CA INTERMEDIATE

INCOME TAX

Question Bank

CA Jasmeet Singh Arora

For May 27/Sep 27/ Jan 28 Attempt

EDITION: Eighth

Published By: Physicswallah Limited

Physics Wallah Publication

ISBN: 978-93-7818-829-9

MRP: 419/-

Mobile App: Physics Wallah (Available on Play Store)

Website: www.pw.live

Youtube Channels: CA Intermediate by PW (@CAIntermediatebyPW)

CA Wallah by PW (@CAWallahbyPW)

Commerce Wallah by PW (@CommerceWallahPW)

CA Final by PW (@CAFinalPW)

Email: publication@pw.live

SKU Code: BKP2606022493

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- Syllabus coverage strictly as per ICAI study Material
- Detailed Theory with Exam prototype and Concept Applications Questions
- Short Notes and Solve Miscellaneous Examples
- Topic wise, Learning Plus and Advanced Level Questions covered in the Book

ABOUT THE AUTHOR

Sir, CA Jasmeet Singh Arora is a highly qualified and experienced Chartered Accountant with a passion for teaching. With a strong academic background in both CA and B.Com, Jasmeet Sir has excelled in his field, passing his CA exams on the first attempt and receiving five exemptions in his CA Final exams. In addition to his impressive qualifications, he also possesses more than 10 years of experience in teaching, having mentored over 70,000 students both online and offline.

Jasmeet Sir is a firm believer in blended learning and adopts a learner-centric approach to his teaching. He understands that every student is unique and has different learning needs, and therefore aims to cater to those needs by providing a diverse range of teaching methods. With the use of real-life examples and innovative teaching techniques, he seeks to transform traditional pedagogical processes and make learning more accessible and enjoyable for his students.

Throughout his teaching career, Jasmeet Sir has been committed to providing high-quality education in subjects such as taxation and costing. His expertise in these areas has earned him a reputation as one of the best teachers in his field, and he has been recognized by the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI) Kanpur as a visiting faculty member. His dedication to his students is unwavering, and he strives to create a learning environment that is engaging, interactive, and challenging.

Jasmeet Sir's success as a teacher is due to his passion for his subject matter, his commitment to his students, and his ability to adapt to new teaching techniques and technologies. He believes that education is the key to unlocking the potential of young minds and creating a better future for all. His mission is to inspire and empower his students to achieve their full potential and to make a positive impact on society.

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CHAPTER 1: BASIC CONCEPTS

Illustration 1: Compute the income the tax liability Of Binod under old regime (Res. 45 Years)

Particulars	Amount (₹)
Income Under The Head Salary	₹4,00,000
Income Under Head House Property	₹5,00,000
Profits & Gains From Business & Profession	₹6,10,603
Deductions U/s 123-154	₹1,50,000

Illustration 2: Suppose Age of Binod Is 60 Years

Illustration 3: Suppose Age of Binod Is 80 Years

Illustration 4: Calculate tax liability in following cases under Both Regimes

(a) Mr. X (Resident Age 40 Years) has a total income of ₹15,00,000
(b) Mr. X (Resident Age 60 Years) has a total income of ₹15,00,000
(c) Mr. X (Resident Age 80 Years) has a total income of ₹15,00,000
(d) Mr. X (Non-Resident Age 40 Years) has a total income of ₹15,00,000
(e) Mr. X (Non-Resident Age 60 Years) has a total income of ₹15,00,000
(f) Mr. X (Non-Resident Age 80 Years) has a total income of ₹15,00,000

Illustration 5: Calculate Income tax Liability in Following Cases under both the Tax Regime:

i. Mr. X (Resident Age 40 Years) has a total income of ₹67,00,000
ii. Mr. X (Resident Age 60 Years) has a total income of ₹1,67,00,000
iii. MR.X (Resident Age 80 Years) has a total income of ₹3,67,00,000
iv. MR.X (Non-Resident Age 60 Years) has a total income of ₹6,67,00,000

Illustration 6: Mr. J (Resident Age 40 Years) has gross total income ₹ 5,40,000 and deduction allowed under section 123-154 are ₹ 40,000. Compute his tax liability under Normal Provisions.

Illustration 7: Presume in illustration 6, Age of Mr. J is 60 Years.

Illustration 8: Presume in illustration 6, Age of Mr. J is 82 Years and He is Non-Resident

Illustration 9: Mr. X has income under the head Salary ₹ 5,00,000 and casual income ₹3,00,000 and deduction under section 123-154 ₹ 2,00,000. Calculate His Tax Liability under both regimes.

Illustration 10: If in the above Question deduction allowed under section 123-154 is ₹ 6,00,000, tax liability shall be?

Illustration 11: Mr. J has casual income of ₹ 1,02,00,000 and deduction allowed under section 123-154 are ₹ 5,00,000. Calculate His Tax Liability under both regimes.

Illustration 12: From The Following Information Calculate tax liability under both regimes of Mr. J (Res. 40 Years)

Particulars	Amount (₹)
Income Under The Head Salaries	6,00,000
Long Term Capital Gain u/s 197 on sale of GOLD on 01/08/2025	1,00,000
Long Term Capital Gain u/s 198	1,50,000
Short Term Capital Gain	25,000
Short Term Capital Gain u/s 196	1,25,000
Casual Income	2,00,000
Deductions u/s 123-154	2,50,000

Illustration 13: From The Following Information Calculate tax liability of Mr. J (Resident Age 40 Years) under both regimes.

Particulars	Amount (₹)
Income Under the Head Salaries	3,00,000
Long Term Capital Gain u/s 197 on sale of Paintings on 11/08/2025	6,00,000
Long Term Capital Gain u/s 198	50,000
Deductions u/s 123-154	2,50,000

Illustration 13A: Suppose In Above Question Mr. J is of 80 Year

Illustration 14: Calculate tax liability of Mr. J (Resident Age 40 Years), if he has Income From LTCG u/s 198 of ₹ 50,50,000 (Under Both Regimes)

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Illustration 15: Mr. X (Age 64 Years) is a resident individual; Details of his income is as follows:

- LTCG u/s 197 ₹ 30,00,000
- LTCG u/s 198 ₹ 10,00,000
- STCG u/s 196 ₹ 3,00,000
- Other Normal Income ₹ 28,00,000
- Deduction u/s 123-154 ₹ 2,00,000

Calculate His Tax Liability under both regimes.

Illustration 16: Suppose in above question other income is ₹ 1,72,00,000. Calculate His Tax Liability under both regimes.

Illustration 17: Mr. X (Age 64 Years) is a resident individual; Details of his income is as follows:

- LTCG u/s 197 ₹ 2,00,000
- LTCG u/s 198 ₹ 1,10,00,000
- STCG u/s 196 ₹ 1,13,00,000
- Other Income ₹ 20,00,000
- Deduction u/s 123-154 ₹ 2,00,000

Calculate His Tax Liability under both regimes.

Agriculture Income

Illustration 18

Compute tax liability under both regimes from following information:

- Business Income ₹ 9,00,000
- LTCG u/s 197 ₹ 3,00,000
- STCG u/s 196 ₹ 50,000
- Lottery income ₹ 40,000
- Deduction u/s 123-154 ₹ 1,00,000
- Agricultural Income ₹ 1,50,000

Illustration 19

Mr. X, a resident, has provided the following particulars of his income for the Tax Year 2026-27.

a. Income under the head salary ₹ 3,40,000
b. Income under the head house property ₹ 3,00,000
c. Agricultural income from a land in Jaipur ₹ 1,80,000

TELEGRAM: CA NOTE HUB

d. Expenses incurred for earning agricultural income ₹ 1,20,000

Compute his tax liability under both regimes assuming his age is –

(a) 45 years

(b) 70 years

Illustration 20

Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22,00,000. After incurring ₹ 1,50,000 in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25,00,000. Compute Mr. X's business income and agricultural income and also compute Tax Liability under normal provisions.

Illustration 21

Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹ 30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing rubber is ₹ 8 lacs. Compute his total income under normal provisions.

Illustration 22

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

(i) Mr. R took a land on rent from Ms. S on monthly rent of ₹10,000. He sub-lets the land to Mr. M for a monthly rent of ₹11,500. Mr. M uses the land for grazing of cattle required for agricultural activities. Mr. R wants to claim deduction of ₹10,000 (being rent paid by him to Ms. S) from the rental income received by him from Mr. M.

(ii) Mr. N grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form.

Illustration 23

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2027:

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Particulars	Amount (₹)
Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
Income from sale of tea grown and manufactured in Shimla.	4,00,000
Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the T.Y. 2026-27.

Illustration 24

Mr. Raja, a resident Indian, earns income of ₹10 lakhs from sale of coffee grown and cured in India during the T.Y. 2026-27. His friend, Mr. Shyam, a resident Indian, earns income of ₹20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the T.Y. 2026-27. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

Illustration 25

Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 2025:

(i) Rent received for letting out agricultural land for a movie shooting.

(ii) Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.

CHAPTER 2: RESIDENTIAL STATUS

Illustration 01

Determine residential status of Mr. X for the Tax Year 2026-27, who stays in India during various financial years as under:

Tax Years	Stay
2026-27	100
2025-26	200
2024-25	91
2023-24	90
2022-23	89
2021-22	87
2020-21	91
2019-20	82
2018-19	90
2017-18	88
2016-17	89
2015-16	86
2014-15	87
2013-14	89
2012-13	90

Illustration 02

Mr. X, the Australian cricketer comes to India for 105 days every year. Find out his residential status for the T.Y. 2026-27.

Illustration 03

Mr. X, a Canadian citizen, comes to India for the first time during the T.Y.2022-23. During the financial years 2022-23, 2023-24, 2024-25, 2025-26 & 2026-27 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the T.Y. 2026-27.

Illustration 04

On 01.06.2024 Mr. X, a Malaysian citizen leaves India after stay of 10 year During the financial year 2025-26 he comes to India for a period of 46 days.

Later, he returns to India for one year on 10.10.2026. Determine Mr. X's residential status for the Tax Year 2026-27.

Illustration 05

Mr. X, an Indian citizen, leaves India on 22.09.2026 for the first time, to work as an officer of a company in France. Determine his residential status for the T.Y. 2026-27.

Illustration 06 [PYQ May 2015]

Ms. Bindu, a non-resident, residing in New York since 1991, came back to India on 19-02-2025 for permanent settlement in India. Explain the residential status of Ms. Bindu for the T.Y. 2027-28. In accordance with the various provision of Indian Income tax Act.

Illustration 07

Mr. X and Mrs. X are Indian citizens, settled outside India for the purpose of employment and they came to India on 15.10.2026 on a visit for 7 months. Both of them are Indian citizens. In the earlier years they were in India as follows:

Year	Mr. X	Mrs. X
2025-26	235 Days	365 Days
2024-25	330 Days	30 Days
2023-24	Nil	28 Days
2022-23	118 Days	120 ys

Find out the residential status of Mr. X and Mrs. X for the Tax Year 2027-28. If their Total income from Indian sources including foreign business/professional income whose control/set-up is in India is:

a) Exceed 15 Lakhs
b) Doesn't Exceed 15 Lakhs

Illustration 08

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in international traffic departing from Chennai port on 6th June, 2026. From the following details for the T.Y.2026-27, determine the residential status of Mr. Anand for T.Y. 2026-27, assuming that his stay in India in the last 4 Tax Years (preceding to T.Y. 2026-27) is 400 days and last seven Tax Years (preceding to T.Y. 2026-27) is 750 days:

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Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6/6/2026
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9/12/2026

Illustration 09

Mr. J born in Lahore, Pakistan on 1st July 1943. He took the citizenship of Australia in the year 2000 and since then residing there with Family. He came to India on 10th November 2019 for the first time after 10/8/2000 and since then he is visiting India for 100 days but in the Tax Year 2026-27 he is present in India for 150 days. Determine his Residential status for the TY 2026-27 from the following information:

Source of Income	Case A	Case B
Indian	₹10 Lakh	₹18 Lakh
Foreign	₹6 Lakh	₹6 Lakh
Total Income	₹16 Lakh	₹24 Lakh

Illustration 10

One Hindu Undivided Family is being managed partly from Mumbai and partly from Nepal. Mr. X (a foreign citizen), Karta of Hindu Undivided Family, comes on a visit to India every year since 1982 in month of April for 105 days. Determine residential status of the Hindu Undivided Family and also that of the Karta in his individual capacity for the Tax Year 2027-28.

Illustration 11

ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April 2023 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for T.Y.2027-28.

TELEGRAM: CA NOTE HUB

Illustration 12

Wipro Ltd. an Indian company has most of its business outside India. Determine its residential status.

Illustration 13

Shrine International Ltd. is incorporated in Mauritius and its place of effective management is in Mauritius. Determine its residential status for TY 2027-28.

Illustration 14

Mr. X has income as under for FY 2026-27:

1. He has income from a business in Germany Amounting to ₹ 3,00,000 and half of it was received in India.
2. He has interest income of ₹ 1,00,000 from UK Development Bond and entire interest income was credited to a bank account in UK. Subsequently, the Amount was transferred in India.
3. He has a business in Bombay and entire income of ₹ 3,00,000 was received in UK.
4. He has one house property in Ghaziabad and income of ₹ 5,00,000 was received in UK.
5. He has received salary income of ₹ 5,00,000 (computed) in India and half of the services were rendered in UK and half in India.
   (Presume all the above incomes are computed incomes)
   Compute his income presuming that he is NOR, NR and ROR

Illustration 15

Mr. X earns the following income during the financial year 2026-27:

Particulars	Amount (₹)
Income from house property in London, received in India	60,000
Profits from business in Japan and managed from there (received in Japan)	9,00,000
Dividend from foreign company, received in India	30,000
Dividend from Indian company, received in England	50,000
Profits from business in Kenya, controlled from India, Profits received in Kenya	3,00,000
Profits from business in Delhi, managed from Japan	7,00,000

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Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there	2,00,000
Pension from former employer in India, received in Japan	50,000
Profits from business in Pakistan, deposited in bank there	20,000
Profit on sale of asset in India but received in London	8,000
Past untaxed profits of UK business of 2020-21 brought into India in 2022-23	90,000
Interest on Government securities accrued in India but received in Paris	80,000
Interest on USA Government securities, received in India	20,000
Salary earned in Bombay, but received in UK	60,000
Income from property in Paris, received there	1,00,000

Determine the gross total income of Mr. X if he is resident and ordinarily resident, resident but not ordinarily resident, non-resident in India during the financial year 2026-27 (Presume all the above incomes are computed incomes)

Illustration 16

Determine the taxability of the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the T.Y. 2026-27 (Presume all the above incomes are computed incomes)

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Profits on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Profits on sale of plant at Germany 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from property in London deposited in a Indian Bank at London, brought to India	50,000
Interest for debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Bombay managed from London	26,000
Pension for services rendered in India but received in Burma	4,000

Income from property situated in Pakistan received there	16,000
Past foreign untaxed income brought to India during the Tax Year	5,000
Income from agricultural land in Nepal received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	10,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Illustration 17

Mr. Sarthak, an individual and Indian citizen living abroad (Dubai), a tax haven, since year 2005 and never came to India for a single day since then, earned the following incomes during Tax Year 2026-27:

Particulars	Amount
Income accrued and arisen in Dubai not taxable in Dubai (being tax haven)	20,00,000
Income accrued and arisen in India	5,00,000
Income deemed to accrue and arise in India	8,00,000
Income arising in Dubai from a profession set up in India	10,00,000

a) Determine the residential status of Mr. Sarthak and taxable income for the Tax Year 2026-27 (assuming no other income arise during the Tax Year).

b) What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?

c) What would be your answer, if Mr. Sarthak born in Dubai and his parents were born in India?

Illustration 18

Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the Tax Year 2026-27, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2022-23, 2023-24 and 2024-25 & 2025-26 respectively. Her annual income for TY 2026-27 is as follows:

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Particulars	Amount
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated in UAE	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the Tax Year 2027-28.

Illustration 19

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2020 with the name "New way associates". In May 2025, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2024 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October 2025. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2026 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the T.Y. 2026-27.

	Income of Mr. Ram	Amount
1	Salary from company in Dubai (not liable to tax in Dubai)	13,00,000
2	Long term capital gain on sale of shares of an Indian company	2,50,000
3	Income from house property in Delhi (computed)	4,60,000
4	Dividend from shares of an Indian company	65,000
	Income of Mrs. Asha	₹
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Profit from consultancy profession in India	3,00,000
3	Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
4	Short term capital loss on sale of listed shares of an Indian co.	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the T.Y. 2026-27.

Illustration 20 [PYQ Nov 2014]

Mrs. Geetha and Mrs. Leena are sisters, and they earned the following income during the Financial Year 2026-27. Mrs. Geetha is settled in Malaysia since 1985 and visits India for a month every year. Mrs. Leena is settled in Indore since her marriage in 1993. Compute the total income of Mrs. Geetha and Mrs. Leena for TY 2026-27:

Sl. No.	Particulars	Geetha ₹	Leena ₹
(i)	Income from Profession in Malaysia, (set up in India) received there	15,000	-
(ii)	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	1,20,000	
(iv)	Dividend from PQR Ltd. an Indian Company	5,000	9,000
(v)	Dividend from a Malaysian company received in Malaysia	15,000	8,000
(Vi)	Cash gift received from a friend on Mrs. Leena's 50th birthday	-	51,000
(vii)	Agricultural income from land in Maharashtra	7,500	4,000
(viii)	Past foreign untaxed income brought to India	5,000	-
(ix)	Fees for technical services rendered in India received in Malaysia	25,000	-
(x)	Income from a business in Pune (Mrs. Geetha receives 50% of the income in India)	12,000	15,000
(xi)	Interest on debentures in an Indian company (Mrs. Geetha received the same in Malaysia)	18,500	14,000
(xii)	Short-term capital gain on sale of shares of an Indian company	15,000	25,500
(xiii)	Interest on savings account with SBI	12,000	8,000
(xiv)	Life insurance premium paid to LIC	-	30,000

Illustration 21 [PYQ May 2015]

Explain with reasons whether the following transactions attract income-tax in India in the hands of recipients?

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(a) Salary paid to Mr. David, a citizen of India ₹ 15,00,000 by the Central Government for the services rendered in Canada.
(b) Legal charges of ₹ 7,50,000 paid to Mr. Johnson, a lawyer of London, who visited India to represent a case at the Supreme Court.
(c) Royalty paid to Rajeev, a non-resident by Mr. Mukesh, a resident for a business carried on in Sri Lanka.
(d) Interest received of ₹ 1,00,000, on money borrowed from France, by Ms. Dyana, a non-resident for the business at Bangalore.

Illustration 22 [PYQ Nov 2016]

Mr. Rajnesh, a citizen of India, serving in the Ministry of Finance in India and transferred to High Commission of Australia on 15th March 2025. He did not come to India during the financial year 2026-27. His income during the financial year 2025-26 is given here under:

Particulars	₹
Salary from Govt, of India	7,20,000
Foreign Allowances from Govt, of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2026-27	45,000

Compute The Gross Total Income of Mr. Rajnesh for the T.Y. 2027-28.

Illustration 23 [PYQ May 2017]

A Korean Company Damjung Ltd. entered into the following transactions during the financial year 2026-27:

(a) Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.
(b) Received ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Japan. [Assume that the above amount is converted/stated in Indian Rupees]
(c) Received ₹ 7 lakhs from RR Co. Ltd., an Indian company for providing technical know-how in India.
(d) Received ₹ 5 lakhs from R & Co. Mumbai for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.

Explain briefly, whether the above receipts are chargeable to tax in- India.

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Illustration 24 [PYQ Nov 2020]

Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the T.Y. ended 31.03.2027.

Examine the tax implications in the hands of Mr. Thomas for TY 2026-27 as per Income Tax Act, 2025. (Give brief reasoning)

1. Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).
2. Received ₹ 10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware specific).
3. He is also engaged in the business of running news agency and earned income of ₹ 10 lakhs from collection of news and views in India for transmission outside India.
4. He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged ₹10 lakhs for these services from SKK & Co.

Illustration 25 [PYQ May 2023]

(i) Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2015. He regularly visited India and stayed for 60 days in every T.Y. since then. However, in the financial year 2026-27, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set up a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2026-27:

- Income from commercial building in Delhi - ₹ 12,00,000 (computed as per the provisions of the Act).
- Income from the retail store - ₹ 4,50,000 (computed as per the provisions of the Act).
- Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for TY 2027-28.

Will your answer change if he is a citizen of Country X?

(ii) Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2026-27, he visited India for a total period of 200

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days. The purpose of his visit was to meet his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the T.Y.2026-27, he has the following incomes:

(A) Income from business in Australia controlled from Australia - ₹ 20,00,000

(B) Income from business in Sri Lanka controlled from Chennai - ₹ 16,00,000

(C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.

(D) income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000

Find out the residential status of Mr. Prashant and compute his total income for T.Y. 2026-27.

Illustration 26 [RTP Jan 2025]

Mr. Akshay (aged 59 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 20th April 2026 and returned on 15th October 2026. He has been in India for less than 700 days during the 7 years immediately preceding the T.Y.. Determine his residential status and his total income for the T.Y. 2027-28 from the following information:

(1) Long term capital gain on sale of shares of Shama India Ltd., a listed Indian company, amounting to ₹ 1,12,000. The sale proceeds were credited to his bank account in UK.

(2) Dividend amounting to ₹ 40,000 (gross) received from RIL Ltd., an Indian company. He had borrowed money from Mr. Abhay, a non- resident Indian, for the above-mentioned investment on 2nd April, 2026. Interest on the borrowed money for the T.Y. 2026-27 amounted to ₹ 10,000.

(3) Interest on post office saving bank account amounting to ₹ 9,500.

Mr. Akshay has shifted out of the default tax regime and wants to pay tax under normal provisions of the Act.

Illustration 27 [RTP May 2024]

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2017. She came to India on 15.11.2026 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas

TELEGRAM: CA NOTE HUB

education in May, 2014 and was subsequently employed outside India and never visited India thereafter. There is no income-tax in Country A. She has earned interest income of ₹ 2,40,000 (net) in Country A and salary income from AFL LLP of ₹ 15 lakhs up to the date of her return to India in the financial year 2026-27. Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2027 is ₹ 13,50,000 and she earned dividend of ₹ 3,00,000 from shares of an Indian company. What would be the residential status of Ms. Rita and her total income for the T.Y. 2026-27?

