the partners take over the firm's business or carry on a similar business with or without new partners, it would be a case of succession by a new firm.
- Where a change has occurred in the constitution of a firm on account of death or retirement, the firm is not entitled to carry forward and set off so much of the loss proportionate to the share of a retired or deceased partner as exceeds his share of profits, if any, in the firm in respect of the previous year.
- **Alternate Minimum Tax:** From the assessment year 2012-13 onwards, where the regular income tax payable for a previous year by a person other than a company is less than the alternate minimum tax payable for such previous year then the adjusted total income shall be deemed to be the total income of such person for such previous year and it shall be liable to pay income tax on such adjusted total income @ 18.5% + SC plus health and education cess (HEC) @ 4%. AMT is applicable if adjusted total income exceeds Rs. 20 lakh.
- **Association of persons:** "Association of persons" means an association in which two or more persons join in a common purpose or common action to produce income, profits or gains.

- For the formation of an AOP the association need not necessarily be on the basis of a contract, consent and understanding may be presumed.
- Section 167B makes the following provisions as regards the incidence of charge of tax on the association of persons.
- Where shares of members are determinate, tax is chargeable on the income of the association of persons at the same rate as applicable to an individual. However, where the total income of any member of the association of persons for the previous year (excluding his share of income from the association of persons) exceeds the maximum amount not chargeable to tax in the case of an individual, tax will be charged on the total income of the AOP at the maximum marginal rate of 30%, i.e., the highest slab applicable to an individual.
- Where the shares of the members are indeterminate, tax will be charged on the total income of the AOP at the maximum marginal rate, that is, the rate of tax as well as surcharge, if any, applicable to the highest slab of income in the case of an individual as specified in the Finance Act of the relevant year.
- Section 67A seeks to provide for the method of computing a member's share in the income of an association of persons or a body of individuals, wherein the shares of the members are determinate, in the same manner as provided for in Sub-sections (1) to (3) of Section 67 for computing a partner's share in a firm.
- Co-operative Society means a co-operative society registered under the Co-operative Societies Act, 1912, or under any other law for the time being in force in any State for the registration of co-operative societies. The income of a co-operative society is computed in the same manner as provided for other assessee.
- Section 80P provides for certain deductions from the gross total income of a Co-operative Society.
- The provision related to Filing of Return of Income.
- Due Date of Filing of Return of Income.

TEST YOURSELF

(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation.)

Multiple Choice Questions "MCQs"

1. Alternative Minimum Tax (AMT) is applicable if adjusted Total Income of individual, AOP, artificial juristic person, Firm etc. exceeds:
 - (a) 15 lakhs
 - (b) 20 lakhs
 - (c) 25 lakhs
 - (d) 10 lakhs
 Answer: (b)
2. Share in the profits of the firm is taxable in the hands of partner under the head:
 - (a) Salary
 - (b) Business & Profession

(c) Income from other sources

(d) Exempt from tax

Answer: (d)

3. Salary, fees, bonus received by a partner from the firm is Taxable in the hands of partner under the head:

(a) Salary

(b) Business & Profession

(c) Income from other sources

(d) Exempt from tax

Answer: (b)

4. Income earned from sale of "Stridhan" is taxable in the hands of:

(a) HUF

(b) Husband of such woman

(c) Such woman herself

(d) None of above

Answer: (c)

5. Personal earning including income from Self Acquired Property of a member of the HUF is included in Income of:

(a) HUF income

(b) Son's income

(c) Individual's income

(d) None of these

Answer: (c)

Practical Questions

Question 1: X furnishes the following particulars for the previous year relevant to A/Y 2026-27.

Profit and Loss A/c for the year ending 31-03-2026

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To salary to staff	22,000	By gross profit	2,50,000
To entertainment expenses	13,000		
To general expenses	11,000		
To bad debts	4,500		
To reserve for bad debts	10,000		
To advertising expenses	7,000		

To interest on X capital A/c	3,000		
To acquisition of patent's rights	28,000		
To Telephone expenses	12,000		
To depreciation	10,000		
To provision or Income Tax	4,000		
To Net Profit	1,25,500		
Total	2,50,000	Total	2,50,000

Other information :

1. Salary to staff includes salary paid to a relative which is unreasonable to the extent of Rs. 3,100.
2. Provision for income tax is excessive to the extent of Rs.3,000
3. Depreciation according to the income tax provision comes to Rs.9,500
4. During the previous year 2025-26 the following payment were made and the same have not been debited to profit and loss account of 2025-26.
 - a. Rs.3,000 paid on 10-6-2025 on account of outstanding customs duty of the previous year 2024-25, and
 - b. Rs.5,000 paid on 15-6-2026 on account of outstanding custom duty of the previous year 2025-26
5. Patents were acquired on 4-11-2025

Find out the taxable income of X for the A/Y 2026-27. Due date of filling return of income of assessment year 2025-26 and 2026-27 is 31st July of the relevant A/Y. Covered u/s 115BAC

Question 2: Y (age: 34years) is a businessman in Delhi. Determine his net income and tax liability on the basis of the following profit and loss account for the year ending 31, 2026. Not covered u/s 115BAC