Illustration 28 [PYQ Sep 2024]

Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of ₹ 65,500 in India. On June 1, 2026 he purchased one residential house property in Mumbai for ₹ 18,00,000 in his individual capacity. The market value of the property is ₹ 32,00,000 and value for the purpose of charging stamp duty is ₹ 23,00,000. On August 31st, 2026 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2026. The overseas branch paid him a salary of $ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.

He had also gone out of India for 99 days and 201 days in T.Y.s 2025-26 and 2024-25, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2027 to January 15, 2027 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.

Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2026. The market value is ₹ 45,100.

Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the T.Y. 2026-27 assuming he opted out of the default tax regime. The value of one USD ($) may be taken as ₹ 70.

Illustration 29 [RTP Jan 2026]

Ms. Aanchal, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the T.Y. ending on 31.03.2027:

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profits from business carried on in Chennai	80,000

TELEGRAM: CA NOTE HUB

3	Loss from business carried on in Vadodara	(20,000)
4	Loss from business carried on in USA (though profits are not received in India, business is controlled from Rishikesh)	(46,000)
5	Unabsorbed depreciation of business in USA	(16,000)
6	Profits from business in Bali (controlled from Delhi) and 60% of profit deposited in a bank in Bali and 40% received in India	70,000
7	Rent from house property situated in USA and received in USA	1,92,000

Determine the gross total income of Ms. Aanchal for the T.Y. 2026-27 assuming that she has opted out from the provisions of section 202 on the assumption that she is:

1. Resident but not ordinarily resident in India
2. Non-resident in India

Illustration 30 [PYQ Jan 2026]

Mr. Paul, an Indian citizen and Karta of V P HUF, stays out of India during the various T.Y.s as follows:

T.Y.	Stay outside India
2020-21	112 days
2021-22	221 days
2025-26	90 days

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

The VP HUF owns two agricultural lands in India, one in Mysore and the other in Saharanpur. The Mysore land is used for coffee cultivation. The cost of cultivation of coffee produce is ₹ 4 lakh and is sold directly in the Indian market for ₹ 15 lakh. The Saharanpur land is used for sugarcane cultivation which is further used for manufacturing of sugar in the factory owned by Mr. Paul. The sugarcane (worth ₹ 8 lakh) were processed into sugar with a job work cost of ₹ 3 lakh and is sold in the Indian market for ₹ 28 lakh. The cost of cultivation of sugarcane is ₹ 2 lakh.

Based on the above information, determine:

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

TELEGRAM: CA NOTE HUB

CHAPTER 3A: INCOME UNDER HEAD SALARIES

Illustration 01: Explain tax treatment following allowances

1. Mr. J is a Govt. employee and he receives entertainment allowance of 5,000 for the entertainment of clients of the Govt. He spend ₹3,000 p.m. for the entertainment of the clients of the Govt
2. Entertainment Allowance ₹300 p.m. (30% is used for official purpose)
3. Children Education Allowance for 3 children ₹4,000 p.m./each.
4. Children Education Allowance for 3 children ₹1,000 p.m./child
5. Special allowance to meet the cost of education and staying ₹15,000 p.m. for a child.
6. Hostel allowance for 3 child ₹1,000 p.m. per child for 4 months.
7. Children Education Allowance for 3 children ₹60,000. Actual school fees ₹3,000.
8. Hostel Allowance for a child ₹80,000. Actual hostel fees ₹9,000.
9. Children education allowance for his grandchild ₹40,000. Actual school fees 300.
10. Research and development allowance ₹4,000. ₹1,000 is spend wholly towards official purpose.
11. Meal Allowance ₹700 p.m. Expenditure on meal is ₹1,000.
12. Helper Allowance ₹1,500. ₹900 is spent wholly towards official purpose.
13. Conveyance Allowance 500 p.m. Whole allowance is saved.
14. Mr. Abhay Jain, is a pilot in Jet Airways, He get a Flight Allowance of 10,000 p.m.
15. Hostel Allowance for 2 children ₹2,500 p.m./child. (actual expenditure incurred is 1500 p.m./child).
16. Hostel Allowance for 4 children ₹9,200 p.m./each.
17. High cost of living allowance @ ₹50,000.
18. Tribal area allowance in Madhya Pradesh ₹3,000 p.m.
19. Daily allowance ₹6,000 (Entire Amount is Spent).
20. Medical allowance ₹800 p.m.
21. X is employed as a caretaker in a transport company at Chennai. he gets transport duty allowance ₹3,600 p.m.
22. He has received fixed allowance of ₹2,500 p.m. for medical treatment for the entire family had incurred an expenditure of 12,500 actually.
23. Children education allowance • First child ₹700 p.m. • Second child ₹900 p.m. • Third child ₹4,800

24. Medical allowance ₹2,000 p.m. received by an employee, the entire Amount of which has been spent by him for medical treatment.
25. Hostel allowance for 3 children ₹3,500 each.

Illustration 02

Mr. J posted at Hyderabad draws the following emoluments from F Ltd. Compute Gross Salaries for T.Y. 2026-27:

Particulars	Amount / Details
Basic Salary	₹6,000 p.m.
Bonus	₹2,000 p.m.
Commission	₹8,000 p.a.
City Compensatory Allowance	₹1,000 p.m.
Telephone Allowance	₹200 p.m.
Medical Allowance	₹300 p.m.
Entertainment Allowance	₹4,800 p.a.
Amount spent on entertainment of clients of the company	₹6,000
Academic Allowance	₹16,000 p.a.
Amount spent on education	₹9,000
Conveyance Allowance	₹6,000 p.a.
Amount spent on conveyance for official purposes	₹7,000
Travelling Allowance	₹18,000 p.a.
Amount spent on travelling for official purposes	₹17,000
Transport Allowance	₹1,700 p.m.
Expenses incurred for commuting between residence and office and back	₹2,500 p.m.
Children Education Allowance for 4 children	₹160 p.m. per child
Hostel Allowance for 3 children	₹280 p.m. per child

Note: Expenditure incurred on child education and their hostel ₹1,100 p.m. per child

Illustration 03:

Mr. J is employed in F Ltd. Compute Taxable HRA from following information

Particulars	Amount / Details
Basic Pay	₹20,000 p.m.

Dearness Allowance	₹7,000 p.m.
Portion of DA forming part of salary for retirement benefits	50% of DA
Bonus	₹500 p.m.
Commission	1% of Sales
Turnover achieved by Mr. J	₹20,00,000

The employer paid him house rent allowance ₹6,000 p.m. Employee has paid rent ₹7,000 p.m. and was posted at Agra. Compute Taxable HRA.

Illustration 04

Compute Gross Salary from the following information for T.Y. 2026-27:

Particulars	Amount / Details
Basic Salary	₹5,000 p.m.
Dearness Allowance	₹500 p.m.
Portion of DA forming part of salary for retirement benefits	70% of DA
Commission	1% p.a. on Sales
Sales achieved by the employee	₹24,00,000 p.a.
House Rent Allowance (HRA)	₹4,000 p.m.
Rent paid at Gurgaon	₹5,000 p.m

Illustration 05

Mr. J is employed with XY Ltd. Compute the gross salary for Tax Year 2026-27 from the following information:

1. Basic salary of ₹10,000 p.m.
2. Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment.
3. House rent allowance of ₹6,000 p.m. which was increased to ₹7,000 p.m. with effect from 01.01.2027.
4. He also got an increment of ₹1,000 p.m. in his basic salary with effect from 01.02.2027.
5. Rent paid by him during the Tax Year 2026-27 is as under:
   - April and May, 2026 – Nil, as he stayed with his parents.
   - June to October, 2026 – ₹6,000 p.m. for an accommodation in Ghaziabad.
   - November, 2026 to March, 2027 – ₹8,000 p.m. for an accommodation in Delhi.

Illustration 06

Mr. J is employed in Central Government, Compute his Gross Salary for the T.Y. 2026-27 from the following information:

1. Basic pay ₹18,000 p.m.
2. Dearness allowance ₹6,000 p.m.
3. Employer has paid children education allowance ₹700 p.m. per child w.e.f. 01.09.2026
4. Hostel allowance of ₹1,000 p.m. for one child w.e.f. 01.10.2026.
5. Employer has paid transport allowance ₹1,700 p.m. w.e.f. 01.11.2026.
6. Employer has paid house rent allowance ₹5,000 p.m. w.e.f. 01.01.2026.

The employee has resigned from 01.02.2027 and has taken up a new job w.e.f. 01.03.2027. He is getting basic pay ₹27,000 p.m. and house rent allowance ₹4,000 p.m.

Illustration 07

Mr. J is employed in central Government getting basic pay ₹30,000 p.m., dearness allowance ₹7,000 p.m., servant allowance ₹2,000 p.m., entertainment allowance ₹1,000 p.m., city compensatory allowance 600 p.m. Calculate taxable salary of Mr. J for T.Y. 2026-27 under normal provisions of income tax act, 2025.

Illustration 08

Mr. J is employed in Central Government, Compute his income under the head Salary from the following information for the T.Y. 2026-27

- Basic pay ₹14,000 p.m.
- dearness allowance ₹5,000 p.m.,
- House rent allowance ₹4,000 p.m. w.e.f. 01.07.2026. However, employee is residing in the house of his parents.
- Employer has paid cash allowance ₹300 p.m., medical allowance ₹250 p.m. and entertainment allowance ₹400 p.m.
- Employer has paid professional tax ₹75 p.m. on behalf of the employee.
- Employee has saved ₹35 p.m. out of entertainment allowance.

What will be your answer if professional tax is paid by Employee.

Illustration 09 [SM Ques.]

Mr. J retired on 1.06.2026 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

1. Basic Salary: ₹5,000 p.m.
2. Dearness Allowance: ₹3,000 p.m. (60% of which is for retirement benefits)
3. Commission: 1% of turnover (turnover in the last 12 months was ₹12,00,000)
4. Bonus: ₹12,000 p.a.

Compute his taxable gratuity assuming:

(a) He is non-government employee and covered by the Payment of Gratuity Act 1972.

(b) He is non-government employee and not covered by Payment of Gratuity Act 1972.

(c) He is a government employee.

Illustration 10

a) Mr. J was employed in F Ltd. getting basic pay ₹18,000 p.m. but it was increased to ₹24,000 p.m. w.e.f. 01-07-2026, dearness allowance ₹6,000 p.m. but it was increased to ₹9,000 p.m. w.e.f. 01-07-2026 (50% of DA forms part of salary). The employee was retired on 1.01.2027 after serving the employer for 20 years and 10 months. The employer has paid him gratuity of ₹9,10,000 and the employee was covered under Payment of Gratuity Act, 1972. Compute GTI

b) Presume Mr. J is not covered in Payment of Gratuity Act 1972

Illustration 11

Mr. J was employed in F Ltd. He was retired on 1.12.2026 after completing the service of 20 years and 11 months. Calculate income u/h salaries from the following information for T.Y. 2026-27:

a) Basic pay ₹22,000 p.m.
b) dearness allowance ₹5,000 p.m.
c) The employer has allowed him pension of ₹9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2027 and has paid ₹5,61,600.
d) The employer has paid him gratuity of ₹6,95,000

Illustration 12

Mr. J retired w.e.f. 01.10.2026 receiving ₹5,000 p.m. as pension. On 01.02.2027, he commuted 60% of his pension and received ₹3,00,000 as commuted pension.

You are required to compute his taxable pension assuming:

a) He is a government employee.

b) He is a non-government employee, receiving gratuity of₹ ₹5,00,000 at the time of retirement.

c) He is a non-government employee and is in receipt of no gratuity at the time of retirement

Illustration 13

Mr. J is retired from F Ltd. on 1.11.2026 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of ₹ 5,00,000. The employee was entitled for 2 months leave per year of service. During entire service, he has availed 6 months leave and has encashed 7-month leave. The employee was getting basic pay ₹27,000 p.m. but it was increased to ₹ 33,000 p.m. w.e.f. 01-07- 2026. He was getting DA ₹9,000 per month but it was increased to ₹ 12,000 per month w.e.f. 01-07-2026. 50% of DA forms part of salary. Compute his income u/h salaries for the T.Y. 2026-27 under normal provisions.

Illustration 14 [SM Ques.]

Mr. J retired w.e.f. 01.12.2026 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

- Basic Salary: ₹ 5,000 p.m. (1,000 was increased w.e.f. 01.04.2026)
- Dearness Allowance: 3,000 p.m. (60% of which is for retirement benefits)
- Commission: ₹ 500 p.m.
- Bonus: ₹ 1,000 p.m.
- Leave availed during service: 480 days.

He was entitled to 30 days leave every year. You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non-government employee

Illustration 15

Mr. J is retired from F Ltd. w.e.f. 01.12.2026 after serving the employer for 20 years and 10 months.

a) The employer has paid him leave salary of ₹ 3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave.
b) The employee was getting basic pay ₹ 27,000 p.m. but it was increased to 30,000 p.m. w.e.f. 01-07-2026.
c) The employer has allowed him pension of ₹ 6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2027 Amounting to ₹ 2,40,000.

Compute his taxable leave salary for the T.Y. 2026-27.

Illustration 16 [SM Ques.]

Mr. A retires from service on December 31, 2026, after 25 years of service. Following are the particulars of his income/investments for the T.Y. 2026-27:

Particulars	₹
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from the Unrecognized Provident Fund	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the T.Y. 2027-28?

Illustration 17 [SM Ques.]

Will your answer be any different if the fund mentioned above was a recognised provident fund?

Illustration 18 [SM Ques.]

Mr. B is working in XYZ Ltd. and has given the details of his income for the T.Y. 2026-27. You are required to compute his gross salary from the details given below:

Basic Salary	₹ 10,000 p.m.
D.A. (50% is for retirement benefits)	₹ 8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	₹ 50,00,000

Bonus	₹ 40,000
Gratuity	₹ 25,000
His own contribution in the RPF	₹ 20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	₹ 13,000

Illustration 19

Mr. J received retrenchment compensation of ₹ 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of ₹ 20,000 p.m.; dearness allowance of ₹ 5,000 p.m. Compute his taxable retrenchment compensation

Illustration 20

Mr. J has taken voluntary retirement after completion of 18 years of service and at that time remaining service was 7 years and employer paid ₹ 6,00,000 on voluntary retirement and his retirement benefit salary at the time of voluntary retirement was 5,000 p.m., in this case taxable Amount shall be?

Illustration 21 [SM Ques.]

Mr. J received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation.

Illustration 22

Mr. J employed in F Ltd. and has drawn following wmoluments during the year

- Basic pay ₹20,000 p.m.
- Dearness allowance (50% of DA forms part of salary) ₹10,000 p.m.
- Bonus ₹1,000 p.m.
- Commission ₹2,000 p.m.
- Children education allowance (per child for 3 children) ₹150 p.m.
- Hostel allowance (for one child) ₹500 p.m.
- Entertainment allowance ₹500 p.m.
- Transport allowance ₹1,800 p.m.
- Employer has paid professional tax ₹200 p.m. On behalf of the employee.

- Employer has provided him club facility and has paid membership fee 1,000 p.m. Employer has provided him rent free accommodation for which rent paid by employer is ₹11,000 p.m.

Compute his income u/h salaries for the T.Y. 2026-27.

Illustration 23

Mr. J is employed in Central Government getting basic pay ₹73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is ₹6,000 p.m. The employer has provided him furniture with actual cost ₹1,00,000 and written down value ₹65,000. The employer has provided one air-conditioner also during April and May' 2026. Rent paid by the employer for the air-conditioner is ₹1,000 p.m. Compute his income u/h salaries for the T.Y. 2026-27 under both regimes.

Illustration 24

Mr. J is employed in F Ltd. getting basic pay ₹37,000 p.m., dearness allowance ₹32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is ₹10,000 p.m. The employer has provided him furniture with original cost ₹1,50,000. However, the employer has discontinued the facility of rent-free accommodation and furniture both w.e.f. 1st March, 2027. He has paid him house rent allowance ₹7,000 p.m. w.e.f. 1st March, 2027. The employee has shifted in his own house w.e.f. 01.03.2027. Compute his income u/h salaries for the T.Y. 2026-27 under both regimes.

What will be your answer if the accommodation is owned by the employer.

Illustration 25

Mr. J is employed in F Ltd. and he has taken a loan of ₹10 lakh from employer on 20.04.2026 at a rate of 4% p.a. but SBI rate as on 1/4/2026 is 10% p.a. and loan was repaid in monthly installment of ₹2 lakh each starting from 10.07.2026, in this case, taxable amount of perquisites shall be?

Illustration 26

Mr. J is employed in F Ltd. and he has taken interest free loan of ₹3,00,000 on 10.07.2026 for purchasing a new motor car in Delhi and the loan is to be repaid in monthly instalments of ₹10,000 and repayment shall start with effect from 21.09.2026, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate as on 1/4/2026 10%)

Illustration 27

Mr. J is employed in F Ltd. and he has taken interest free loan of ₹13,000 on 10.07.2026 for personal purpose and the loan is to be repaid in monthly instalments of ₹1,300 and repayment shall start with effect from 21.09.2026, in this case, taxable Amount shall be?

Illustration 28

Mr. J, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2026-27:

a) Salary ₹46,000 per month
b) Rent free accommodation owned by the company
c) Housing loan of ₹6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
d) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. J ₹4,750
e) A wooden table and 4 chairs were provided to Mr. J at his residence. These were purchased on 01.05.2022 for ₹60,000 and put to use on 01.06.2023 and sold to Mr. J on 01.08.2026 for ₹30,000
f) Personal purchases through credit card provided by the
g) company Amounting to ₹10,000 was paid by the company. No part of the Amount was recovered from Mr. J.
h) An ambassador car which was purchased by the company on 16.07.2024 for ₹2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2026 for ₹80,000.

Compute his income u/h salaries for the T.Y. 2026-27 under both regimes.

Illustration 29 [SM Ques.]

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2025. His basic salary is ₹6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2026, 31.3.2027 and 31.3.2028 is ₹9,81,137, ₹27,43,048 and ₹46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(1)(h) and 17(1)(i) for the T.Y. 2026-27 and T.Y. 2027-28. Prior to 1.9.2025, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

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Illustration 30 [SM Ques.]

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the T.Y. 2026-27:

a) Medical premium paid for insuring health of Mr. ₹G 7,000
b) Treatment of Mr. G by his family doctor ₹5,000
c) Treatment of Mrs. G in a Government hospital ₹25,000
d) Treatment of Mr. G's grandfather in a private clinic ₹12,000
e) Treatment of Mr. G's mother (68 years and dependent) by family doctor ₹8,000
f) Treatment of Mr. G's sister (dependent) in a nursing home ₹3,000
g) Treatment of Mr. G's brother (independent) ₹6,000
h) Treatment of Mr. G's father (75 years and dependent) abroad ₹50,000
i) Expenses of staying abroad of the patient and ₹30,000
j) Limit specified by RBI ₹75,000

Illustration 31

Mr. J went on a holiday on 15.11.2026 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹60,000 (₹45,000 for adults and ₹15,000 for the three minor children). Compute the Amount of LTC exemption.

Illustration 32

In the above illustration, will be there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Illustration 33

Mr. X, an employee of XYZ Ltd., submits the following information:

• Basic Salary	₹2,56,000
• City compensatory allowance	₹8,000
• Bonus	₹10,200
• Education allowance (for his grandchildren)	₹4,000
• Income tax penalty paid by the employer	₹2,000
Leave travel concession (exp. incurred by the employee nil)	₹1,000
• Free residential telephone	₹4,000
• Free refreshment during office hours	₹4,000

- reimbursement of electricity bill by the employer ₹1,060
- reimbursement of gas bills ₹1,000
- Professional tax paid by the employer on behalf of Mr. X ₹300
- Professional tax paid by Mr. X ₹150.

Compute his income u/h salaries for the T.Y. 2026-27 under both regimes.

Illustration 34

Mr. J is employed in F Ltd. and is a specified employee. Compute perquisite value of educational facilities in the following situations:

a) The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of ₹3,000.

b) The employer has made arrangements for the education of his three children's in his own school and has incurred ₹15,000 per month per child and has recovered ₹3,000 per month per child from the employee.

c) If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed ₹1,500 per month per child.

Illustration 35

Determine the value of perquisite in the following cases.

a) Motor car (cubic capacity of engine below 1.60 liters) owned by employer and provided to employee. It is partly used for official and personal purposes by the employee. Expenditure fully met by the employer ₹25,600 (car is self-driven by the employee).

b) The company has given a motor car of 1.8 liter both for personal and official use. The actual expenditure for running and maintenance of car is ₹25,000 plus ₹3,000 for salary of the driver.

c) Mr. A was provided with company's car (self-driven) (cubic capacity of engine below 1.60 liters) for official as well as for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.

d) Motor car running and maintenance charges fully paid by employer (motor car is owned and driven by employee. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee. Expenditure incurred by the Company 36,000. How much value of car is taxable.

Illustration 36

Mr. J is employed in F Ltd. getting basic pay ₹22,000 p.m. Employer has paid professional tax of ₹75 p.m. on behalf of the employee and employee himself has paid professional tax of ₹25 p.m. The employer has provided him rent free accommodation which is owned by the employer himself and it is provided at a place with population of ₹5,00,000. The employer has provided him three motor cars for official as well as personal use with particulars as given below:

Particulars	I	II	III
Actual cost	₹4,00,000	₹3,00,000	₹2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	₹3,000	₹10,000	₹15,000
Repairs	₹5,000	₹4,000	₹3,000
Driver	₹4,000 p.m.	₹3,000 p.m.	No Driver

All the expenses met by the employer. Compute his Income under the head salary under normal provisions.

Illustration 37 [SM Ques.]

F Ltd. provided the following perquisites to its employee Mr. Y for the Relevant Tax Year

a) Accommodation taken on lease by F Ltd. for ₹15,000 p.m., ₹5,000 p.m. is recovered from the salary of Mr. Y
b) Furniture, for which the hire charges paid by F Ltd. is ₹3,000 p.m. No Amount is recovered from the employee in respect of the same.
c) A Santro Car which is owned by F Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
d) A gift voucher of ₹20,000 on his birthday.

Compute the value of perquisites chargeable to tax, assuming his salary for perquisite valuation to be ₹10 lakh.

Illustration 38 [SM Ques.]

Mr. J is employed with F Ltd. on a monthly salary of ₹25,000 per month and an entertainment allowance and commission of ₹1,000 p.m. each. The company provides him with the following benefits:

a) A company owned accommodation is provided to him in Delhi. Furniture costing ₹2,40,000 was provided on 01.08.2026.

b) A personal loan of ₹5,00,000 on 01.07.202+ on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)

c) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹60,000 on 01.05.2023. The motor cycle was finally sold to him on 01.08.2026 for ₹30,000.

d) Professional tax paid by Mr. J is ₹2,000

Compute his income u/h salaries for the T.Y. 2026-27 under both regimes.

Illustration 39

From the following details, find out the salary chargeable to tax of Mr. Anand for the T.Y. 2026-27:

Mr. Anand is a regular employee of Malpani Ltd. in Mumbai. He was appointed on 0.1-03-2026 in the scale of 25,000-2,500-35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month's basic pay as at the end of the year. He contributes 18% of his salary (basic pay plus dearness allowance) towards recognized provident fund and the Company contributes the same amount.

He is provided free housing facility which has been taken on rent by the Company at ₹ 15,000 per month. He is also provided with following facilities:

(i) The Company reimbursed the medical treatment bill of ₹ 25,000 of his daughter, who is dependent on him.

(ii) The monthly salary of ₹ 2,000 of a house keeper is reimbursed by the Company.

(iii) He is getting telephone allowance @ ₹ 1,000 per month.

(iv) A gift voucher of ₹ 4,700 was given on the occasion of his marriage anniversary.

(v) The Company pays medical insurance premium to effect an insurance on the health of Mr. Anand ₹ 12,000.

(vi) Motor car running and maintenance charges fully paid by employer of ₹ 75,000. (The motor car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)

(vii) Value of free lunch provided during office hours is ₹ 2,200.

Illustration 40 [PYQ Jan 2026]

Mr. Suresh, aged 55 years, is a resident individual employed in a Government company. During the financial year 2026-27, he received a monthly basic salary of ₹ 1 lakh along with a dearness allowance (DA) of 25% of the basic pay. In addition, as per the company's policy, he was provided with the following allowances and perquisites during the year:

1. On account of a natural calamity caused by a cloudburst in Himachal Pradesh, he instructed his employer to directly deposit his basic pay and dearness allowance for the month of September 2026 into the PM CARES Fund.
2. He received ₹ 62,500 as leave encashment during the year, equivalent to 15 days' basic pay and dearness allowance.
3. He received entertainment allowance of ₹ 95,000.
4. His employer incurred ₹ 5 lakh towards the medical treatment of his married daughter outside India, including ₹ 1 lakh for travel expenses of the patient and one attendant, as permitted under RBI guidelines.
5. Upon his appointment as Director (Finance) during the year, the company provided free education to his child in a school maintained by it. The cost of similar education in a comparable institution is ₹ 900 per month.

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

Illustration 41 [RTP May 2025]

Mr. Kunal (age 27 years) is an employee in a private company posted in Delhi. He was appointed on 01.02.2025 in the scale of ₹ 60,000 - ₹ 1,000 - ₹ 70,000. He furnishes you the following information for the T.Y. 2026-27:

1. Dearness allowance @25% of basic salary (60% of DA forms part of retirement benefits)
2. Bonus equal to one month salary. Paid in November 2026 on basic salary applicable for that month.
3. Leave encashment for T.Y. 2026-27 of ₹ 10,000.
4. He also received a motor car on 01.12.2026 (cubic capacity of engine exceeds 1.60 litres) along with chauffeur for both official and personal purpose. The motor car is owned by his employer and all expenses are met by the employer.
5. His employer granted him a loan of ₹ 2,00,000 on 1st June, 2026 which is repayable in equal quarterly installments over 2 years starting from 1st October, 2026. The State Bank of India (SBI) lending rate for such loans is

9.5% per annum as on 01.04.2026, while the employer recovers interest @5.5% per annum from the employee.

6. His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2025. This house is owned by the employer. The perquisite value of such furnished rent-free accommodation during the T.Y. 2025-26 was valued at ₹ 92,000. Further, the accommodation is continued to be provided by the employer to the employee in T.Y. 2026-27 also.
7. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2025. Electricity and water bills of ₹ 5,000 p.m. for the said house were paid by the employer.
   Cost Inflation Index: F.Y. 2025-26-376, F.Y. 2026-27-400
8. His colleagues gifted him a mobile phone worth ₹ 45,000 from their own contribution on account of his marriage.

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Kunal for the T.Y. 2027-28 assuming that he wants to pay tax under default tax regime

Illustration 42 [RTP May 2026]

Ms. Nisha is a marketing manager in Rose Ltd. She gives you the following details for T.Y. 2026-27:

1. Basic salary of ₹ 45,000 p.m.
2. Dearness Allowance of ₹ 10,000 p.m. (30% is for retirement benefits)
3. Bonus of one-month basic salary
4. She contributes 18% of her salary (Basic Pay + DA) towards recognised provident fund and the company contributes the same amount.
5. Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Nisha from 1st November, 2026 which is used for both official and personal purposes. Repair and running expenses of ₹ 50,000 were fully met by Ms. Nisha. The motor car was self-driven by the employee.
6. The company pays medical insurance premium of ₹ 18,000 to effect insurance on the health of Ms. Nisha.
7. Her employer gave him a rent free accommodation in Mumbai from 1.4.2025. The house was taken on lease by Rose Ltd. For ₹ 12.000 p.m. The perquisite value of such accommodation for the T.Y. 2025-26 was ₹ 55,000.
   CII – F.Y. 2025-26: 376; F.Y. 2026-27: 400
8. Company incurred expenses on the treatment of her daughter abroad including stay expenses of ₹ 1,50,000 as permitted by the RBI.

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9. Company also incurred expenses in relation to the foreign travel for medical treatment of daughter of ₹ 80,000.

Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Nisha for the T.Y. 2027-28 under optional tax regime.

Illustration 43 [PYQ Sep 2025]

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

1. A rent-free unfurnished accommodation (owned by the company) in Mumbai from 01.05.2026. However, he occupied the accommodation only from 01.12.2026. The company had bought this house in the financial year 2025-26 at a cost of ₹ 2 crores.
2. A mobile phone for his personal use on 01.04.2026. The cost of the phone was ₹ 90,000. The company also gives him a telephone allowance amounting to ₹ 1,000 p.m. to cover his mobile phone bill. During the F.Y. 2026-27, his aggregate mobile phone bill was ₹ 15,000.
3. Company had purchased a car on 01.07.2024 for ₹ 10 lakhs. This car is sold to Prabhu on 01.08.2026 for ₹ 2,50,000.
4. He was allowed to use the video camera and laptop belonging to the company from 01.04.2026. The company had purchased these assets for ₹ 50,000 and ₹ 2,00,000, respectively on 01.04.2024.

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

Cost Inflation Index: F.Y. 2025-26:376; F.Y. 2026-27: 400

Illustration 44 [MTP May 2021]

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for T.Y. 2027-28.

(i) Basic salary is Rs. 70,000 per month.
(ii) Dearness allowance @ 40% of basic salary
(iii) He is provided health insurance scheme approved by IRDA for which Rs. 20,000 incurred by Smile Ltd.
(iv) Received Rs. 20,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.

(v) Smile Ltd. allotted 800 sweat equity shares in August 2026. The shares were allotted at Rs. 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was Rs. 700 per share.

(vi) He was provided with furniture during September 2022. The furniture is used at his residence for personal purpose. The actual cost of the furniture was Rs. 1,10,000. On 31st March, 2027, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.

(vii) Received Rs. 10,000 towards entertainment allowance.

(viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2026 is Rs. 12 Lakhs. Rs. 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2026. The lending rate of SBI for similar loan as on 01.04.2026 was 8%.

(ix) Facility of laptop costing Rs. 50,000

Illustration 45 [PYQ May 2023]

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2027 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

1. Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act. 1972.
2. Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
3. Crockery set worth ₹ 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2026 to 31st March, 2027.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2025 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for T.Y. 2026-27 assuming that he neither claims any relief under Section 89 nor does he opt to pay tax under Section 202.

Illustration 46 [PYQ Nov 2022]

Mr. B is a sales manager in PQR Ltd. During F.Y. 2026-27 he has received the following towards his salary and allowances/ perquisites;

1. Basic pay ₹ 85,000 per month upto December 2026 and thereafter an increase of ₹ 2,000 per month.
2. Dearness allowance 40% of basic pay forming part of retirement benefits.
3. Bonus 1 month basic pay based on the salary drawn during January month every year.
4. He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
5. Travelling allowance of ₹ 5,000 per month towards on duty tours.
6. Research and training allowance ₹ 3,000 per month.
7. Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
8. Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2026
9. Reimbursement of medical expenses on his treatment in private hospital - ₹ 15,000, medical allowance ₹1,500 per month. Company has paid premium on medical policy purchased on his health ₹12,500.

You are required to:

a) Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions-under section 202.
b) What will be the income under 'Salary', if he opts for the provisions under section 202?

Illustration 47 [PYQ May 2018]

Mr. Honey is working with a domestic company having a production unit in the U.S.A. for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year.

He submits the following information:

Salary received outside India (For 6 months)	₹ 50,000 P.M.
Salary received in India (For 6 months)	₹ 50,000 P.M.

He has been given rent free accommodation in U.S.A. for which company pays ₹15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this period, he is given free lunch facility. During the T.Y. company incurred an expenditure of ₹48,000 on this facility.

He has been provided a car of 2000 cc capacity in U.S.A. which is used by him for both office- and private purposes. The actual cost of the car is ₹8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is ₹5,000. His elder son is studying in India for which his employer spends ₹12,000 per year where as his younger son is studying in USA. and stays in a hostel for which Mr. Honey gets ₹3,000 per month as combined allowance.
The company has taken an accident insurance policy and a life insurance policy. During the T.Y. the company paid premium of ₹5,000 and ₹10,000 respectively. Compute Mr. Honey's taxable income from salary for the T.Y. 2026-27.

Illustration 48 [PYQ Nov 2014]

Mr. Anand an employee of XYZ Co. Ltd. at Mumbai and not covered by Payment of Gratuity Act, retires at the age of 64 years on 31 - 12-2026 after completing 33 years and 7 months of service. At the time of retirement, his employer pays ₹ 20,51,640 as Gratuity and ₹ 6,00,000 as accumulated balance of Recognised Provident fund. He is also entitled for monthly pension of ₹ 8,000. He gets 75% of pension Commuted for ₹ 4,50,000 on 1st February, 2028.
Determine the salary chargeable to tax for Mr. Anand for the Tax Year 2026-27 with the help of following information:

Particulars	₹
Basic Salary (₹ 80,000 x 9)	7,20,000
Bonus	36,000
House Rent Allowance (₹ 15,000 x 9)	1,35,000
Rent paid by Mr. Anand (₹ 10,000 x 12)	1,20,000
Employer contribution towards Recognized Provident Fund	1,10,000
Professional Tax paid by Mr. Anand	2,000

Note: Salary and Pension fall due on the last day of each month.

Illustration 49 [PYQ Nov 2023]

Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15 March, 1994. At the time of leaving LMN Ltd., she was paid ₹ 3,50,000 as leave salary out of which ₹ 59,000 was exempted from tax.

Thereafter, she joined CD (P) Ltd. and received ₹4,14,000 as leave salary at the time of retirement on December 31, 2026. In addition, she received a gratuity of ₹12,00,000 from the employer (she is not covered by the Payment of Gratuity Act,

1972). The following information is available: Average salary received during 11 months ending on December 31, 2026

From February 1 to July 31 (p.m.)	₹ 22,600
From August 1 to December 31 (p.m)	₹ 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the time of retirement	18 months

She received ₹ 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution ₹ 2,00,000; employer's contribution ₹ 2,10,000; interest on employee's contribution ₹ 60,000; interest on employer's contribution ₹ 50,000).

You are required to compute her total income for the T.Y. 2026-27, clearly showing all working. (Ignore sec 202 provisions).

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CHAPTER 3B: INCOME U/H HOUSE PROPERTY

Illustration 01 [SM Ques.]

Mr. X owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I	House II	House III	House IV	House V
Municipal Value	₹80,000	₹55,000	₹65,000	₹24,000	₹75,000
Fair Rent	₹90,000	₹60,000	₹65,000	₹25,000	₹80,000
Standard Rent	N.A.	₹75,000	₹58,000	N.A.	₹78,000
Actual rent received/ receivable	₹72,000	₹72,000	₹60,000	₹30,000	₹72,000

Illustration 02

Mr. X has one house property which is let out @₹ 80,000 p.m. Fair rent ₹90,000 p.m., Municipal Valuation ₹70,000 p.m., Standard Rent ₹81,000 p.m. Municipal tax paid ₹60,000 and interest paid on loan for construction of house property is ₹50,000. Compute his Income u/h house property for T.Y. 2026-27.

Illustration 03

Mrs. X has let out one House property @ ₹62,000 p.m., Municipal Valuation ₹72,000 p.m., Fair Rent ₹90,000 p.m., Standard Rent ₹1,00,000 p.m., Municipal Tax paid ₹40,000 and Interest on loan taken for construction ₹60,000 She has completed the age of 60 years on 01.04.2026. Compute his Income u/h house property for T.Y. 2026-27.

Illustration 04

Compute gross annual value in the following cases:

Particulars	Case 1	Case 2	Case 3	Case 4
Fair Rent (p.m.)	₹9,000	₹13,000	₹16,000	₹12,000
Municipal Valuation (p.m.)	₹10,000	₹9,000	₹18,000	₹19,000
Standard Rent (p.m.)	₹12,000	₹11,000	₹16,000	₹7,000
Rent received/ receivable (p.m.)	₹7,000	₹11,500	₹16,000	₹20,000
Vacancy (Months)	1	1	2	2

Illustration 05

Mr. X constructed one house in 2021 and it is let out for 4 months and self-occupied for 6 months and vacant for 2 months during Tax year 2026-27. Municipal

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valuation of the house is ₹40,000 p.m. and fair rent ₹30,000 p.m. Standard rent of the house is ₹38,000 p.m. It was let out @ ₹32,000 p.m. Municipal tax levied is ₹6,000 out of which ₹2,000 was paid by the tenant and ₹2,000 by the assessee and balance ₹2,000 yet to be paid. Interest on the capital borrowed for construction of the house is ₹30,000. Compute his Income Under the Head House Property for T.Y. 2026-27.

Illustration 06 [SM Ques.]

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹30 lakh @10% p.a. on 1.4.2024. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹5 lakh @11% p.a. on 1.10.2024 towards repairs.
Compute the deduction which would be available to him under section 22(1)(b) for T.Y. 2026-27 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime

Illustration 07

Mr. X has 3 houses which are self-occupied and the details of these houses is as under.

Particulars	House 1	House 2	House 3
Fair Rent	₹11,00,000	₹12,00,000	₹11,50,000
Municipal Valuation	₹11,24,000	₹11,78,000	₹11,25,000
Standard Rent	₹13,00,000	₹12,50,000	₹11,40,000
Municipal Taxes Paid	₹1,00,000	₹80,000	₹90,000
Interest on Capital Borrowed	₹3,20,000	₹2,90,000	₹1,90,000
Repair charges	₹10,000	₹3,000	₹8,000

Compute income under the head house property for T.Y. 2026-27.

Illustration 08 [SM Ques.]

Mr. X owns a house in Madras. During the Tax year 2026-27, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹8,000 p.m. Municipal value of the property is ₹3,00,000 p.a., fair rent is ₹2,70,000 p.a. and standard rent is ₹3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹25,00,000 was taken by him during the year 2021 for acquiring the property. Interest on loan paid

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during the Tax year 2026-27 was ₹ 1,20,000. Compute Mr. X's income from house property for the tax year 2027-28. All the conditions for higher deduction of interest in case of self-occupied property are satisfied.

Illustration 09 [SM Ques.]

Mr. X owns a house property at Adyar in Chennai. The municipal value of the property is ₹5,00,000, fair rent is ₹4,20,000 and standard rent is ₹4,80,000. The property was let-out for ₹50,000 p.m. up to December 2026. Thereafter, the tenant vacated the property and Mr. X used the house for self-occupation. Rent for the months of November and December 2026 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 21 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of ₹25,000 during the year for Amount borrowed for repairs for the house property. Compute his Income Under the Head House Property for T.Y. 2026-27.

Illustration 10

Mr. X has let out his house to State Bank @ ₹20,000 p.m. The bank has increased the rent on 1st July, 2026 to ₹27,000 p.m. retrospectively w.e.f. 01.11.2025. The assessee has paid municipal taxes of ₹7,000 during the tax year 2026-27. Compute income under the head House Property for T.Y. 2026-27.

Illustration 11 [SM Ques.]

Mr. X, a British national, is a resident and ordinarily resident in India during the T.Y. 2026-27. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the T.Y.2026-27. The value of one £ in Indian rupee to be taken at 82.50. Compute Mr. X's taxable income for the T.Y. 2027-28.

Illustration 12

Mr. X took a loan of ₹5,00,000 on 01.10.2023 @ 10% p.a. for construction of house which was completed on 31.03.2026. Compute interest on capital borrowed for the Tax year 2026-27.

Illustration 13

Mr. X has taken a loan of ₹15,00,000 on 01.07.2022 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.05.2026 and was let out @ ₹90,000 p.m. w.e.f. 01.07.2026 and Fair rent is ₹1,25,000 p.m. and the assessee has paid municipal tax of ₹30,000 in T.Y. 2026-27 and the assessee

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has repaid the loan Amount in annual instalment of ₹1,00,000 starting from 01.01.2025. Compute income under the head House Property for T.Y. 2026-27.

Illustration 14

Mr. X has taken a loan of ₹15,00,000 on 01.07.2022 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.04.2026 and was let out @ ₹90,000 p.m. w.e.f. 01.05.2026 and Fair rent is ₹1,00,000 p.m. and the assessee has paid municipal tax of ₹30,000 in T.Y. 2026-27 and the assessee has repaid the loan Amount in annual instalment of ₹1,00,000 starting from 01.01.2025. Compute income under the head House Property for T.Y. 2026-27.

Illustration 15

Mr. X has constructed one house on 01.09.2025 and it was let out @ ₹1,25,000 p.m. and municipal taxes paid are ₹35,000. The house was constructed after taking a loan from outside India and interest allowed under section 22(1)(b) is ₹2,10,000, but the assessee has not deducted tax at source. Compute income under the head House Property for T.Y. 2026-27.

Illustration 16

Mrs. X has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighborhood is ₹25,000 p.m. The municipal valuation is ₹23,000 p.m. Municipal taxes paid is ₹8,000. The loan of ₹20,00,000 was taken on 01.01.2020 from SBI Housing Finance Ltd. The construction was completed on 30.11.2022. The accumulated interest up to 31.03.2022 is ₹3,00,000. During the tax year 2026-27, Mrs. X paid ₹1,88,000 which included 1,44,000 as interest. Compute Mrs. X's income from house property for T.Y. 2027-28. All the conditions for higher deduction of interest in case of self-occupied property are satisfied.

Illustration 17

Mr. X has taken a loan of ₹5,00,000 on 01.10.2022 @ 10% p.a. for construction of a house which was completed on 01.10.2024 and the house remained self-occupied throughout the tax year 2026-27. The assessee has income under the head salary ₹4,00,000. Compute tax liability for Tax year 2027-28

Illustration 18

Mr. X is a co-owner of a house property alongwith his brother. Municipal value of the Property ₹1,60,000; Fair Rent ₹1,50,000; Standard Rent under the Rent

TELEGRAM: CA NOTE HUB

Control Act ₹1,70,000; Rent received 15,000 p.m. The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹25,000 out of which ₹21,000 have been paid. Interest on the unpaid interest is ₹450. To repay this loan, X and his brother have taken a fresh loan and interest charged on this loan is ₹5,000. The Municipal taxes of ₹5,100 have been paid by the tenant. Mr. X has 50% share in the house property. Mr. X has income from Other Sources ₹2,60,000. Compute income under the head House Property for T.Y. 2026-27 in the hands of Mr. X.

Illustration 19 [SM Ques.]

Anirudh has a property whose municipal valuation is ₹ 1,30,000 p.a. The fair rent is ₹ 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 1,20,000 p.a. The property was let out for a rent of ₹ 11,000 p.m. throughout the year. Unrealized rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for T.Y. 2026-27.

Illustration 20 [PYQ Nov 2013]

Mr. Krishna owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. Krishna and another unit is rented for ₹ 12,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the T.Y. 2026-27 are as under:

Standard Rent	₹ 2,20,000 p.a.
Municipal Valuation	₹ 2,44,000 p.a.
Fair Rent	₹ 2,35,000 p.a.
Municipal tax paid by Mr. Krishna	12% of the Municipal Valuation
Light and water charges	₹ 800 p.m.
Interest on borrowed capital	₹ 2,000 p.m.
Insurance charges	₹ 3,500 p.a.
Painting expenses	₹ 16,000 p.a.

Compute income from house property of Mr. Krishna for the T.Y. 2026-27

Illustration 21 [PYQ Nov 2015]

Mr. Raphael constructed a shopping complex. He had taken a loan of ₹ 25 lakhs for construction of the said property on 01-08-2024 from SBI @ 10% for 5 years. The construction was completed on 30-06- 2025. Rental income received from shopping complex ₹ 30,000 per month (let out for the whole year). Municipal

TELEGRAM: CA NOTE HUB

Taxes paid for shopping complex ₹ 8,000. Arrears of rent received from shopping complex ₹ 1,20,000.
Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2026-27, ₹ 3 lakhs.
You are required to compute Income from House property of Mr. Raphael for T.Y. 2026-27.

Illustration 22 [MTP May 2022]

You are required to compute the income from "House Property" for the T.Y. 2026-27 of Mrs. Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is ₹ 7,50,000; Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum.
The property was let out for ₹ 80,000 per month for the period April 2026 to November 2026. Thereafter, the tenant vacated the property and Mrs. Rajni used the house for self -occupation. Rent for the months of October and November 2026 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.
She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

Illustration 23 [RTP May 2020]

Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. The Municipal value of the property is ₹ 8,50,000; Fair Rent of the property is ₹ 7,30,000 and Standard Rent is ₹ 8,20,000 per annum.
The property was let out for ₹ 85,000 per month for the period April 2026 to December 2026.
Thereafter, the tenant vacated the property and Mrs. Daya used the house for self-occupation. Rent for the months of November and December 2026 could not be realized
from the tenant. Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent.
She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.
You are required to compute her income from house property for the T.Y. 2026-27.