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Opening stock	1,04,000	Sales	92,51,000
Purchases	80,08,750	Closing stock	2,10,000
Salaries and wages	1,75,000		
Rent and rates	1,31,000		
Commission	21,500		

Household expenses	20,000		
Income tax for 2025-26	36,100		
Advertisement	5,000		
Postage and telegram	4,000		
Interest on own capital	84,000		
Reserve for bad debts	3,400		
Depreciation on furniture	18,000		
Net profit	8,50,250		
Total	94,61,000	Total	94,61,000

Other particulars :

1. Closing stock and opening stock has consistently been valued at 10 % below cost price.
2. Depreciation on furniture as per tax provisions is Rs. 17,200.
3. Amount of sales includes a sum of Rs. 41,250 representing the value of goods withdrawn for the use of Y's family members. These goods were purchased at cost of Rs. 27,850. Market value of these goods is Rs. 45,240.
4. Household expenses include a contribution of Rs. 1,000 towards public provident fund.
5. On September 20, 2025 Y has received a gift of Rs. 96,000 from a friend settled in UK.

Question 3: Mr. Inder Kumar Sharma furnishes the following manufacturing profit and loss account for the previous year ending 31-3-2026. Covered u/s 115BAC

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Stock	11,000	By Sales	2,84,500
To Purchases	80,000	By Stocks	26,400
To manufacturing wages	65,900		
To Factory Rent Rates and Taxes	30,000		
To Depreciation	15,000		
To Gross profit	1,09,000		
Total	3,10,900	Total	3,10,900

Profit and Loss Account			
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Office Salaries	27,000	By Gross profit B/D	1,09,000
To Establishment Expenses	6,100	By Rent of staff quarters	19,000
To Interest on Capital	3,300	By Refund of income-tax penalty	2,000
To Fire Insurance	200	By sale of a machinery	25,000
To Bad debts	7,000	By Recovery of Bad debts, not allowed as deduction earlier	6,000
To Income tax	6,000	By Sundry Receipts	35,000
To Expense on Sales tax proceedings	2,000		
To Expenses of income-tax proceedings	13,000		
To Diwali Expenses	4,000		
To Legal Expenses	7,000		
To Medical Expenses of proprietor	3,000		
To Staff Welfare Expenses	2,000		
To Repair of Staff quarters	4,000		
To Security Deposit for telex connection	10,000		
To Bonus payable to Employees	20,000		
To Provision for Tax: Custom Duty	25,000		
To Municipal taxes for staff quarters	4,000		
To General Reserve	26,000		
To Entertainment expenses	16,000		
To Net profit	10,400		
Total	1,96,000	Total	1,96,000

You are required to compute the taxable profits from business after taking the following into consideration:

- (i) Purchase include a petty purchase of Rs. 21,000. Its payment was made by a crossed cheque.
- (ii) Assessee has always valued the stock at cost price but since 2025-26 he has valued it at market price which was in excess of the cost price by 10%.
- (iii) Office salaries paid include Rs. 10,400 to the proprietor of the business
- (iv) Diwali expense include gifts of Rs. 1,000 made to the relatives.
- (v) The written down value (WDV) of the block consisting of machinery as on 01-04-2025 is Rs. 59,000. Machinery whose WDV as on 1-4-2025, was Rs. 5,000 was sold for Rs. 25,000 during the year.
- (vi) The written down value (WDV) of the block consisting of factory buildings as on 01-04-2025 is Rs. 90,000.
- (vii) Custom Duties amounting to only Rs. 20,000 were paid on or before 31-07-2026.

Theoretical Questions

1. Explain the provision related to Special Tax Regime u/s 115BAC for Computation of Total Income and Tax Liability
2. Explain the provision related to Special Tax Regime u/s 115BAD for Computation of Total Income and Tax Liability
3. Explain the provision related to Special Tax Regime u/s 115BAE for Computation of Total Income and Tax Liability
4. Explain the concept of Rebate u/s 87A?
5. What is Marginal Relief with respect to computation of total income and tax liability of an assessee?
6. Explain the provision related to filing of Return of Income.
7. What are the various modes of filing of Return of Income?
8. What are the due dates of Filing of Return of Income?

LIST OF FURTHER READINGS

- **Direct Taxes Law and Practice**
Author: Dr. Vinod K. Singhania & Dr. Kapil Singhania
Publisher: Taxmann
- **Direct Taxes Ready Reckoner with Tax Planning**
Author: Dr. Girish Ahuja & Dr. Ravi Gupta
Publisher: Wolters Kluwer

OTHER REFERENCES (INCLUDING WEBSITES AND VIDEO LINKS)

- **Income Tax Act, 1961:** <https://www.incometaxindia.gov.in/Pages/acts/income-tax-act.aspx>
- **Income Tax Rules, 1962:** <https://www.incometaxindia.gov.in/Pages/rules/income-tax-rules-1962.aspx>
- **Circulars:** <https://www.incometaxindia.gov.in/Pages/communications/circulars.aspx>
- **Notifications:** <https://www.incometaxindia.gov.in/Pages/communications/notifications.aspx>