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Illustration 24 [MTP May 2021]

Mr. Naveen and Mr. Vikas constructed their houses on a piece of land purchased by them at Delhi. The built-up area of each house was 1,800 sq. ft. ground floor and an equal area in the first floor. Naveen started construction on 1-04-2024 and completed on 1-04-2026. Vikas started the construction on 1-04-2024 and completed the construction on 30-09-2026. Naveen occupied the entire house on 01-04-2026. Vikas occupied the ground floor on 01-10-2026 and let out the first floor for a rent of Rs.20,000 per month. However, the tenant vacated the house on 31-12-2026 and Vikas occupied the entire house during the period 01-01-2027 to 31-03-2027.

Following are the other information

(i)	Fair rental value of each unit (ground floor /first floor)	Rs. 1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	Rs. 72,000 per annum
(iii)	Municipal taxes paid by	Naveen – Rs. 8,000
		Vikas – Rs. 8,000
(iv)	Repair and maintenance charges paid by	Naveen – Rs. 28,000
		Vikas – Rs. 30,000

Naveen has availed a housing loan of Rs. 15 lakhs @ 12% p.a. on 01-04-2023. Vikas has availed a housing loan of Rs. 10 lakhs @ 10% p.a. on 01-07-2023. No repayment was made by either of them till 31-03-2027. Compute income from house property for Naveen and Vikas for the T.Y. 2026-27.

Illustration 25 [RTP Nov 2020]

Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

	(Value in ₹)		
Particulars	House – I	House – II	House-III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2012	31-07-2025	31-5-2018
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%

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Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the T.Y. 2026-27 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum.

Illustration 26 [RTP May 2021 & MTP Nov 2023]

Mr. Roxx, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2026-27. He owns two house properties in Country-Y, one is used as his residence. Another house property is rented for a monthly rent of $ 18,000. Fair rent of the house property is $ 20,000. The value of one CYD ($) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2026, which is used for self- occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the T.Y. 2026-27. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2023 for purchasing this flat. No amount is repaid by him till 31.03.2027.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house (Assume TDS is deducted from Interest paid on such loan). Municipal tax of ₹ 5,400 is paid by him in respect of this house during the T.Y. 2026-27.

Compute the income chargeable from house property of Mr. Roxx for the T.Y. 2026-27.

Illustration 27 [PYQ Nov 2017]

Mr. Aditya, a resident but not ordinarily resident in India during the T.Y. 2026-27. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1 DHS = INR 18). The entire rent is received in India. He paid Property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2026-27.

The house in Mumbai is self-occupied. He had taken a loan of ₹ 25,00,000 to construct the house on 1st June, 2022 @ 12%. The construction was completed on 31st May, 2025 and he occupied the house on 1st June, 2025. The entire loan is

TELEGRAM: CA NOTE HUB

outstanding as on 31st March, 2027. Property tax paid in respect of the second house is ₹ 2,400 for the Financial Year 2026-27. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Aditya for the T.Y. 2026-27.

Illustration 28 [SM Ques.]

Mr. Anand sold his residential house property in March, 2026. In June, 2026, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2020 to March 2022. He could not realise two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for T.Y.2022-23.

Further, he had let out his property from April, 2022 to February, 2026 to Mr. Satish. In April, 2024, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2026, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2024 to February, 2026. Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Illustration 29 [SM Ques.]

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the T.Y. 2026-27 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X for the T.Y. 2026-27 if he exercises the option of shifting out of the default tax regime provided under section 202.

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Illustration 30 [SM Ques.]

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2026-27, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year. The construction of the house began in June, 2018 and was completed on 31-5-2022. Vikas took a loan of ₹ 1,00,000 on 1-7-2019 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid. Compute income from house property of Mr. Vikas for the T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 31 [SM Ques.]

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2026-27. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is $20,000. The value of one USD ($) may be taken as ₹ 75. She took ownership and possession of a flat in Chennai on 1.7.2026, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2027. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax	₹ 16,200
Sewerage Tax	₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2024 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2026	49,200
1.4.2026 to 30.6.2026	50,800
1.7.2026 to 31.3.2027	1,31,300

She had a house property in Bangalore, which was sold in March, 2023. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2027. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the T.Y. 2027-28 if she has exercised the option of shifting out of the default tax regime provided under section 202. Would your answer change if she pays tax under the default tax regime under section 202?

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Illustration 32 [SM Ques.]

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2018-2019. The property consists of eight identical units and is situated at Cochin.

During the financial year 2026-27, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

Repairs	40,000
Insurance premium (paid)	15,000
Interest payable on loan taken for construction of house	3,00,000

One of the let-out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000 respectively, for the financial year 2026-27.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the T.Y. 2026-27 if they pay tax under the default tax regime under section 202.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 202.

CHAPTER 3C: PGBP

Illustration 01

Written down value of 4 machines at the beginning of the Tax Year 2025-26, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of purchase	Date when put to use	Cost
P	05.1.2026	14.4.2026	₹50,000
Q	05.4.2026	15.5.2026	₹1,00,000
R	15.5.2026	31.7.2026	₹2,00,000
S	15.7.2026	27.8.2026	₹1,50,000

Calculate the depreciation for the Tax Year 2025-26 and 2026-27

Illustration 02

written down value of 4 machines at the beginning of the Tax Year 2026-27, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of purchase	Date when put to use	Cost
Q	5.4.2026	15.5.2026	₹1,00,000
R	15.5.2026	31.1.2027	₹2,00,000
S	15.11.2026	27.3.2027	₹1,50,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for ₹4,00,000.

(a) Calculate the depreciation for the Tax Year 2026-27.

(b) What will be the answer if four machines were sold for 7,00,000 instead of ₹4,00,000?

Illustration 03 [SM Ques.]

A car purchased by Dr. Soman on 10.08.2023 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2026 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the T.Y. 2026-27 assuming the rate of depreciation to be 15%.

Illustration 04

W.D.V of the block having two machines namely X & Y as on 1.4.2026 is ₹6,00,000. Machine Z was acquired on 5.11.2026 for 3,00,000 and put to use on the same date. machine Z is sold on 28.3.2027 for ₹4,00,000.

(a) Compute the depreciation allowable for the Tax Year 2026-27.

(b) What will be the Amount of depreciation allowed, if machine 'X' is sold instead of machine 'Z'

(c) What will be the Amount of depreciation allowed if both 'X' and Y machines are sold instead of machine Z.

Illustration 05 [PYQ Nov 2013 & SM Ques.]

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 2025 for the T.Y. 2026-27:

(₹ in lacs)

(i)	Opening WDV of block (15% rate)	42
(ii)	New machinery purchased on 12-10-2026	10
(iii)	Machinery imported from Colombo on 12-4-2026. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9
(iv)	New computer installed in generation wing of the unit on 15-7-2026	2

Illustration 06 [PYQ May 2014]

JK Ltd., a manufacturing company purchased the following Plant and Machinery.

Date of Acquisition and Installation	Actual Cost (in ₹ Crores)
25-05-2026	90.00
31 -08-2026	20.00
15-04-2027	120.00

From the above information compute the amount of depreciation available u/s 33, additional depreciation, if any and deduction for the T.Y. 2026-27 and 2027-28.

Illustration 07 [PYQ May 2016]

Venus Ltd., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai (for the year ending 31-3-2027):

	(₹ in lacs)
Opening WDV of Plant and Machinery	20
New machinery purchased on 1-9-2026	10
New car purchased on 1 -12-2026	8
Computer purchased on 3-1 -2027	4

Additional information:

- All assets were put to use immediately.
- Computer has been installed in the office.
- During the year ended 31 -3-2026, a new machinery had been purchased on 31-10-2025, for ₹ 10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 2025 and the WDV of different blocks of assets as on 31-3-2027.

Illustration 08 [PYQ Nov 2018]

Mr. Rangamannar resides in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days.

He has purchased a car on 21-09-2026, for the purpose of his business as per following details:

Cost of car (excluding GST)	12,00,000
Add : Delhi GST at 14%	1,68,000
Add : Central GST at 14%	1,68,000
Total price of car	15,36,000

He estimates the usage of the car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the TY 2026-27, if this is the only asset in the block.

Rate of depreciation may be taken at 15%

If this car were to be used in the subsequent T.Y. 2027-28 on the same terms and conditions above, what will be the depreciation allowable₹ Assume that there is no change in the legal position under the Income -Tax Act, 2025.

Illustration 09

The written down value of a block of asset as on 1.4.2026 was ₹8,00,000. An asset of the same block was acquired during the year for ₹3,00,000. Thereafter, all the assets of the block are sold for ₹12,00,000.

(a) Compute the depreciation for the Tax Year 2026-27 and also indicate if there is any short-term capital gain /loss.

(b) would your answer change if the sale consideration is ₹9,00,000.

(c) Part of block is sold and the sale consideration of assets exceed value of the block

Illustration 10

X owns the following machinery as on 1.4.2026:

Machinery	WDV as on 1.4.2026	Rate of depreciation (%)
Machinery A	₹70,000	15
Machinery B	₹1,64,000	15
Machinery C	₹84,000	15

He acquired a new machinery i.e. machinery D For ₹60,000 on 2.11.2026. Machine B & C are sold on 31st January 2027 for ₹5,00,000.

(a) Compute the depreciation for the Tax Year 2026-27 and also indicate if there is any short-term capital gain/loss.

(b) What Will Be your answer if Machinery B and machinery C are sold on 15.3.2027 for consideration of ₹80,000 and ₹40,000 respectively.

Illustration 11 [MTP Nov 2023]

M/s. Kumar Enterprises, a sole proprietorship owns four machines, put in use for business in March, 2025. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2026 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2026 for ₹ 10,00,000. A second-hand plant was bought for ₹ 6,10,000 on 30th December, 2026. You are required to:

(i) Determine the claim of depreciation for T.Y. 2026-27.

(ii) Compute the capital gains liable to tax for T.Y. 2026-27.

(iii) If Kumar Enterprises had sold the two machines in July, 2026 for ₹ 15,00,000, explain, will there be any difference in your above workings?

Illustration 12 [PYQ Jan 2025]

Mr. Prem has following assets as on 01.04.2026:

i. A machinery costing ₹ 4 lakh, which was used for scientific research related to business and deduction u/s 45 was allowed ₹ 40,000.
ii. A laptop received as a gift from his friend costing ₹ 60,000. It was purchased on 01.04.2025 by his friend.
iii. A temporary wooden structure costing ₹ 70,000 erected in Dec. 2026 which was used for business purposes.

Compute the depreciation allowed on these assets for F.Y. 2026-27

Illustration 13

An electricity company which was charging depreciation on SLM and whose actual cost of the asset was ₹5,00,000 and written down value ₹4,50,000 sold the said asset during 2025-26 after 2 years. What will be the tax treatment if the asset is sold for:

(i) ₹3,50,000
(ii) ₹4,80,000
(iii) ₹6,00,000

Illustration 14

X Ltd. purchased one plant and machinery for ₹30 lakhs on 01.10.2025 for scientific research and entire Amount was debited to the Profit and loss account, subsequently the asset was sold for ₹33 lakhs in the year 2026-27. WDV of machine as on 1st April 2026 is ₹60 lakhs. Profit before depreciation is ₹40 lakhs. Show tax implications if:

(a) Asset is sold after being put to use in business.
(b) Asset is sold without being put to use in business.

Illustration 15

Mr. X has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2027:

Particulars	Amount(in Lakhs)
Payments made to K Research Ltd	20
Payment made to LMN College	15

Payment made to OPQ College	10
Payment made to National Laboratory	8
Machinery purchased for in-house scientific research	25
Salaries to research staff engaged in in-house scientific research	12

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

Compute the Amount of deduction available under section 45 of the Income-tax Act, 2025 while arriving at the business income of the assessee.

Illustration 16

XY Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year ended	Item	Amount
31.03.2024 (Incurred after 01.09.2023)	Land	₹10,00,000
31.03.2025	Plant and machinery	₹5,00,000
31.03.2026	Raw materials	₹2,20,000

The business was commenced on 01.09.2026 and expenditure incurred on raw materials and salaries is ₹1,80,000. In view of availability of better model of plant and machinery, the existing plant and machinery were sold for ₹8,00,000 on 01.03.2027.

Discuss the implications of the above for the Tax Year 2026-27 along with brief computation of deduction permissible under section 45 assuming that necessary conditions have been fulfilled.

Illustration 17

A Ltd. which is engaged in manufacturing, furnishes the following particulars for the T.Y. 2026-27. Compute the deduction allowable under section 45 for T.Y. 2026-27, while computing its income under the head "Profits and gains of business or profession".

1. Amount paid to Indian Institute of Science, Bangalore, a notified research organisation for scientific research is ₹1,00,000
2. Amount paid to IIT, Delhi for an approved scientific research programme is ₹2,50,000)
3. Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority is ₹4,00,000

4. Expenditure incurred on in-house research and development facility as approved by the prescribed authority
   (a) Revenue expenditure on scientific research is ₹3,00,000
   (b) Capital expenditure (including cost of acquisition of land ₹5,00,000) on scientific research is ₹ 7,50,000

Illustration 18 [SM Ques.]

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2026. The manufacturing unit was set up on 1.5.2026. He commenced his manufacturing operations on 1.6.2026. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 33 of the Income-tax Act, 2026 in respect of the T.Y. 2026-27. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 19

An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2026. Following information is given to you:

1. Profits from operating warehousing facility ₹40,00,000
2. The following assets have been purchased for warehousing facility and the profit of ₹40,00,000 is computed without giving effect to the following:
   a) Machinery purchased on 31.07.2026 ₹10,00,000
   b) Land purchased on 31.07.2026 ₹10,00,000
   c) Machinery purchased on 31.10.2026 ₹6,00,000
   d) Building purchased on 31.8.2026 ₹4,00,000
   e) Building Constructed on 31.05.2026 ₹19,00,000

Compute income or loss for the Tax Year 2026-27.

Illustration 20

Mr. Ram commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 01.04.2026. He incurred capital expenditure of ₹80 lakh, ₹60 lakh and ₹50 lakh, respectively, on purchase

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of land and building during the period January, 2026 to March, 2026 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2026. The cost of land included in the above figures are ₹50 lakh, ₹40 lakh and ₹30 lakh, respectively.
Further, during the T.Y.2026-27, it incurred capital expenditure of ₹10 lakh, ₹20 lakh and ₹12 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head "Profits and gains of business or profession" for the T.Y. 2026-27 and the loss to be carried forward, assuming that Mr. X has fulfilled all the conditions specified for claim of deduction under section 46. The profits from the business of setting up a warehousing facility (before claiming deduction under section 46 and section 33 for the T.Y. 2026-27 is ₹16 lakhs, ₹14 lakhs and ₹31 lakhs, respectively.

Illustration 21 [SM Ques.]

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2026. He incurred capital expenditure of ₹ 50 lakh during the period January, 2026 to March, 2026 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2026. Further, during the T.Y. 2026-27, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.
Compute the income under the head "Profits and gains of business or profession" for the T.Y. 2026-27, assuming that he has fulfilled all the conditions specified under section 46 and opted for claiming deduction under section 46; and he has not claimed any deductions. He has exercised the option of shifting out of the default tax regime.
The profits from the business of running this hotel (before claiming deduction under section 46) for the T.Y. 2026-27 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the T.Y. 2026-27. Also, assume that payments for capital expenditure were made by net banking.

Illustration 22 [SM Ques.]

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries

TELEGRAM: CA NOTE HUB

on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2024 and it claimed deduction of ₹100 lacs incurred on purchase of two buildings for ₹50 lacs each (for operating a warehousing facility for storage of sugar) under section 46 for T.Y. 2024-25 However, in February, 2027, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav

Illustration 23

X Ltd. is an existing Indian company which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

1. Preparation of project report - ₹4,00,000
2. Market survey - ₹5,00,000
3. Legal and other charges for issue of additional capital required for the new unit - ₹2,00,000

The following further data is given: Cost of project ₹30,00,000; Capital employed in the new unit ₹40,00,000. What is the deduction admissible to the company under section 44?

Illustration 24: Presume Assessee is Mr. X.

Illustration 25

Determine admissibility of following expenditure

1. Expenditure incurred for repairing a property taken on lease for business.
2. Current repairs
3. Capital repairs
4. The Amount of rent includes an Amount ₹1,800 being rent of office premises, the premises belong to the proprietor.
5. Insurance of premises used for the purposes of the business.
6. The car was used both for business and personal purposes. 2/3rd is for the business purposes.
7. The property tax of ₹4,000 was in respect of her self - occupied house whose rental value is ₹18,000.
8. Health Insurance premium of employees.
9. Salary includes bonus paid Amounting to ₹1,80,000. However, bonus payable under the Payment of Bonus Act, 1965 works out to ₹1,20,000. Payment made by the Company was in pursuance of settlement approved by the Labour Court.

TELEGRAM: CA NOTE HUB

10. Purchased a building for ₹5,00,000, to be used exclusively as a family planning center for the employees.

Illustration 26

Show Tax Implication for the Following cases:

1. Purchased a new plant costing ₹3,00,000 on deferred payment (interest payable for the period subsequent to the installation Amounting to ₹1,00,000 has been capitalised along with the cost).
2. Interest on own capital.
3. Interest on overdraft facility.
4. Interest on loan taken for business.
5. Interest on loan before the asset is put to use.
6. Interest includes an Amount of ₹50,000 paid to the bank for loan taken for purchase of new machinery. It includes an interest of ₹4,000 till the asset is put to use.
7. The interest includes ₹10,000 paid on late payment of GST
8. X raised a loan from LIC of India on the security of his life insurance policy and used the same for the payment of expenses relating to repairs of machinery.

Illustration 27

How will you deal with the following in computing the business income?

1. Profit on transfer of Duty Entitlement Pass Book Scheme.
2. Profit on sale of securities
3. The Manager admitted that during the year purchases to the extent of 10 lakhs were not recorded in the books and also sales to the extent of ₹5 lakhs were kept out.
4. Gift from Father-in-law
5. Dividend on Shares of Indian company.
6. Profit from Business of dealing in equity shares.
7. Sales includes a sum of ₹6,000 representing the value of goods withdrawn by Mr. Rocky for his personal use. These goods were purchased at a cost of ₹4,000.
8. Loss by theft occurred as embezzlement by the employees.
9. Paid interest of ₹30,000 for shortfall in advance tax paid.
10. The Amount of interest on loan includes an Amount of ₹1,300 being interest on loan taken from wife of X. She gave this loan from her stridhan. The Amount of loan taken from wife was utilised for the payment of arrears of income tax.

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11. Anticipated loss on forward contract for purchase of raw material as a result of fall in market price.
12. Provision of CGST and SGST.

Illustration 28

How will you deal with the following in computing the total income of the company

1. Donation in Temple.
2. Donation of ₹ 25,000 to a political party.
3. The donation includes ₹1 lakh to an approved Scientific Research Association.
4. Administrative charges include expenses in respect of donation of ₹1,000 to the trade association for the purpose of an advertisement in the souvenir published by it.
5. Opening stock overvalued by ₹2,00,000.
6. Closing stock undervalued by ₹50,000.
7. It was found, some stocks were omitted to be included in both the opening and closing stock, the values of which were—opening stock: ₹9,000; closing stock: ₹18,000.
8. Penalty levied by GST department for non-compliance of GST laws.
9. Miscellaneous Expenses include ₹30,000 paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for reasons beyond control.
10. Purchases also include ₹10,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
11. Rent, rates and taxes also include a penalty of ₹10,000 levied for non-payment of sales tax.
12. Penalty levied for non-fulfilment of listing laws

Illustration 29

Mr. Ram has paid 20 lakhs as interest outside India in the T.Y. 2026-27. Determine whether deduction is allowed or not in the following cases:

case	TDS Deduction date	TDS Deposit date
1	3/1/2027	10/03/2027
2	1/4/2027	10/04/2027
3	31/1/2027	10/12/2027

Illustration 30

Mr. Ram has paid 20 lakhs as interest to Mr. Shawn in India in the T.Y. 2026-27. Determine whether deduction is allowed or not in the following cases:

case	TDS Deduction date	TDS Deposit date
1	3/1/2027	10/03/2027
2	1/4/2027	10/04/2027
3	31/1/2027	40% on 10/07/2027 50% on 10/10/2027 Balance on 10/04/2028

Illustration 31

Calculate maximum salary deduction allowed to XYZ partnership firm in following cases:

(a) ₹12,00,000
(b) ₹8,90,000
(c) ₹3,10,000

Illustration 32 [SM Ques.]

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of 17,00,000 before deduction of the following items:

1. Salary of ₹ 40,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)
2. Depreciation on plant and machinery under section 33 (computed) ₹ 1,50,000.
3. Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

1. Book-profit of the firm under section 35(e) of the Income-tax Act, 2025.
2. Allowable working partner salary for the T.Y. 2026-27 as per section 35(e).

Illustration 33

Following cash payments are found debited in P & L A/c. Discuss tax implications

1. June 11, 2026 ₹5,000 paid to Mr. Ram
2. June 11, 2026 ₹9,000 paid to Mr. Shyam
3. June 11, 2026 ₹19,000 paid to Mr. Ram
4. June 12, 2026 ₹8,000 paid to Mr. Shyam

Illustration 34

Discuss Tax Implications

1. If PQR Ltd. has paid ₹65,000 in cash
2. Mr. Rocky has paid ₹11,000 by a bearer cheque
3. If PQR Ltd. has paid ₹10,050 by a crossed cheque
4. PQR Ltd. has paid ₹35,000 by an account payee cheque
5. Mr. Rocky pays a salary to his employee 15,000 by crossed cheque
6. PQR Ltd. has paid ₹32,000 in cash to a goods transport agency for transportation of goods
7. Mr. Rocky purchases goods worth ₹75,000 on 01.01.2026 and payment was made ₹60,000 on 03.01.2027 by account payee cheque and ₹8,000 in cash on 03.01.2027 and ₹7,000 in cash on 05.01.2027
8. Mr. Rocky purchases goods worth ₹8,000 and ₹5,000 against two bills from Mr. Shawn and makes the payment ₹13,000 in cash in a single day
9. Mr. Rocky purchases goods worth ₹15,000 from Mr. Shawn against one bill but makes payment of ₹7,500 and ₹7,500 at different times on the same date.

Illustration 35

Debit side of the profit and loss account of X Ltd. shows the following expenses, which have been due but are outstanding as on March 31, 2027:

1. Leave encashment expenses ₹65,000. First payment on June 1, 2027 ₹15,000. Second payment on December 25, 2027 ₹50,000.
2. GST payable ₹14,000. First payment on June 10, 2026 3,000. Second payment on April 1, 2027 ₹11,000.
3. GST payable ₹48,000. First payment on September 5, 2027 ₹48,000.
4. Bonus payable to employees ₹87,000. First payment on May 2, 2027 ₹30,000. Second payment on September 30, 2027 ₹57,000.
5. Interest payable to LIC on loan ₹75,000. First payment on May 13, 2027 ₹50,000. Second payment on January 10, 2028 ₹25,000.
6. Municipal tax payable ₹5,000. Not yet paid.
7. Interest on loan taken from Z Ltd ₹5,00,000. Paid on 7-11-2027. Due date of filing return of income is 31/10/2027.

Find out the Tax Years in which the aforesaid payment is deduction. The company maintains book of account on the basis of mercantile system of accounting.

Illustration 36 [SM Ques.]

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		₹
(i)	Andhra Pradesh State Financial Corporation (T.Y. 2025-26 & 2026-27)	15,00,000
(ii)	Indian Bank (T.Y. 2026-27)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2026-27, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2027, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

Illustration 37 [PYQ Nov 2015]

State with reasons, the allowability of the following expenses incurred by MN Limited, a wholesale dealer of commodities, under the Income Tax Act, 2025 while computing Profit & Gains from business or profession for the T.Y. 2026-27.

(i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.

(ii) Purchase of building for setting up a warehousing facility for storage of food grains amounting to ₹ 4,50,000.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 qn which tax has not been deducted.

(iv) Commodity transaction tax paid ₹ 20,000 on sale of bullion.

Illustration 38 [SM Ques.]

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 2025:

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1. For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
2. Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 36(5) in the year of payment.
3. It is mandatory to provide for depreciation under section 33 of the Income-tax Act, 2025, while computing income under the head "Profits and Gains from Business and Profession".
4. The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by an account payee cheque on 27.12.2026 is a deductible expenditure under section 31.
5. Under section 52, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
6. An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 202 can claim additional depreciation in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

Illustration 39 [SM Ques.]

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 2025 while computing income from business or profession for the T.Y. 2026-27:

1. Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
2. Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
3. Tax on non-monetary perquisite provided to an employee ₹ 20,000.
4. Payment of ₹ 50,000 by using credit card for fire insurance.
5. Salary payment of ₹ 10,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
6. Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

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Illustration 40 [SM Ques.]

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Financial year 2023-24 1,15,000

Financial year 2024-25 1,80,000

Financial year 2025-26 2,10,000

What is his obligation regarding maintenance of books of accounts for T.Y. 2026-27 under section 62 of Income-tax Act, 2025?

Illustration 41 [SM Ques.]

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2026-27. Amount received in cash during the T.Y. 2026-27 is 14,00,000 and balance through prescribed electronic modes on or before 31st July 2027. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of "Profits and gains from business or Profession" of the Income-tax Act, 2025. Retail trade is the only source of income for Mr. Praveen. T.Y. 2025-26 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 58.

1. Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the T.Y. 2026-27?
2. If so, determine his income from retail trade as per the applicable presumptive provision.
3. In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 2025?
4. What is the due date for filing his return of income under both the options?

Illustration 42

Mr. X retired from Govt. service in March 2026. He got ₹20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2026 a few motor vehicles and got their delivery on that date. The particulars of the vehicles are given below–

Vehicle	Number	Cost of the vehicle
Heavy goods Vehicle (15 ton)	2	₹9,00,000
Medium goods Vehicle (8 ton)	4	₹4,50,000
Light commercial Vehicle (4 ton)	3	₹3,20,000

He started plying the vehicles from 04.06.2026. On an average every vehicle remains off the road for about a week for repairs and maintenance. He maintains a rough record of the receipts and outgoings which is given below–

Receipts	₹3,70,000
Less: Expenses (Excluding depreciation and salaries to Mr. Y)	(₹60,000)
Profit	₹3,10,000

You are required to compute the Total Income of Mr. X from the business of goods carriage for the Tax Year 2026-27.

Illustration 43 [SM Ques.]

Mr. X commenced the business of operating goods vehicles on 1.4.2026. He purchased the following vehicles during the T.Y.2026-27. Compute his income under section 58 for T.Y. 2026-27.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2026
(2)	6,500	1	15.03.2027
(3)	10,000	3	16.07.2026
(4)	11,000	1	02.01.2027
(5)	15,000	2	29.08.2026
(6)	15,000	1	23.02.2027

Would your answer change if the goods vehicles purchased in April, 2026 were put to use only in July, 2026?

Illustration 44

Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2026-27 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		

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Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

a) He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2026 to M/s Décor World.
b) Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 2026.
c) No deduction of tax at source on payment of interest on bank loan has been made.
d) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income.
e) Further, employee's contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Tax Year 2026-27.

Illustration 45

You are required to compute the business income of Mr. Anoop, a resident individual aged 55 years, for the Tax Year 2026-27 from the following information shown in his Profit and Loss Account for the year ended 31st March 2027:

(i) The net profit was ₹ 8,40,000.
(ii) Depreciation debited in the books of account was ₹ 1,05,000.
(iii) The following incomes were credited in the Profit & Loss Account:
  (a) Interest on notified government securities ₹ 32,000
  (b) Dividend from a foreign company ₹ 28,000.
  (c) Gold chain worth ₹ 78,000 received as gift from his mother.
(iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2026.
(v) General expenses included:

(a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.
(b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

(vi) Depreciation allowable as per Income-tax Act, 2026 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

Illustration 46 [PYQ May 2022]

Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.03.2027 are given hereunder:

Particulars	Amount ₹
Opening balance of the car as on 01.04.2026	3,00,000
Opening balance of machinery as on 01.04.2026	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the T.Y. 2026-27 and the written down value as on 01.04.2027. (WDV as on 31.03.2027 - depreciation for the TY 2026-27).

Illustration 47 [SM Ques.]

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2027:

Trading and Profit and Loss Account for the year ended 31.03.2027

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		

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To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

1. It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:
   Opening stock ₹ 9,000
   Closing stock ₹ 18,000
2. Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
3. The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.
4. The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:
   The opening balance of plant and machinery (i.e., the written down value as on 31.3.2026 minus depreciation for T.Y. 2025-26) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2026 for ₹ 70,000. Two old plants were sold on 1.10.2026 for ₹ 50,000.
5. Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2027.
6. Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 58 and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 202. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the T.Y..

Illustration 48 [SM Ques.]

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2026, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2 nd May, 2026, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2026. This new vehicle could, however, be put to use only on 15th June, 2026.

Compute the total income of Mr. Sukhvinder for the T.Y. 2026-27, taking note of the following data:

Particulars	₹	₹
Freight charges collected		12,70,000
Less: Operational expenses	6,25,000	
Depreciation as per section 33	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Illustration 49 [SM Ques.]

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2027:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2027

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2026-27:

1. Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.

2. The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2026. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
3. A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
4. Bank term loan interest actually paid upto 31.03.2027 was ₹ 20,000 and the balance was paid in November 2027.
5. Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in T.Y. 2025-26 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
6. Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	₹
WDV as on 31.03.2026 minus Depreciation for T.Y. 2025-26	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the T.Y. 2026-27 assuming he pays tax under default tax regime.

Illustration 50 [SM Ques.]

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2027 are given below:

Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2026 (i.e. WDV as on 31.3.2026 (-) depreciation for T.Y. 2025-26)	3,00,000
Opening balance of machinery as on 1.4.2026 (i.e., WDV as on 31.3.2026 (-) depreciation for T.Y. 2025-26)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car

TELEGRAM: CA NOTE HUB

running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.
Compute the income arising from the above activities for the T.Y. 2026-27

Illustration 51 [SM Ques.]

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2027, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

		₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to T.Y. 2023-24	85,000
(iii)	Unabsorbed depreciation of T.Y. 2018-19	52,000
(iv)	Current year depreciation under section 33	4,70,000
(v)	Brought forward business loss of T.Y. 2022-23	49,000
(vi)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the book profit and remuneration allowable in the hands of AB Light LLP for T.Y. 2026-27. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem.

Illustration 52 [SM Ques.]

Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2026. The depreciation on these machines is charged @15%. The written down value of these machines as on 1 st April, 2026 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2026 for ₹ 10,00,000. A second-hand plant was bought for ₹ 6,10,000 on 30th December, 2026. Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2027:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satywati College	17

Compute the following for T.Y. 2026-27

TELEGRAM: CA NOTE HUB

1. Claim of depreciation
2. Deduction available under section 45 if he has shifted out of the default tax regime

TELEGRAM: CA NOTE HUB

CHAPTER 3D: INCOME U/H CAPITAL GAINS

Illustration 01

Mr. X purchased house 01.04.2001 for ₹2,00,000 and incurred ₹3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. Y on 01.07.2012 and Mr. Y incurred ₹4,00,000 on improvement 01.07.2014 and house was sold by him on 01.07.2026 for ₹1,00,00,000, show capital gain implications in hands of Mr. Y.

Illustration 02

Mr. X purchased one house property on 01.07.2002 for ₹2,00,000 and it was gifted to Mr. Y on 01.11.2020 and value for the purpose of charging stamp duty was ₹5,00,000 and subsequently the house property was sold by Mr. Y on 01.01.2027 for ₹25,00,000, show capital gain implications in hands of Mr. Y.

Illustration 03

Mr. X purchased Gold on 01.10.1991 for ₹2,00,000 and its fair market value on 01.04.2001 is 3,00,000 and he converted it into stock-in-trade on 01.10.2009 and market value of the gold on the date of conversion was ₹11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2021 for 6,50,000 and balance half was sold on 01.10.2026 for ₹7,50,000. show Tax implications various years.

Illustration 04 [SM Ques.]

A is the owner of a car. On 1-4-2023, he starts a business of purchase and sale of motor car He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2026 and gets a profit of ₹1 lakh. Discuss the tax implication in his hands under the head "Capital gains":

Illustration 05

Mr. X and Mr. Y are two partners of a firm X & Co. On 01.01.2027, Mr. Z joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 01.01.2027 is ₹5,00,000 whereas Amount credited in Mr. Z's account in the firm is ₹4,00,000. Assuming that cost of acquisition in 2007-08 of these shares was ₹48,000, find out the Amount of chargeable capital gain for the Tax Year 2026-27 in the hands of Mr. Z

TELEGRAM: CA NOTE HUB

Illustration 06

Mr. X has purchased one house on 01.04.1995 for ₹4,00,000 and incurred 2,00,000 on its improvement on 01.10.1998. Its market value on 01.04.2001 was ₹3,00,000 & SDV on the same date is ₹2,50,000. This house was acquired by the Government on 01.10.2014 and the compensation fixed was ₹50,00,000 and the Government has paid half of the compensation on 01.10.2025 and balance half on 01.10.2027. The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2028 directing the Government to pay additional compensation of ₹5,00,000. The Government has paid half of the Amount on 01.04.2028 and balance half on 01.04.2030. Show tax implications of various years.

Illustration 07

Mr. X purchased one house on 01.07.1997 for ₹2,00,000 and incurred ₹1,00,000 on its improvement in 1998-99 and its market value as on 01.04.2001 is ₹2,50,000 and SDV as on the same date is ₹3,00,000. She incurred ₹2,00,000 on its improvement in 2012-13 and the house was acquired by the Government on 01.07.2015 and compensation fixed is 60,00,000 and half of the Amount was paid by the Government on 01.01.2027 and balance half on 01.01.2028. She has also received interest of ₹2,00,000 in Tax Year 2026- 27 from the Government for delay in payment of compensation. Income under the head Business/ Profession was ₹20,03,990. Compute total income of Mr. X for the Tax Year 202627.

Illustration 08

1. Mr. X who transferred his land and building on 10.02.2027, furnishes the following information:
2. Consideration received ₹36,00,000 & Brokerage Paid ₹1,00,000
3. Value adopted by stamp valuation authority, which was contested by Mr. X ₹50,00,000.
4. Value ascertained by Valuation Officer on reference by the Assessing Officer ₹52,00,000.
5. This land was distributed to Mr. X on the partial partition of his HUF on 01.04.2001. Fair market value of the land as on 01.04.2001 was ₹1,60,000 & SDV on same date is ₹1,70,000. HUF had purchased this land on 1/4/1999 for ₹1,20,000.

TELEGRAM: CA NOTE HUB

6. A residential building was constructed on the above land by Mr. X at a cost of ₹3,50,000 (construction completed on 01.12.2012) during the financial year 2013-14

Illustration 09

What will be your answer to the above question if value adopted by valuation officer is ₹45,00,000

Illustration 10

Mr. A is a proprietor of ABC Enterprises having 2 units started on 01.04.2014. He transferred on 01.04.2026 his unit 1 by way of slump sale for a total consideration of ₹90 Lacs whereas FMV of capital assets on the date of transfer is ₹92,00,000. The expenses are incurred for this transfer were 1,30,000/-. His Balance Sheet as on 31.03.2026 is as under:

Liabilities	₹ (In Lacs)	Assets	Unit 1 ₹ (In Lacs)	Unit 2 ₹ (In Lacs)	Total ₹ (In Lacs)
Share Capital	42	Building	30	8	38
Revaluation reserve Of building (unit 1)	12	Machinery	10	4	14
Bank Loan (70% for unit 1)	8	Debtors	6	1.4	7.4
Trade Creditors (25% for unit 1)	6.2	Other Assets	7	1.8	8.8

Compute the capital gain for the Tax Year 2026-27.

Illustration 08 [PYQ Jan 2026]

Mr. Paras has a proprietary business since T.Y. 2018-19. He has transferred this business on 01.04.2026 by way of a slump sale for a total consideration of ₹ 40 Lakh. The fair market value of his capital assets as on 01.04.2026 is ₹ 35 Lakh. He has incurred expenses for this deal of ₹ 1,50,000. His Balance Sheet as on 31.03.2026 is given below:

Liabilities	₹	Assets	₹
Own Capital	20,00,000	Building	18,00,000
Bank Loan	5,00,000	Debtors	5,00,000
Unsecured Loans	2,50,000	Machinery	5,00,000

TELEGRAM: CA NOTE HUB

Creditors	4,10,000	Other assets	3,60,000
	31,60,000		31,60,000

Other information:

1) Bank loan balance includes ₹ 2 lakh for personal purpose.
2) Machinery costing ₹ 50,000 has been allowed 100% as deduction u/s 46
3) Other assets include self-generated goodwill of ₹ 60,000.
4) Unsecured loans include ₹ 1 lakh for amount payable for the purchase of the ornaments of his wife.

Compute the capital gain/loss for the T.Y. 2026-27.

Illustration 04 [RTP May 2022 & PYQ May 2018]

Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2026, he has transferred Unit 2, which he started in 2004-05, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2026 is as under :

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

Other Information:

(i) Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2004 and revalued at₹ 7,50,000 as on 31.3.2026.
(ii) No individual value of any asset is considered in the transfer deed.
(iii) Patents were acquired on 01-12-2024 on which no depreciation has been provided.
(iv) Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2025 on which no depreciation has been provided.

TELEGRAM: CA NOTE HUB

(v) Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹ 18,10,000.

Compute the capital gain for T.Y. 2026-27.

Illustration 11

Mr. X purchased 100 equity shares in ABC Ltd. on 01.10.1995 @₹10 per share. The company has issued 100 bonus shares on 01.10.1998 and market value of the shares on 01.04.2001 was 7 per share. The company has again issued 100 bonus shares on 01.10.2013. The company has offered 100 right shares on 01.04.2020 @₹140 per share though the market value is 250 per share. Mr. X purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Y. He has charged 20 per share from Mr. Y for renouncing the right. All the shares were sold by Mr. X and Mr. Y @ 300 per share on 01.01.2027. Mr. X has income under the head house property ₹2,20,000 and has causal income ₹50,000 and has invested ₹1,00,000 in NSC. Mr. Y has income under the head house property ₹3,50,000 and has invested ₹30,000 in NSC. Compute total income of Mr. X and Mr. Y

Illustration 12

Mr. X purchases 1,000 equity shares in X Ltd. at a cost of 15 per share (brokerage 1%) in January 2010. She gets 100 bonus shares in August of ₹2011. She again gets 1100 bonus shares by virtue of her holding on February 2016. In January 2027, she transfers all her shares @ ₹120 per share (brokerage 2%). (market value on 31-01-2018 is ₹70 per share) Compute the capital gains taxable in the hands of Mr. X

- X Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
- X Ltd. is a listed company and the shares are sold in a recognized stock exchange and securities transaction tax was paid at the time of sale.

Illustration 06 [MTP Sep 2024 & RTP Nov 2023]

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the T.Y. 2026-27 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 198 during the T.Y.2026-27 in respect of these assessees:

TELEGRAM: CA NOTE HUB

(a) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2026 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

(b) Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2026 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

Illustration 14

Mr. X has purchased 100 debentures in ABC Ltd. on 01.10.2002 @ ₹300 per debentures and subsequently these debentures were converted into shares on 01.10.2017 and 3 shares were issued for each debenture. The assessee has sold all the shares on 01.04.2026 @₹750 per share and market value as on 31-01-2018 ₹500 per share. Compute capital gains for the Tax Year 2026-27 in the following situations:

a) STT not paid
b) STT Paid

Illustration 13 (Do along with other sources)

A Ltd. has issued 1,00,000 shares of 10 each and the company goes into liquidation on 01.10.2026 and distributable asset of the company are valued at ₹8 lakh. The company's accumulated profits on the date of liquidation are ₹3,50,000 lakhs which are included in 8 lakhs. Mr. X has purchased 100 shares in this company on 01.10.1998 for ₹10 each and market value of the shares on

TELEGRAM: CA NOTE HUB

01.04.2001 is ₹12 per share. Compute dividends in the hands of Mr. X and also capital gains

Illustration 15

Mr. X purchased a residential house property on 01.07.2001 for ₹2,00,000. He sold the said house on 01.07.2026 for ₹1,00,00,000. Thereafter, he purchased another residential house on 01.07.2027 for ₹20,00,000 and subsequently sold this house on 01.07.2028 for ₹22,00,000.

Required:

Compute the Capital Gains arising from the above transactions for the relevant tax years, considering the applicability of exemption provisions, if any.

Illustration 16

Mr. X purchased a residential house property on 01.04.2001 for ₹2,00,000. He sold the said house on 01.07.2025 for ₹70,00,000. Subsequently, he purchased another residential house on 01.09.2026 for ₹12,00,000 and sold the same on 01.01.2027 for ₹15,00,000.

Mr. X is 82 years old.

Required:

Compute the total income and tax liability of Mr. X for the Tax Year 2026-27, taking into account the relevant provisions relating to capital gains.

Illustration 17

Mr. X Purchased one residential house on 01.04.2001 for ₹2,00,000 and it was sold by him on 01.07.2026 for ₹50,00,000 and he purchased a new house on 01.09.2026 for 55,00,000 and this house was sold by him on 01.07.2027 for ₹56,00,000. Compute Capital Gains.

Illustration 18

Mr. X purchased an urban agricultural land on 01.10.2002 for ₹3,00,000. The land was used by him for agricultural purposes up to the date of transfer. He sold the land on 01.01.2027 for ₹50,00,000.

Subsequently, he purchased another rural agricultural land on 10.01.2027 for ₹10,00,000. This land was sold on 11.09.2027 for ₹11,00,000. Further, during the year, Mr. X invested ₹30,000 in National Savings Certificates (NSC).

Mr. X is 86 years old.

Required:

Compute the Capital Gains arising to Mr. X for the Tax Year 2026-27.

TELEGRAM: CA NOTE HUB

Illustration 19

Mr. X has an agricultural land (costing ₹6 lakh) in Lucknow and has been using it for agricultural purposes since 01.04.2004 till 01.08.2014 when the Government took over compulsory acquisition of this land. A compensation of ₹10 lakh was settled. The compensation was received by Mr. X on 01.07.2026. Compute the Amount of capital gains taxable in the hands of Mr. X.

Illustration 20

Will your answer be different if the land belonged to ABC Ltd. and not Mr. X and compensation on compulsory acquisition was received by the company? Explain.

Illustration 21

Mr. X has one industrial undertaking in Panki industrial area and the building which is being used for industrial purposes was purchased on 01.10.2007. Since then, it was being used for industrial purpose and was purchased for ₹23,00,000 and its WDV as on 01.04.2015 is ₹10,38,000. This building was acquired by the Government on 01.01.2020 and compensation fixed was ₹25,00,000. Entire payment was released by the Government on 01.07.2026. The assessee has purchased one building for the purpose of industrial undertaking in Dada Nagar Industrial Area on 01.01.2027 for ₹6,00,000. Compute his tax liability for Tax Year 2026-27

Illustration 22

Mr. X purchased agricultural land in the urban area on 01.04.2001 for 3,00,000. It was being used for agricultural purposes since then and was sold by the assessee on 01.07.2026 for ₹1,23,00,000. He made following investments:
Bonds of National Bank for Agriculture and Rural Development on 01.10.2026 for ₹1,50,000 which are redeemable after 5 years.
He purchased agricultural land on 01.11.2026 for ₹2,00,000.
He has invested 75,000 on 01.12.2026 in the bonds of National Highway Authority of India redeemable after five years.
He sold the bonds of National Highway Authority of India on 15.04.2027 for ₹3,00,000. Compute his capital gains for various years.

Illustration 23

Mr. X purchased gold on 01.04.1991 for ₹3,00,000 and its market value on 01.04.2001 is ₹2,00,000. This gold was sold by him on 01.01.2027 for

TELEGRAM: CA NOTE HUB

₹35,00,000 and selling expenses are ₹37,000. He has purchased one house on 01.05.2027 for ₹4,00,000 because he did not have any house in his name and he deposited ₹3,00,000 in capital gain account scheme on 30.06.2027. Mr. X is also engaged in a business and he has turnover of his business ₹1,05,00,000 and cost of goods sold 100,00,000 and other expenses ₹5,10,000. He has withdrawn ₹2,00,000 from capital gain account scheme on 01.01.2028 and constructed 1st floor of the house which was purchased by him on 01.05.2027. Remaining Amount in the capital gain account scheme was unutilized. Compute Total income for TY 2026-27 and tax implication of various years involved.

Illustration 24

Mr. X sold gold for ₹5,50,000 on 01.10.2026 which had been acquired by him in October, 2004 for ₹55,000. He wants to utilize the said Amount of sale consideration for purchase or construction of a new residential house. He already owns one residential house at the time of sale of the gold on 01.10.2026. He has deposited ₹4,00,000 under the capital gains deposit scheme with a specified bank on 30.04.2027. Ascertain the capital gains taxable in Mr. X's hands for Tax Year 2026-27and advise him as to what further action he has to take to avail the exemption.

Illustration 25 [SM Ques.]

Calculate the income-tax liability for the T.Y. 2026-27 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Non-resident	Non-resident	Resident	Non-resident
Total income other than LTCG	2,40,000	4,10,000	5,90,000	4,80,000
LTCG	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

1. If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 202.
2. If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

TELEGRAM: CA NOTE HUB

Illustration 26 [PYQ Sep 2025]

Mr. Mani, a resident individual aged about 45 years, acquired a plot of land in March 2002 for ₹ 12,25,000 and paid stamp duty of ₹ 1,00,000 on registry of the land. He sold this land on 10th October 2026 for ₹ 80,00,000. The stamp duty valuation assessed by sub registrar was ₹ 83,50,000. Advise Mani about which option of computation of capital gains is most suitable for him as far as his tax liability is concerned on the assumption that he has no other income chargeable to tax and has not opted out of the provision of section 202.

Costs Inflation Index for various financial years are as under:

2001-02	100
2002-03	105
2006-07	122
2026-27	400

Illustration 27 [RTP May 2025]

Ms. Priya has always been financially aware and strategic with her investments. In January 2022, she saw an opportunity in gold and purchased gold jewellery worth ₹ 3,25,000, believing it would be a safe investment for the future. In October 2026, gold prices increased and she decided to sell her jewellery on 31.10.2026 for ₹ 4,75,000.

She also sold her house property in Delhi on 01.12.2026 for ₹ 80 lakhs. The stamp duty value of property at the time of transfer was ₹ 90 lakhs.

She purchased this property on 15.07.1998 for ₹ 8.80 lakhs. The FMV of the property as on 1st April, 2001 was ₹ 10.8 lakhs and Stamp duty value on the said date was ₹ 10 lakhs. She had incurred brokerage and other expenses @1% on purchase price at that time.

Compute the capital gain tax to be paid by Ms. Priya for T.Y. 2026-27 assuming her other income exceeds the basic exemption limit.

CII – F.Y. 2001-02: 100; F.Y. 2021-22: 317; F.Y. 2026-27:400

Illustration 28 [SM Ques.]

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

TELEGRAM: CA NOTE HUB

Illustration 29 [SM Ques.]

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2025. He has also received dividend of ₹ 10 per share on 01.05.2026. He has sold all the shares on 01.10.2026 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%. Compute his total income and tax liability for T.Y. 2026-27if Mr. Mithun opts out of the default tax regime, assuming that he is having other income of 8,00,000. Fair market value of each share of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Illustration 30 [SM Ques.]

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2025.

She started her real estate business on 21st March, 2025 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs. She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2027. She sold 10 flats at ₹ 30 lakhs per flat in March, 2027. The remaining 5 flats were held in stock as on 31st March, 2027. She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2027 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2027. Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for T.Y. 2026-27 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2024-25: 363; F.Y. 2026-27: 400].

Illustration 31 [SM Ques.]

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2026 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

1. 20% through account payee bank draft on the date of agreement.
2. 60% on the date of the possession of the property.
3. Balance after the completion of the registration of the title to the property.

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Mr. Jaikumar was handed over the possession of the property on 15.12.2026 and the registration process was completed on 14.01.2027. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

1. on 16.08.2026 was ₹ 1,70,00,000;
2. on 15.12.2026 was ₹ 1,71,00,000; and
3. on 14.01.2027 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2027 and another in Delhi for ₹ 35,00,000 on 28.5.2027.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the T.Y. 2026-27.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2026-27 – 400

Illustration 32 [SM Ques.]

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23.4.2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2026 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14.07.2026 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

1. Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2027 and 15.5.2027
2. Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2027.
3. Subscribed to NHAI capital gains bond (approved under section 85) for ₹ 50 lakhs on 30.11.2026 and for ₹ 40 lakhs on 9-1-2027.

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Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for T.Y. 2026-27. The choice of exemption must be in the manner most beneficial to the assessee. Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2026-27 - 400.

Illustration 33 [SM Ques.]

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty @10% on the stamp duty value of ₹ 3,50,000. In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2026, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2027. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2026 was ₹ 39,00,000 and on 20th February, 2027 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for T.Y. 2026-27. Also, compute the tax liability under section 197, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2026-27: 400

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CHAPTER 3E: INCOME UNDER HEAD OTHER SOURCES

Illustration 01 [SM Ques.]

Examine under which heads the following incomes are taxable:

1. Rental income in case property held as stock-in-trade for 3 years
2. Salary received by a partner from his partnership firm
3. Rental income of machinery
4. Winnings from lotteries by a person having the same as business activity
5. Salaries received by a Member of Parliament
6. Receipts without consideration
7. In case of retirement, interest on employee's contribution if provident fund is unrecognized.
8. Rental income in case of a person engaged in the business of letting out of commercial properties.

Illustration 02

Mr. X, a dealer in shares, received the following without consideration during TY 2026-27 from his friend Mr. Y

1. Cash gift of ₹75,000 on his anniversary, 15th April, 2026.
2. Bullion, the fair market value of which was ₹60,000, on his birthday, 19th June, 2026.
3. A plot of land at Faridabad on 1st July, 2026, the stamp value of which is ₹5 lakh on that date. Mr. Y had purchased the land in April, 2017.
4. Mr. X purchased from his friend Z, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹400 each on 19th June, 2026, the fair market value of which was ₹600 each on that date. Mr. X sold these shares in the course of his business on 23rd June, 2026.
5. On 1st November, 2026, Mr. X took possession of property (building) booked by him two years back at ₹20 lakh. The stamp duty value of the property as on 1st November, 2026 was ₹32 lakh and on the date of booking was ₹23 lakh. He had paid ₹1 lakh by A/c Payee cheque as down payment on the date of booking.

Compute the income of Mr. X chargeable under the head "Income from other sources" for T.Y. 2026-27.

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Illustration 03 [SM Ques.]

Discuss the taxability or otherwise of the following in the hands of the recipient under section 92(2)(m) the Income-tax Act, 2025

1. X HUF received 75,000 in cash from niece of Mr. X (i.e., daughter of Mr. X's sister). Mr. X is the Karta of the HUF.
2. Miss. X, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹9,00,000.
3. Mr. X received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was 100 per share. He also received jewellary worth ₹45,000 (FMV) from his nephew on the same day.
4. X HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹5,25,000.

Illustration 04

Compute the Amount charged under the head "Income from Other Sources"

1. Mr. X gifts immovable property to Mr. Y. Its stamp duty value is 15,00,000. Market price ₹20,00,000.
2. Mr. X sells his immovable property to Mr. Y for ₹25,00,000. Its stamp duty value is ₹30,00,000.
3. Mr. Y has received gift of agricultural land having stamp duty value of ₹45,000 from Mr. A and also a residential house from Mr. B having a stamp duty value of ₹2,00,000.
4. Mr. Y has received gift of industrial land having stamp duty value of ₹6,00,000 from his grandson.
5. Mr. X gifts immovable property to D Ltd. Its stamp duty value is ₹35,00,000. Market price 60,00,000.
6. X purchases building for ₹5,00,000 having stamp duty value of ₹5,50,000.
7. X purchases building for ₹12,00,000 having stamp duty value of ₹12,60,000.
8. X purchases building & Consideration paid for acquisition of property ₹7,62,000 (₹1,00,000 Advance paid by A/c Payee cheque). Stamp duty value on the:
   (a) date of agreement ₹8,00,000
   (b) date of registration ₹8,70,000.
9. X purchases building & Consideration paid for acquisition of property ₹7,62,000 (Advance not paid). Stamp duty value on the:
   (a) date of agreement ₹ 8,00,000

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(b) date of registration ₹ 8,70,000.
Consideration for acquisition of property ₹7,62,000. Advance not paid.

Illustration 05

Compute the Amount charged under the head "Income from Other Sources"

1. Mr. X gifts shares to Mr. Y. Prescribed FMV is ₹4,00,000.
2. Mr. X sells his Jewellary to Mr. Y for ₹8,00,000. Prescribed FMV is ₹9,00,000.
3. Mr. X sells his M. F. Hussain paintings to Mr. Y for ₹7,00,000. Prescribed FMV is ₹7,30,000.
4. Mr. Y has received gift of Jewellary having prescribed FMV of ₹30,000 from Mr. A and also shares whose prescribed FMV ₹40,000 from Mr. B.
5. Mr. Y has received gift of M. F. Husain paintings having prescribed FMV of ₹80,000 from his father.
6. Mr. X received 50,000 by A/c Payee cheque from Mr. A. Immovable property of ₹30,000 from Mr. B. Jewellary of ₹35,000 from Mr. C.
7. Mr. X gifted Jewellary worth ₹2,00,000 to his friend's daughter on the occasion of her marriage. After 2 years, he gifted diamond of ₹50,000 on the birth of their first child.
8. Mr. X gifts Rolls Royce car to Mr. Y. Prescribed FMV is ₹3.5 Cr.
9. Mr. Y has received gift of Jewellary having prescribed FMV of ₹ 50,000. Mr. Y has purchased shares of ₹2,00,000 whose prescribed Fair Market Value is ₹ 2,50,000.

Illustration 06 [SM Ques.]

Interest on enhanced compensation received by Mr. X during the Tax Year 2026-27 is ₹5,00,000. Out of this interest, ₹1,50,000 relates to the Tax Year 2019-20, ₹1,65,000 relates to Tax Year 2020-21 and ₹1,85,000 relates to Tax Year 2021-22. Discuss the tax implication, if any, of such interest income for T.Y.2027-28

Illustration 07

Mrs. X is getting a family pension of ₹7,000 p.m. She also has a dividend income from domestic company of ₹7,00,000. She has LTCG of ₹3,89,000. Compute her tax liability.

Illustration 08 [PYQ Nov 2016]

Mr. Rakesh has 15% share holding in RSL (P) Ltd. and has also 50% share in Rakesh & Sons, a partnership firm.

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The accumulated profit of RSL (P) Ltd. is 20 Lakh. Rakesh & Sons had taken a loan of ₹ 25 Lakh, from RSL (P) Ltd. Explain, whether the above loan is treated as dividend, as per the provision of Income Tax Act, 2025.

Illustration 09 [PYQ Nov 2020]

Ms. Julie received following amounts during the T.Y. 2026-27.

(1) Received loan of ₹ 5,00,000 year from the ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹ 2,00,000 on the date of the loan.

(2) Received Interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the T.Y. 2022-23, ₹ 1,90,000 relates to T.Y. 2023-24 and ₹ 1,60,000 relates to T.Y. 2024-25. She paid ₹ 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to T.Y. 2026-27.

Illustration 10 [PYQ Nov 2022]

Examine whether the following are chargeable to tax and the amount liable to tax:

1. Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2027 from government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to T.Y. 2025-26.
2. Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2026 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was affected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
3. Mr. A received ₹ 5,00,000 on 1^{sl} March, 2027 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under Income Tax Act.

Illustration 11 [SM Ques.]

Examine the following transactions in the context of Income-tax Act, 2025:

1. Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2026 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax. Determine the

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income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

2. Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust by account payee cheque in December 2025 for meeting his medical expenses. Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

Illustration 12 [SM Ques.]

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Mr. Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2027 when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2026 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2025.

Would your answer be different if Hari was a share broker instead of a property dealer?

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CHAPTER 4: CLUBBING OF INCOME

Illustration 01

Mr. A transferred 2,000 debentures of ₹100 each of W Ltd. to Mrs. A on 13.05.2026 without consideration. The company paid interest of ₹130,000 in September, 2026 which was given as a loan by Mrs. A to K in October, 2026. K paid interest of ₹13,000 upto March, 2027. How would both the interest income be charged to tax in Tax Year 2026-27?

Illustration 02

Mr. Ram, entered into the following transactions during the Tax Year 2026-27:

a) Mr. Ram had a fixed deposit of ₹4,00,000 with Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2026 to 31.03.2027 to the savings bank account of Ms. Y, his niece, to help her in her higher education.

b) Mr. Ram holds 51% share in a partnership firm. Mrs. Ram (wife of Mr. Ram) received a remuneration of ₹90,000 from the firm for writing its books of accounts. Mrs. Ram, being a fashion designer, does not possess any qualification or training in the accountancy field.

c) Mr. Ram gifted a flat to Mrs. Ram on April 1, 2024. During the Tax Year 2026-27, she received rent of ₹18,500 p.m. from letting out of the flat.

d) Mr. Ram gifted ₹4,00,000 to his minor son who invested the same in a business and he derived income of ₹80,000 from the investment.

e) Mr. Ram's minor daughter derived an income of ₹25,000 from participation in music shows. During the year, Mr. Ram got a monthly pension of ₹18,000. He had no other income. Mrs. Ram received salary of ₹25,000 per month from a part time job as a fashion designer.

Discuss the tax implications of each transaction and compute the total income of Mr. R and Mrs. Ram.

Illustration 03

Mr. Ram is an employee of X Ltd. and he has 25% shares of that company. His salary is ₹50,000 p.m. Mrs. Ram is working as a computer software programmer in X Ltd. at a salary of ₹30,000 p.m. She is, however, not qualified for the job. Compute the gross total income of Mr. Ram and Mrs. Ram, assuming that they do not have any other income.

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Illustration 04

Will your answer be different in illustration 3, if Mrs. Ram was qualified for the job?

Illustration 05 [SM Ques.]

A proprietary business was started by Smt. X in the year 2021. As on 01.04.2025, her capital in business was 4,00,000. Her husband gifted ₹3,00,000 on 01.04.2025, which Smt. X invested in her business on the same date. Smt. X earned profits from her proprietary business for the financial year 2025–26 ₹2,00,000, Financial year 2026–27 ₹2,40,000 & Financial year 2027–28 ₹2,80,000. Amount of profit was further invested in the business. Compute Amount to be clubbed in the income of Husband of Smt. X in each of the year.

Illustration 06

Mr. Ram has three minor children – two twin daughters and one son. Income of the twin daughters is ₹2,000 p.a. each and that of the son is ₹1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. Ram.

Illustration 07

Mr. Ram, a mentally retarded minor, has a total income of ₹1,20,000. The total income of his father Mr. Shyam and of his mother Mrs. Shyam for the relevant Tax Year is ₹2,40,000 and ₹1,80,000 respectively. Discuss the treatment to be accorded to the total income of Mr. Ram for the relevant Tax Year

Illustration 08 [PYQ Jan 2026]

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

1. On the day of her marriage, Mrs. Nitu received gifts totalling ₹ 5,40,000, out of which ₹ 60,000 was received from non-relatives.
2. On 01.11.2026, Mrs. Nitu entered into an agreement to acquire a vacant land from her friend for ₹ 25 lakh. The applicable stamp duty value (SDV) fixed by the authority was ₹ 30 lakh. As per the terms of payment, 2% of the sale consideration was paid through an account payee cheque on the date of the agreement, and the remaining 98% was paid on registration. On 15.12.2026, the date of actual registration, the SDV was enhanced to ₹ 33 lakh by the authority.
3. Mrs. Nitu gifted ₹ 4 lakh on 1st September, 2026 to her husband Mr. Aman, to invest in the business. Mr. Aman started business with a capital of ₹ 12 lakh

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(including the amount gifted by his wife) and earned a profit of ₹ 5 lakh from this business during the financial year 2026-27.

Illustration 09 [RTP May 2023]

Examine the tax implication of each transaction and compute the total income of Mr. Tushar and Mrs. Tushar and their minor son for the Tax Year 2026-27, assuming they do not wish to opt for new regime.

(1) Mr. Tushar has a fixed deposit of ₹ 6,00,000 in State bank of India. He instructed the bank to credit the interest on the deposit @9% from 1st April, 2026 to 31st March, 2027 to the savings bank account of Mr. Raj, son of his brother, to help him in his education.

(2) Mr. Tushar started a proprietary business on 1st May, 2026 with capital of₹ 6,00,000. His wife, Mrs. Tushar, a software Engineer, gave cash of ₹ 5,00,000 on 1st May, 2026, which was immediately invested in the business by Mr. Tushar. He earned a profit of ₹ 4,00,000 during the Tax Year 2026-27.

(3) Mr. Tushar's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

Illustration 10 [MTP Nov 2023]

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

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Heena	9,60,000
(ii)	Income of minor son "Sameer" who suffers from disability specified in section 154	3,08,000
(iii)	Income of minor daughter "Nisha" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dinesh	17,50,000
(v)	Cash gift received by minor daughter "Nisha" on 02-10-2026 from friend of Mrs. Heena, on winning of a story writing competition	45,000
(vi)	Income of minor son "Harsh" form scholarship received from his school to meet the cost of education	1,00,000
(vii)	Income of minor son "Harsh" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

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Compute the total income of Mr. Dinesh and his wife Mrs. Heena for Tax Year 2026-27 assuming that they have not opted to be taxed under new regime.

Illustration 11 [RTP May 2020 & MTP Nov 2020 & MTP Nov 2021]

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2026. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2026 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2026, which were sold for ₹ 96,000 on 28th March, 2027. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2026, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2026-27.

In whose hands the above income and loss shall be included in Tax Year 2026-27, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

Illustration 12 [RTP May 2022]

Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2026-27, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the T.Y. 2026-27

(i) Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.

(ii) Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.

(iii) Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000

(iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.

(v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name.

Illustration 13 [PYQ Nov 2023]

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

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(i) Mr. Chaman's salary income-₹11,00,000.

(ii) Mrs. Chaman's income from Kathak performances ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.

(iii) Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.

(iv) Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2026. Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.

(v) Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2026-27. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2026-27.

(vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under Section 154. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Tax Year 2026-27. (Opted out of default regime)

Illustration 14 [PYQ Nov 2022]

From the following transactions compute the total income of Mr. Raman and his wife Savita for the Tax Year 2026-27.

(i) Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @ 6% from 01 -04-2026 to 31-03-2027 to the savings account of his brother's son for his education.

(ii) Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30 % equity shares of the ABC Private Limited.

(iii) Raman started proprietary business on 01-04-2025 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the Tax Year 2025-26. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2026 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the Tax Year 2026-27.

(iv) Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account.

Illustration 15 [PYQ May 2022]

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration.

On 01.10.2026, HUF is partitioned and such property being divided equally. Net annual value of the property for the Tax Year 2026-27 is ₹ 1,00,000. Determine the tax implications.

Illustration 16 [PYQ July 2021]

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

	Particulars	₹
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor Son "A" who suffers from disability specified in Section 154	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C". on 02-10-2026 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(Vi)	Income of minor son "B" form Scholarship received from his School	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from Scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Tax Year 2026-27 assuming that they have not opted to be taxed under New regime.

Illustration 17 [PYQ Nov 2017]

Kamal gifted ₹ 10 lakhs to his wife, Sulochona on her birthday on, 1st January, 2026. Sulochona lent ₹ 5,00,000 out of the gifted amount to Krishna on 1st April, 2026 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2026, which were sold for ₹ 75,000 on 30th December, 2026. Securities transactions tax was paid on such sale. The balance amount of gift was invested as capital by Sulochona

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in a business. She suffered loss of ₹ 15,000 in the business in Financial Year 2026-27.

In whose hands the above income and loss shall be included in Tax Year 2026-27. Support your answer with brief reasons.

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CHAPTER 5: SET-OFF & CARRY FORWARD OF LOSSES

Illustration 01 [SM Ques.]

Mr. A, aged 35 years, submits the following particulars pertaining to the T.Y. 2026-27:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-)1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the T.Y. 2026-27, assuming that

1. *He has exercised the option of shifting out of the default tax regime provided under section 202.*
2. *He pays tax under the default tax regime.*

Illustration 02 [SM Ques.]

Mr. B, a resident individual, furnishes the following particulars for the T.Y.2026-27:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 197	19,000

What is the total income chargeable to tax for the T.Y. 2026-27, assuming that he pays tax under section 202?

Illustration 03 [SM Ques.]

During the T.Y. 2026-27, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of T.Y.2025-26	(96,000)
Short term capital loss of T.Y.2026-27	(37,000)
Long term capital gain u/s 197	75,000

What is the capital gain taxable in the hands of Mr. C for the T.Y. 2026-27?

TELEGRAM: CA NOTE HUB

Illustration 04 [SM Ques.]

Mr. D has the following income for the T.Y.2026-27:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to T.Y. 2026-27)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to T.Y.2024-25)	96,000

What is the total income in the hands of Mr. D for the T.Y. 2026-27?

Illustration 05 [SM Ques.]

Mr. E has furnished his details for the T.Y. 2026-27 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of T.Y.2025-26	(30,000)
Winning from lotteries (Gross)	20,000

Compute the total income of Mr. E for the T.Y. 2026-27.

Illustration 06 [SM Ques.]

Compute the gross total income of Mr. F for the T.Y. 2026-27 from the information given below –

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from T.Y. 2026-27)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

TELEGRAM: CA NOTE HUB

Illustration 07 [SM Ques.]

Mr. Soohan submits the following details of his income for the T.Y. 2026-27:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business for T.Y. 2021-22 (discontinued in T.Y. 2022-23)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 196	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 08 [SM Ques.]

Mr. Batra furnishes the following details for year ended 31.03.2027:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

1. Losses from activity of owning and maintaining race horses-pertaining to T.Y.2024-25 - ₹ 25,000.
2. Brought forward loss from business of textile ₹ 60,000 - Loss pertains to T.Y. 2019-20.

Compute gross total income of Mr. Batra for the T.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided

TELEGRAM: CA NOTE HUB

under section 202. Also determine the losses eligible for carry forward to the T.Y. 2027-28.

Illustration 09 [SM Ques.]

Mr. A furnishes you the following information for the year ended 31.03.2027:

		(₹)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000)	7,50,000
	Mr. A had declared income on presumptive basis under section 58 for the first time in T.Y. 2025-26. Assume 10% of the turnover during the T.Y. 2026-27 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	
(iii)	He has brought forward depreciation relating to T.Y. 2025-26	1,00,000

Compute taxable income of Mr. A and his tax liability for the T.Y. 2026-27 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 202.

Illustration 10 [SM Ques.]

Mr. Aditya furnishes the following details for the year ended 31-03-2027:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 46	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

1. Losses from owning and maintaining of race horses pertaining to T.Y. 2025-26 ₹ 2,000.
2. Brought forward loss from trading business ₹ 5,000 relating to T.Y.2022-23.

TELEGRAM: CA NOTE HUB

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under section 202.

Illustration 11 [SM Ques.]

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the T.Y. 2026-27:

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to T.Y. 2026-27 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the T.Y. 2026-27 and the amount of loss, if any that can be carried forward or not.

Illustration 12 [SM Ques.]

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2027:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 46	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 202.

TELEGRAM: CA NOTE HUB

Illustration 13 [SM Ques.]

Mr. Rajat submits the following information for the financial year ending 31st March, 2027. He decides to pay tax under the default tax regime u/s 202. He desires that you should:

1. Compute the total income; and
2. Ascertain the number of losses that can be carried forward.

Particulars		₹
(i)	He has two let out house property:	
	(a) House No. I – Income after all statutory deductions	72,000
	(b) House No. II – Current year loss	(30,000)
(ii)	He has three proprietary businesses:	
	a) Textile Business:	
	(i) Discontinued from 31st October, 2026 – Current year loss	40,000
	(ii) Brought forward business loss of T.Y.2022-23	95,000
	b) Chemical Business:	
	(i) Discontinued from 1st March, 2024 – hence no profit/loss	Nil
	(ii) Bad debts allowed in earlier years recovered during this year	35,000
	(iii) Brought forward business loss of T.Y. 2023-24	50,000
	c) Leather Business: Profit for the current year	1,00,000
	d) Share of profit in a firm in which he is partner since 2009	16,550
(iii)	a) Short-term capital gain	60,000
	b) Long-term capital loss	35,000
(iv)	Contribution to LIC towards premium	10,000

Illustration 14 [SM Ques.]

Ms. Geeta, a resident individual, provides the following details of her income/ losses for the year ended 31.3.2027:

1. Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
2. Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
3. Long-term capital gain on sale of land ₹ 5,00,000.
4. ₹ 51,000 received in cash from friends in party.
5. ₹ 55,000, being dividend income on listed equity shares of domestic companies.
6. Brought forward business loss of T.Y. 2025-26 ₹ 12,50,000.

TELEGRAM: CA NOTE HUB

Compute gross total income of Ms. Geeta for the T.Y. 2026-27 and ascertain the amount of loss that can be carried forward.

Illustration 15 [SM Ques.]

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the T.Y. 2026-27:

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 2025, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to T.Y. 2025-26) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the T.Y. 2026-27, and the amount of loss that can or cannot be carried forward.

Illustration 16 [SM Ques.]

Mr. Prakash furnishes the following information for the financial year 2026-27:

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business under section 58	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	75,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-2027	60,000
Brought forward loss of business of T.Y. 2021-22	1,00,000

TELEGRAM: CA NOTE HUB

Compute the total income of Mr. Prakash for the T.Y. 2026-27 also show the loss eligible to be carried forward. Assume that he has opted out of the default tax regime.

Illustration 17 [SM Ques.]

Mr. Jaji is a chartered accountant and his income from profession for the year 2026-27 is ₹ 10,00,000. He provides you with the following information for the year 2026-27.

Particulars	₹
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2025 out of her special talent	20,000
Gift received by Chitra on 30-09-2026 from friends of Mr. Jaji on winning National award	45,000
Short term capital loss of Mr. Jaji	6,00,000
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gains from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss under section 196 of Mr. Jaji	10,00,000

Compute the total income of Mr. Jaji for T.Y. 2026-27 and the losses to be carried forward. Mr. Jaji has opted out of the default tax regime.

Illustration 18 [PYQ Jan 2026]

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

Particulars	Amount ₹
Gross salary received from part time employment in a company	12 lakh
Rent received from a let-out residential house property	8 lakh
Interest payment on loan taken for purchase of above house	2.5 lakh
Profit from a food delivery startup business	5 lakh
Profit from the business of production of fertilizers established in August, 2026 in India	6 lakh
On 01.04.2026, Kunal transferred ₹ 10 lakh to a charitable trust with a direction that the trust will pay ₹ 2,40,000 to Mrs. Sunita (Kunal's wife) annually. Mr. Kunal can take back the full amount as per his wish.	

Losses brought forward from the earlier years: -

1. Loss from self-occupied property - ₹ 1.5 lakh for the Tax Year 2023-24.

TELEGRAM: CA NOTE HUB

2. Business losses from specified business covered under section 46 – ₹ 10 lakh of financial year 2017-18.

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

Illustration 19 [RTP May 2025]

Mr. Akshay, a resident individual, provides the following details of his income/losses for the year ended 31.03.2027:

	Particulars	Amount
(i)	Income from salary (computed)	35,20,000
(ii)	Rent received from house property situated in Delhi	5,00,000
(iii)	Repayment of loan taken for purchase of above property. Loan was taken from a friend. This repayment includes payment of interest of ₹ 7,00,000	15,25,000
(iv)	Rent received from house property situated in Jaipur	3,20,000
(v)	Interest on loan taken for repair of house properties situated in Mumbai and Delhi. The property in Mumbai is self-occupied. Loan was taken on 01.04.17 and was utilized in 50:50 ratio for house properties situated in Mumbai and Delhi, respectively.	1,50,000
(vi)	Long-term capital gains on sale of equity shares on which STT has been paid	7,95,000
(vii)	Interest on fixed deposit	73,000
(viii)	Loss from textile business	7,50,000
(ix)	Speculation business profit	2,30,000
(x)	Lottery income (Gross)	75,000
(xi)	Loss incurred by the firm in which he is a partner	1,60,000
(xii)	Salary received as a partner from partnership firm. The same was allowed to firm	50,000
(xiii)	Life insurance premium paid for his son who is 30 years of age and is working in USA	15,000

He has the following brought forward losses of T.Y. 2025-26

Brought forward short-term capital loss on sale of gold	2,75,000
Brought forward loss on sale of equity shares u/s 196	25,000

TELEGRAM: CA NOTE HUB

Compute total income of Mr. Akshay for the Tax Year 2026-27 and the amount of loss that can be carried forward. Mr. Akshay has opted out of the default tax regime.

Illustration 20 [RTP May 2026]

Mr. Vipul furnished the following details for the Tax Year 2026-27:

Particulars	Amount (₹)
Loss from House Property	(2,60,000)
Income from Business in India	8,60,000
Short Term Capital Gain on Equity Shares	1,99,800
Income from Card Game (Gross)	1,02,500
Loss from Betting (Gross)	(87,500)
Expenses of Lottery Income	(7,500)
Income from Lottery (Net of TDS)	38,500
Loss from Camel Race Activity	(20,000)
Income from Race Horse Activity	97,800
Long Term Capital Gain on Sale of Land	25,000
Minor Daughter's Script Writing Income	15,000
Minor Son's Interest (Disability Section 154)	2,50,000
B/F Losses	
B/F Loss: Textile Business (T.Y. 2015-16)	(7,000)
B/F Long-Term Capital Loss (T.Y. 2018-19)	(1,12,500)
B/F Short-Term Capital Loss (T.Y. 2019-20)	(90,200)

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

Illustration 21 [PYQ Sep 2025]

Surbhi, a resident individual aged 35 years, is a working partner in two firms (A and B) engaged in the retail business of garments. She provides the following details of her income/losses for the year ended 31st March 2027:

Particulars	(₹)
Remuneration received as a partner from Partnership Firm "A" (allowable deduction in the hands of the firm)	9,70,000
Loss from intra-day trading in shares of Indian companies listed on a recognised stock exchange (without delivery)	(4,00,000)
Income from the activity of owning and maintaining race horses	7,00,000
Long-term capital gains on sale of property (computed as per the provisions of the Income-tax Act, 2025)	9,20,000

TELEGRAM: CA NOTE HUB

Interest paid on loan taken for repair of self-occupied house property	(1,20,000)
Amount received as advance towards sale of a shop, subsequently forfeited due to non-compliance by the buyer	5,00,000
Share of loss from Partnership Firm "B"	(1,10,000)
Loss on betting	(20,000)
Interest on fixed deposit (gross) (FD of ₹10 lakh gifted by father-in-law on 01.04.2026)	80,000

Brought Forward Losses

Particulars	(₹)
Long-term capital loss on sale of unlisted shares (pertaining to T.Y. 2026-27)	(3,80,000)
Loss from the activity of owning and maintaining race horses (pertaining to T.Y. 2026-27)	(25,000)

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

Illustration 22 [RTP May 2022]

Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2026-27

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

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

TELEGRAM: CA NOTE HUB

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

Compute the Gross total income of Mr. Rajesh for the Tax Year 2026-27 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 202 for the first time

Illustration 23 [RTP Sep 2024]

Karan, a resident aged 50 years, furnishes the following information for the year ended on 31-03-2027:

Particulars	Amount (₹)
Salary (Gross)	2,75,000
Income from let out house property	(2,85,000)
Interest on loan paid for self-occupied house property	1,20,000
Income from sale of rubber products from rubber plants	2,00,000
Business income - Retail business	1,20,000
Business income - wholesale business	(1,00,000)
Brought forward business loss (T.Y. 2026-27)	(1,35,000)
Dividend received from ABC Ltd., an Indian company carrying on agricultural operations	13,500
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Short-term capital gains on sale of shares	(1,10,000)
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor son Raju from special talent	1,50,000
Interest from Bank received by Raju on deposit made out of his special talent	10,000

Compute Karan's total income under the default tax regime under section 202 for the T.Y. 2026-27 assuming his wife does not earn any income.

Illustration 24 [RTP Jan 2025]

Mr. Mayank, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the F.Y. 2026-27

Particulars	Amount (₹)
Income from Salary (Computed)	27,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,25,000)
Income from let out property in Kanpur	5,50,000

TELEGRAM: CA NOTE HUB

Loss from let out property in Delhi	(3,75,000)
Interest on self-acquired property in Mumbai	(1,50,000)
Net winnings from online games (Net of TDS)	35,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 2,00,000 and additional depreciation of ₹ 50,000)	36,86,000

The other details of losses and unabsorbed depreciation pertaining to T.Y. 2026-27 are as follows:

Particulars	Amount
Business loss from manufacturing business	(5,35,000)
Unabsorbed normal depreciation	(2,10,000)
Loss from the activity of owning and maintaining the race horses	(1,50,000)
Loss from let out property in Delhi	(2,10,000)

Mr. Mayank filed his return of income for T.Y. 2025-26 on 28.7.2026 and opted for default tax regime. Compute the Gross total income of Mr. Mayank for the T.Y. 2026-27 and the amount of loss, if any, that can be carried forward if he wants to continue with the default tax regime.

TELEGRAM: CA NOTE HUB

CHAPTER 6: DEDUCTIONS FROM GTI

Illustration 01

Compute the eligible deduction under section 123 for T.Y.2026-27 in respect of life insurance premium paid by Mr. X during the T.Y. 2026-27, the details of which are given hereunder, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 202 –

Date of Issue of Policy	Person Insured	Actual Capital Sum Assured	Insurance Premium Paid during Year
01.06.2011	Mr. X	₹4,00,000	₹75,000
01.05.2017	Mrs. X	₹1,00,000	₹25,000
01.07.2018	Ms. Y, his handicapped daughter (section 154 disability)	₹5,00,000	₹60,000
01.07.2018	Mr. Z, his son	₹1,00,000	₹25,000

Illustration 02 [SM Ques.]

An individual assessee, resident in India, has made the following deposit/payment during the T.Y. 2026-27:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2019) (Assured value ₹ 2,20,000)	25,000

What is the deduction allowable under section 123 for T.Y.2027-28 if the assessee has exercised the option of shifting out of the default tax regime provided under section 202?

Illustration 03

Mr. X has income under the head Business/Profession ₹19,90,000. His investments are as given below:

	Particulars	(₹)
1	Investment in National Savings Certificate (NSC)	50,000
2	Investment in Public Provident Fund (PPF) in the name of Mr. X	5,000
3	Life Insurance Premium paid for LIC policy taken in the name of dependent father (Policy taken on 16.06.2024)	11,000
4	Life Insurance Premium paid for LIC policy taken in the name of independent son (Policy taken on 15.04.2025; Sum Assured	6,000

TELEGRAM: CA NOTE HUB

	₹1,00,000)	
5	Life Insurance Premium paid for LIC policy taken in the name of independent married daughter (Policy taken on 11.01.2026; Sum Assured ₹1,00,000)	21,000

Compute Income Tax liability. (Ignore Default Regime).

Illustration 04

Mr. X has income under the head business/profession 3,35,000. He has made the following investments: -

	Particulars	(₹)
1	Investment in National Savings Certificate (NSC)	10,000
2	Investment in Post Office 5-Year Time Deposit Account	15,000
3	Life Insurance Premium paid for major married independent son (Paid on 10.10.2022; Sum Assured ₹90,000)	30,000
4	Premium paid for Jeevan Suraksha Policy (Pension Scheme u/s 123) in the name of Mr. X (Taken on 11.11.2023)	11,000

Compute income tax liability (Ignore Default Regime).

Illustration 05

Mrs. X is employed in Central Government since 01.01.2026 and is getting basic pay of ₹1,00,000 p.m. She has contributed ₹10,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal Amount. She has paid premium of Jeevan Suraksha Policy ₹3,000 and invested ₹1,00,000 in NSC. Compute her tax liability (Ignore Default Regime).

Illustration 06 [SM Ques.]

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 124. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided under section 202. What would be your answer if Mr. A pays tax under the default tax regime under section 202?

TELEGRAM: CA NOTE HUB

Illustration 07 [SM Ques.]

The gross total income of Mr. X for the T.Y. 2026-27 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2026-27 –

Particulars		₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deductions for the T.Y.2027-28 if Mr. X exercises the option of shifting out of the default tax regime provided under section 202.

Illustration 08 [SM Ques.]

Examine the following statements with regard to the provisions of the Income-tax Act, 2026:

1. During the financial year 2026-27, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 129.
2. Subscription to notified bonds of NABARD would qualify for deduction under section 123.
3. In order to be eligible to claim deduction under section 123, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
4. Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 129 is 44,000 irrespective of the tax regime.
5. Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2026, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 124 to Mr. Satish in the earlier T.Y.s. Such amount received by her as a nominee on closure of the account is deemed to be her income for T.Y.2027-28.
6. Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 124. He has exercised the option of shifting out of the default tax regime provided under section 202.

TELEGRAM: CA NOTE HUB

Illustration 09 [SM Ques.]

Mr. X, aged 40 years, paid medical insurance premium of ₹18,000 by cheque during the T.Y. 2026–27 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹26,000 by cheque during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹5,000 by cheque to Central Government Health Scheme during the year. He has incurred ₹3,000 in cash on preventive health check-up of himself and his spouse and ₹4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 126 for the T.Y. 2026-27.

Illustration 10

Mr. X, aged 40 years, paid medical insurance premium of ₹20,000 by cheque during the T.Y. 2026-27 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹51,000 by cheque during the year to insure the health of his father, aged 67 years, who is not dependent on him. He contributed ₹6,000 by cheque to Central Government Health Scheme during the year. Compute the deduction allowable under section 126 for the T.Y. 2026-27.

Illustration 11

Mr. Arjun (52 years old) furnishes the following particulars in respect of the following payments:

Particulars	Amount
Premium paid for insuring the health of –	
Self	₹10,000
Spouse	₹8,000
Dependent son	₹4,000
Mother	₹18,000
Paid for Preventive Health Check-up of	
Himself	₹2,000
Spouse	₹1,500
Mother	₹4,000
Incurred medical expenditure of 25,000 and 15,000 for his mother, aged 80 years and father, aged 85 year. Both mother and father are resident in India.	

Compute the deduction available to Mr. Arjun under section 126 for the T.Y. 2026-27.

TELEGRAM: CA NOTE HUB

Illustration 12

Compute the eligible deduction under Chapter VIII for the Tax Year 2026-27 of Ms. Roma, who has a gross total income of ₹15,00,000 for the Tax Year 2026-27 and provide the following information about his investments/payments during the financial year:

Particulars	Amount
Life Insurance premium paid (Policy taken on 01.01.2012 and sum assured is ₹1,50,000)	₹35,000
Public Provident Fund contribution.	₹90,000
Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore.	₹20,000
Payment to L.I.C. Pension Fund	₹25,000
Mediclaim Policy taken for self, spouse and dependent children, premium paid by cheque	₹20,000
Medical Insurance premium paid for parents (Senior Citizen), premium paid by cheque	₹25,000

Illustration 13 [SM Ques.]

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 127 for the T.Y. 2026-27, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 14 [SM Ques.]

What will be the deduction if Mr. X had made this deposit for his dependant father?

Illustration 15 [SM Ques.]

Mr. B has taken three education loans on April 1, 2026, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.

TELEGRAM: CA NOTE HUB

Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible under section 129 for the T.Y.2027-28 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 16 [SM Ques.]

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India @ 11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for T.Y.2027-28 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 202, assuming that the entire loan was outstanding as on 31.3.2027 and he does not own any other house property.

Illustration 17 [SM Ques.]

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for T.Y. 2026-27 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of Disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-

TELEGRAM: CA NOTE HUB

Cost of electric vehicle	–	–	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 2025 for T.Y. 2026-27 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 202. Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2027.

Illustration 18 [SM Ques.]

Ms. Jyoti purchased a house property costing ₹ 42 lakhs on 1st May, 2021. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of ₹ 35 lakhs bearing interest @ 14% p.a. on 1st April, 2021. She does not own any other house.

State with brief reasons the deductions that can be claimed by Ms. Jyoti in respect of interest on loan for T.Y. 2027-28 if she has opted out of the default tax regime. No repayment of loan has been made so far.

Illustration 19

Mr. X, aged 62 years, earned professional income (computed) of ₹5,50,000 during the year ended 31.03.2027. He has earned interest of ₹14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. X for the Tax Year 2026-27 from the following particulars:

	Particulars	(₹)
1	Life insurance premium paid in cash for insurance of dependent parents (Policy taken on 15.07.2025; Sum Assured ₹1,25,000)	25,000
2	Life insurance premium paid for insurance of major son (not dependent) (Policy taken on 18.04.2011; Sum Assured ₹1,75,000)	25,000
3	Life insurance premium paid by cheque for self (Policy taken on 08.09.2025; Sum Assured ₹2,00,000)	22,500
4	Health insurance premium paid by cheque for self	8,000
	Health insurance premium paid by cheque for spouse	8,000
5	Health check-up expenses paid in cash for self	1,500
	Health check-up expenses paid by cheque for parents	4,500
6	Interest paid on bank loan for MBA course pursued by daughter	6,500
7	Donation paid in cash to an institution approved for promoting family planning	15,000

TELEGRAM: CA NOTE HUB

8	Contribution made by cheque to an Electoral Trust	10,500

Illustration 20 [SM Ques.]

Mr. Shiva aged 58 years, has gross total income of 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

	Particulars	(₹)
1	Premium paid to insure the life of major daughter (Policy taken on 01.04.2019; Sum Assured ₹1,80,000)	20,000
2	Medical Insurance Premium – Self	12,000
	Medical Insurance Premium – Spouse	14,000
3	Donation to a Public Charitable Institution registered under Section 133 (by cheque)	50,000
4	Contribution to LIC Pension Fund	60,000
5	Donation to National Children's Fund (by cheque)	25,000
6	Donation to Jawaharlal Nehru Memorial Fund (by cheque)	25,000
7	Donation to Approved Institution for Promotion of Family Planning (by cheque)	40,000
8	Deposit in Public Provident Fund (PPF)	1,00,000

Compute the total income of Mr. Shiva for T.Y. 2026-27 (Ignore Default Regime).

Illustration 21

Mr. X declares gross total income ₹4,00,000 for the Tax Year 2026-27. The gross total income includes taxable long term capital gain 65,000 and short-term capital gain ₹35,000 which is taxable @ 20% under section 196 of the Income-tax Act, 2025. The details of fund investment made during the year 2026-27 are:

1) Medical insurance premium paid by cheque –
   (a) in the name of Mr. X ₹4,000
   (b) in name of Mrs. X ₹5,000
2) Contribution made to –
   i) Indira Gandhi Memorial Trust by cheque ₹7,000
   ii) Delhi University (declared as an institution of national eminence) by cheque ₹3,000
   iii) Zila Saksharta Samiti by cheque ₹5,000
   iv) An approved charitable institute by cheque ₹30,000
   v) Government by cheque for the purpose of promoting family planning ₹10,000

TELEGRAM: CA NOTE HUB

vi) Hanuman Temple in Mohalla by cheque ₹20,000

Compute the total income of Mr. X chargeable to tax for the Tax Year 2026-27.

Illustration 22

Mr. X has income under the head Business/Profession ₹5,00,000 and LTCG of ₹2,00,000, STCG u/s 196 ₹3,00,000 and casual income of ₹1,00,000. He is paying rent for a house of ₹40,000 p.m. He has deposited ₹30,000 in home loan account scheme of National Housing Bank. He has complied with all the condition of section 134. Compute income tax liability (Ignore Default Regime)

Illustration 23 [SM Ques.]

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 134) for T.Y. 2026-27 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 134 for T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 24

Mr. Satya is a manufacturer of household goods in a factory located in Navi Mumbai and commenced his business on 1st April 2024 and he employed 120 new work men during the Tax Year 2026-27 which included:

a) 20 employee whose total emoluments paid @ ₹30,000 p.m. per employee
b) 40 workers employed on 01st April, 2026
c) 35 workers employed on 1st May, 2026
d) 25 workers employed on 5th October, 2026

Compute the Deduction under Section 146, if available to Mr. Satya for Tax Year 2026-27, if wages are paid to each worker @ ₹3,000 per month. His profit from the manufacture of goods for Tax Year 2026-27 is 9.50 lakhs. The Assessee is liable to Audit his accounts.

What will be your answer is assessee is engaged in manufacturing of leather products business.

Illustration 25 [SM Ques.]

Mr. A has commenced the business of manufacture of computers on 1.4.2026. He employed 350 new employees during the T.Y. 2026-27, the details of whom are as follows –

TELEGRAM: CA NOTE HUB

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2026	Regular	24,000
(ii)	125	1.5.2026	Regular	26,000
(iii)	50	1.8.2026	Casual	24,500
(iv)	100	1.9.2026	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for T.Y. 2026-27, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.
What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2026?

Illustration 26

Mr. X, a writer and a professional, furnishes the following particulars for the Tax Year ended 31.03.2027:

Particulars	Amount (₹)
Royalty on Books (eligible for deduction u/s 151)	42,000
Expenditure on Books	8,000
Income from Profession	3,80,000
Deposit in Public Provident Fund (15.03.2026)	70,000

You are required to compute
(i) Taxable income
(ii) Tax payable for Tax Year 2026-27.

Illustration 27 [SM Ques.]

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2027 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2028. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 151 if he has exercised the option of shifting out of the default tax regime provided under section 202.

TELEGRAM: CA NOTE HUB

Illustration 28 [SM Ques.]

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the T.Y. 2026-27. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the T.Y. 2027-28 if he has exercised the option of shifting out of the default tax regime provided under section 202?

Illustration 29 [SM Ques.]

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the T.Y. ended 31.03.2027. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the T.Y. 2026-27 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 202:

	Particulars	(₹)
1	Life insurance premium paid in cash to Birla Sunlife Insurance for insurance of dependent parents (Policy taken on 15.07.2021; Sum Assured ₹2,00,000)	25,000
2	Life insurance premium paid for insurance of major son (not dependent) (Policy taken on 30.03.2012; Sum Assured ₹3,50,000)	19,500
3	Life insurance premium paid by cheque for insurance of self (Policy taken on 08.09.2020; Sum Assured ₹2,00,000)	22,500
4	Health insurance premium paid by cheque for self and wife	26,000
5	Preventive health check-up expenses: Self (paid in cash)	1,500
	Preventive health check-up expenses: Parents (senior citizens) (paid by cheque)	4,500
6	Interest paid on bank loan for MBA course pursued by daughter	6,500
7	Donation paid in cash to an institution approved under section 133 for promoting family planning	5,000

Illustration 30 [SM Ques.]

Mr. Y furnishes you the following information for the year ended 31.3.2027:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30

TELEGRAM: CA NOTE HUB

Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2027	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction under section 144 for the T.Y. 2026-27, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2020-21 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 202.

Illustration 31 [SM Ques.]

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the T.Y. 2026-27.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2027 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 202. Calculate the eligible deduction under section 144 of the Income-tax Act, 2025, for the T.Y. 2026-27 if both the units were set up and start manufacturing from 22-05-2017.

Illustration 32 [SM Ques.]

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2026-27, furnishes you the following information:

	Particulars	(₹)
1	Repayment of housing loan principal amount taken from SBI for acquisition of a self-occupied residential house	50,000
2	Investment in 5-Year Post Office Time Deposit Account	20,000
3	Donation to a recognized charitable trust eligible for deduction under Section 133 at the applicable rate	25,000
4	Interest paid on loan taken for higher education of spouse	10,000

Compute the total income of Mr. Rajmohan for the T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime provided under section 202.

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Illustration 33 [SM Ques.]

For the T.Y. 2026-27, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 15,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 197 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 133 by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2027, in a tax efficient manner.

Illustration 34 [SM Ques.]

Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Prakash for the T.Y. 2027-28 under normal provisions of the Act from the following particulars:

1. Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2019 and the sum assured is ₹ 2,00,000.
2. Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
3. ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.
4. Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
5. A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 133 for promoting family planning.

TELEGRAM: CA NOTE HUB

CHAPTER 7: TDS/TCS/ADVANCE TAX

Part I-TDS

Illustration 01 [SM Ques.]

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Illustration 02 [SM Ques.]

Examine the TDS implications under section 194A in the cases mentioned hereunder–

1. On 1.10.2026, Mr. Harish made a six-month fixed deposit of ₹ 15 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2027.
2. On 1.6.2026, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2027.
3. On 1.10.2026, Mr. Rajesh started six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2027.

Illustration 03 [SM Ques.]

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the T.Y.2026-27–

₹ 20,000 on 1.5.2026

₹ 25,000 on 1.8.2026

₹ 28,000 on 1.12.2026

On 1.3.2027, a payment of ₹ 30,000 is due to Mr. X on account of a contract work. Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Illustration 05 [SM Ques.]

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given

TELEGRAM: CA NOTE HUB

by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source? Discuss.
Also, examine whether the provisions of tax deduction at source would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Illustration 06 [SM Ques.]

XYZ Ltd. entered into a lease agreement to take a building on rent from Mr. Kishore on 1st May 2025, for a monthly rent of ₹ 46,000, with a 10% escalation in rent applicable from the second year. Discuss the applicability of TDS provisions for the T.Y. 2026-27.

Illustration 07 [SM Ques.]

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2026. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.
Would your answer change if Mr. X vacated the premises on 31st December, 2026? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Illustration 08 [SM Ques.]

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2026 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions are attracted.

Illustration 09 [SM Ques.]

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2026-27
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the T.Y. 2025-26	Contract Payment for repair of residential house Payment of commission to Mr. Vallish for business purposes	₹ 5 lakhs ₹ 80,000 in Nov 2026

TELEGRAM: CA NOTE HUB

2.	Mr. Rajesh, a wholesale trader whose turnover was ₹95 lakhs in T.Y. 2025-26.	Contract Payment for reconstruction of residential house (made during the period January-March, 2027)	₹ 20 lakhs in January 2027, ₹ 15 lakhs in Feb 2027 and ₹ 20 lakhs in March 2027.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2027	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2026 for reconstruction of residential house	₹ 48 lakhs

Illustration 10 [SM Ques.]

Examine the applicability of the provisions for tax deduction at source under in the following cases –

1. Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.6.2026, towards maturity proceeds of LIC policy taken on 1.7.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
2. Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.12.2026 on LIC policy taken on 1.1.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.
3. Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2026 towards maturity proceeds of LIC policy taken on 31.7.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.

Illustration 11 [SM Ques.]

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2026. He has purchased the house property and the land in the year 2025 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2026, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Illustration 12 [SM Ques.]

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 82,000 per month from the UP-State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @ 8% p.a. on fixed

TELEGRAM: CA NOTE HUB

deposit of 40 lakh with the said bank. Out of the deposit of ₹ 40 lakh, ₹ 2 lakh represents five-year term deposit made by him on 1.4.2026. Interest on savings bank credited to his SBI savings account for the T.Y. 2026-27 is ₹ 9,500.

1. From the above facts, compute the total income and tax liability of Mr. Sharma for the T.Y. 2026-27, assuming that he has exercised the option of shifting out of the default tax regime provided under section 202.
2. What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for T.Y. 2026-27, if tax deductible at source has been fully deducted? Examine.
3. Is Mr. Sharma required to file his return of income for T.Y. 2026-27, if the fixed deposit of ₹ 40 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Illustration 13 [SM Ques.]

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y. 2025-26 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y. 2026-27 was ₹ 95 lakh (₹ 20 lakh on 1.6.2026, ₹ 25 lakh on 12.8.2026, ₹ 22 lakh on 23.11.2026 and ₹ 28 lakh on 25.3.2027). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date.

1. Based on the above facts, examine the TDS implications, if any, under the Income-tax Act, 2025.
2. Would your answer be different if Mr. Gupta's turnover for F.Y. 2025-26 was ₹ 8 crores, all other facts remaining the same?
3. Would your answer to (1), if PAN has not been furnished by the seller, as required?

Illustration 14 [SM Ques.]

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year –

Particulars	₹
2025-26	1,05,00,000
2026-27	95,00,000

Examine whether tax deduction at source provisions is attracted for the below said expenses incurred during the financial year 2026-27:

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Particulars	₹
Interest paid to UCO Bank on 15.8.2026	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2026	24,000
Shop rent paid	40,000 p.m.
Commission paid to Balu on 15.3.2027	7,000

Illustration 15 [SM Ques.]

Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2026-27 as per the provisions of the Income-tax Act, 2025.

S. No.	Date	Nature of Payment
(i)	1-10-2026	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the T.Y. and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2026	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2026	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2027	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2027	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2027	Payment of commission of ₹ 14,000 to Mr. Y.

Illustration 16 [SM Ques.]

Examine the applicability of TDS provisions and TDS amount in the following cases:

1. Rent of ₹ 55,000 per month was paid for hire of machinery by B Ltd. to Mr. Raman in FY 2026-27.
2. Fee paid on 1.12.2026 to Dr. Srivatsan by Sundar (HUF) ₹ 55,000 for surgery performed on a member of the family.
3. ABC and Co. Ltd. paid ₹ 19,000 to one of its directors as sitting fees on 01-01-2027.

TELEGRAM: CA NOTE HUB

Illustration 17 [SM Ques.]

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2026-27:

1. Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2027.
2. Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
3. ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2027 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

Illustration 18 [PYQ Jan 2026]

Examine the applicability of tax deduction at source as per the Income-tax Act, 2025 for the Tax Year 2026-27 in the following independent situations:

1. Dr. Ram Narayan (aged 63 years), an orthopaedic surgeon, borrowed ₹ 25 lakh from a friend to expand his clinic to include physiotherapy services and paid ₹ 2.5 lakh as interest on borrowed funds. His professional receipts were ₹ 52 lakh and ₹ 48 lakh during the financial years 2025-26 and 2026-27, respectively.

2. Mr. Mahesh intends to distribute cash to the people affected by a heavy flood in the state of Punjab. He maintains a bank account with a nationalised bank and has withdrawn ₹ 2 crore in cash in the months of August 2026 and September 2026. During the last four Tax Years, Mr. Mahesh has filed his return of income only for the Tax Year 2025-26, as his income in the remaining three years was below the maximum amount not chargeable to tax under the Income-tax Act, 2025.

Illustration 19 [PYQ Sep 2025]

Aryan, a resident individual engaged in the retail trade of auto parts through various stores across Delhi-NCR, had total turnover of ₹ 15 crores during the financial year 2025-26. The following data is furnished relating to the financial year ended 31-3-2027:

1. He purchased goods for ₹ 105 lakhs (excluding GST @ 18%) on 21.05.2026 from Diva LLP, a limited liability partnership firm resident in India. Out of these purchases, goods worth ₹ 5 lakhs (excluding GST) were returned on 20.07.2026 due to quality issues for which Diva LLP refunded the money on 20.02.2027. Assume that the turnover of Diva LLP during the financial year 2025-26 was ₹ 8 crores.

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2. Aryan paid ₹ 77,000 every month to Mr. Kulveer, a resident individual for providing catering services in his shop under a contract.

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

Illustration 20 [RTP Jan 2026]

Examine the applicability and determine the amount of tax deduction at source as per the Income-tax Act, 2025 for the T.Y. 2026-27 in the following situations:

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

2. Vijay Health Solutions Ltd., a Third-Party Administrator (TPA), makes payments to various hospitals across India towards settling cashless medical insurance claims on behalf of insurance companies. During the financial year 2026-27, the total payment made by Vijay Health Solutions Ltd. to Life Care Hospital for cashless claims is ₹ 12,00,000.

Illustration 21 [PYQ May 2025]

Discuss the relevant provisions of Income-tax Act, 2025 with respect to tax deduction at source (TDS) and calculate amount of TDS also for the T.Y. 2026-27 in the following independent situations:

1. Marks Pictures Ltd. is a movie and short films production house having turnover of ₹ 15.22 crores during the Tax Year 2025-26. Solar Varanasi LLP also produces short films and clippings and it has already produced a short film namely 'Maha Kumbh'. On 16-10-2026, Marks Pictures Ltd. acquired television rights in consideration of ₹ 52 lakhs from Solar Varanasi LLP. (Both have valid PAN)

2. Mr. Mayank, a salaried individual, paid rent for his residential house at Mumbai to the house owner Mr. Nikhil in the following manner:
   From April, 2026 to September, 2026: ₹ 75,000 per month; and
   From October, 2026 to March, 2027: ₹ 1,00,000 per month.

TELEGRAM: CA NOTE HUB

Illustration 22 [RTP Sep 2025]

Examine the applicability and determine the amount of tax deduction at source (TDS) as per the Income-tax Act, 2025 for the T.Y. 2027-28 in the following situations:

1. *Nexus Tech Pvt. Ltd., a company engaged in the business of manufacturing electronic goods, reported a turnover of ₹ 12 crore during the F.Y. 2025-26. During the F.Y. 2026-27, the company made the following purchases from resident sellers:*

   - *From Vendor A – Raw materials worth ₹ 60,00,000 (₹ 25 lakh in April, ₹ 35 lakh in July). Payment of ₹ 20 lakhs was made in June and remaining payment in September. Vendor A has not furnished his PAN*
   - *From Vendor B – Trading goods worth ₹ 48,00,000 on instalments (₹ 15 lakh in May, ₹ 20 lakh in October, ₹ 13 lakh in December). Entire payment was made in March, 2027.*

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

2. *In January 2027, Mr. Sumit, engaged in business having turnover of ₹ 1.20 crores during the T.Y. 2025-26, enters into an annual maintenance contract (AMC) with ABC Ltd., a resident company, for ₹ 5,40,000 plus GST@18%. Mr. Sumit made the payment in February 2027 and ABC Ltd. has not provided its PAN to Mr. Sumit.*

Illustration 23 [MTP Nov 2022]

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act in respect of the following payments:

(i) *Ms. Asha deposited ₹ 35,00,000 @10% p.a. on 1.7.2026 with ABC Co-operative bank limited.*
(ii) *Mr. Naresh won ₹ 15,00,000 in Kon Banega Crorepati*
(iii) *Mr. Avinash deposited ₹ 2,00,000 @11% p.a. on 1.5.2026 for half year with Hike Investment LLP.*

Illustration 24 [MTP Nov 2023 & PYQ May 2022 & PYQ May 2023]

Discuss the liability of tax deduction at source under the Income-tax Act, 2025 in respect of the following cases with reference to T.Y. 2026-27.

TELEGRAM: CA NOTE HUB

(i) ABC Ltd. is a producer of natural gas. During the year, it sold natural gas worth ₹ 26,50,000 to M/s XYZ Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. The ownership of the gas is simultaneously transferred by ABC Ltd. with transportation. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.

(ii) Design LLP paid job charges to ABC, a partnership firm for doing embroidery work on the fabric supplied by the Design LLP during the Tax Year 2026-27 as under:

Bill No.	Date	Amount (₹)
1	30.04.2026	27,000
57	30.06.2026	25,000
105	30.09.2026	28,000
151	30.12.2026	32,000

Illustration 25 [PYQ May 2019]

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

(i) Mr. Tandon received a sum of ₹ 1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) A sum of ₹ 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).

(iii) Ms. Kaul won a lucky draw prize of ₹ 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

(iv) Finance Bank Ltd. sanctioned and disbursed a loan of ₹ 10 crores to Borrower Ltd. on 31 -3-2027. Borrower Ltd. paid a sum of ₹ 1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.

(v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December 2026 to February 2027) at Hyderabad where he pays a monthly house rent of ₹ 52,000 for those three months, totalling to ₹ 1,56,000. Rent is paid by him on the first day of the relevant month.

TELEGRAM: CA NOTE HUB

Part II-TCS

Illustration 26 [SM Ques.]

Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 2025 for the T.Y 2027-28 in the following situations

1. Mr. Raja paid ₹ 12 lakhs on 1.11.2026 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹ 13 lakhs on 28.3.2027, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday.

2. Mr. Rohit and Mr. Raj are the joint owners of a house property. They sold the house property on 31.12.2026 for ₹ 60 lakhs, receiving ₹ 30 lakhs each as their respective shares. However, the stamp duty value (SDV) of the property on the date of transfer is ₹ 75 lakhs. The property was jointly purchased by Ms. Shashi and Ms. Sujata.

3. XYZ Ltd. provided a luxury car worth ₹ 15 lakh to its distributor, Mr. A, as an incentive for achieving high sales targets.

Illustration 27 [RTP May 2025]

Examine the applicability and amount of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 2025 for the T.Y 2027-28 in the following situations:

1. Mr. Subhash is a salaried individual pays rent of ₹ 52,000 per month to Mr. Raj from April 2026. Mr. Subhash vacated the premises on 31st August, 2026. What if he vacates the premises on 31st October, 2026.

2. ABC Traders, a partnership firm, is engaged in the wholesale business of tendu leaves. Its turnover for the T.Y. 2025-26 was ₹ 9 crores. During the financial year 2026-27, it sold tendu leaves worth ₹ 12 lakhs to XYZ Ltd. XYZ Ltd. does not provide its PAN to ABC Trader.

Illustration 28 [RTP May 2026]

Examine the applicability and determine the amount of tax deduction/ collection at source as per the Income-tax Act, 2025 for the T.Y. 2027-28 in the following situations:

TELEGRAM: CA NOTE HUB

a) ABC Ltd. sells a flat to Mr. Jatin for ₹ 47 lakhs on 15.5.2026. The agreement to sell provides that in addition, Mr. Jatin has to pay maintenance charges of ₹ 10,000 per month for 24 months in advance, ₹ 3 lakhs for car parking, and ₹ 1 lakh for club membership fees to ABC Ltd. The stamp duty value of the flat is ₹ 48 lakhs.

b) State Government of Jharkhand grants a lease of coal mine to M/s XYZ Ltd. on 1.5.2026 and charged ₹ 7 crores for the lease. M/s XYZ Ltd. sold coal for ₹ 2 crores to M/s LMN, a public sector company, during the T.Y. 2026-27. The turnover of XYZ Ltd. and M/s LMN, PSU, for the F.Y. 2025-26 amounted to ₹ 5.5 crores and ₹ 11 crores, respectively.

Illustration 29 [RTP Nov 2022 & RTP May 2026]

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2024 and charged ₹ 8 crores for the lease. ABC Co. Ltd. sold coal for ₹ 2 crores to Mahapower Ltd., another Indian company, during the Tax Year 2026-27. Mahapower Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2025-26 amounted to ₹ 11 crores and ₹ 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any?

Illustration 30 [PYQ Sep 2024]

Answer the following:

(i) M/s. PQR & Co., a proprietary firm of Mr. Yogesh, paid an amount of ₹ 30,500 to Mr. Amit, a resident individual aged 45 years, on June 1, 2026 towards fees for professional services. Subsequently, another payment of ₹ 60,000 was due to Mr. Amit on January 30, 2027. Tax was not deducted from both the transactions. Mr. Amit has filed his return of income for Tax Year 2027-28 on May 2027, taking into account professional fees from M/s. PQR & Co. and paid the taxes due on the income declared in the return of income. What are the tax obligations in the hands of M/s. PQR & Co. on the assumption that the accounts of the firm are audited under section 63 of the Income-tax Act 2025?

(ii) M/s. Fastest Ltd. is an Indian car manufacturer. During the F.Y. 2026-27, it sold cars for ₹ 150 lakhs to M/s. Race LLP, a distributor of cars where the sale price of each car was ₹ 7.5 lakhs. The turnover for the F.Y. 2025-26 of M/s. Fastest Ltd. was ₹ 15 crores and M/s. Race LLP was 8

TELEGRAM: CA NOTE HUB

crores. What shall be the TCS/TDS implications on M/s. Fastest Ltd. and M/s. Race LLP?

Illustration 31 [RTP Jan 2025]

Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 2025 for the T.Y 2026-27 in the following situations

Mr. Saurabh's turnover for F.Y.2025-26 was ₹ 10.10 crores. Mr. Raja paid ₹ 12 lakhs on 1.11.2026 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹ 15 lakhs on 28.3.2027, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday.

Part III-Advance Tax

Illustration 32 [SM Ques.]

Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2026-27.

Estimated tax liability for the financial year 2026-27	₹ 80,000
Tax deducted at source for this year	₹ 12,000

Illustration 33

Mr. X has paid advance tax as given below:

Due Date	Advance Tax Payable Up To (₹)
Up to 15.06.2026	15,000
Up to 15.09.2026	45,000
Up to 15.12.2026	95,000
Up to 15.03.2027	1,70,000

He had long term capital gains of ₹ 3,00,000 on 01.01.2027 and his income under the head business/ Profession is ₹ 11,00,000. He has filed return of income on 10.12.2027 and has paid difference of the tax on 10.12.2027. Last date for filing of return is 31.07.2027. Compute interest payable under section 423, 424 and 425.

Illustration 34

C Ltd. has estimated its tax liability for Tax Year 2026-27 ₹ 4,40,000 and has paid advance tax accordingly but actual tax liability was found to be

TELEGRAM: CA NOTE HUB

₹10,00,000. The company has paid balance Amount on 02.01.2028 and filed return of income on the same date. Compute interest payable under section 423, 424, and 425.

Illustration 35

C Ltd. has paid advance tax for the Tax Year 2026–27 as given below:

Due Date	Advance Tax Payable Up To (₹)
Up to 15.06.2026	50,000
Up to 15.09.2026	1,50,000
Up to 15.12.2026	3,00,000
Up to 15.03.2027	6,00,000

Actual tax liability was found to be 7,00,000 and balance tax was paid on 10.12.2027. Compute interest payable under section 423, 424 & 425.

Illustration 36

Mrs. Ram has income under the head house property ₹ 18,00,000 and she has received gift of ₹ 3,00,000 in cash from her husband's sister and ₹ 1,00,000 from her sister's husband and ₹ 1,20,000 from sister of her mother-in-law. She has an agricultural income of ₹ 4,00,000. She has paid advance tax as given below

Due Date	Advance Tax Payable Up To (₹)
Up to 15 June 2026	15,000
Up to 15 September 2026	45,000
Up to 15 December 2026	75,000
Up to 15 March 2027	1,00,000

Balance Amount of tax was paid on 10th Dec 2027 and return of income filed on the same date and due date for filing return of income is 31.07.2027. Compute her tax liability for the Tax Year 2026-27 and also interest under section 423, 424 and 425.

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CHAPTER 8: RETURN OF INCOME

Illustration 01 [SM Ques.]

Paras aged 55 years is a resident of India. During the F.Y. 2026-27, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Illustration 02 [SM Ques.]

Explain with brief reasons whether the return of income can be revised under section 263(5) of the Income-tax Act, 2025 in the following cases:

1. *Belated return filed.*
2. *Return already revised once.*
3. *Return of loss filed.*

Illustration 03 [SM Ques.]

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2027 audited under section 63. Her total income for the T.Y. 2026-27 is ₹ 15,35,000. She wants to furnish her return of income for T.Y. 2026-27 through a tax return preparer. Can she do so?

Illustration 04 [SM Ques.]

State with reasons whether you agree or disagree with the following statements:

a) *Return of income of Limited Liability Partnership (LLP) could be verified by any partner.*
b) *Time limit for filing return under section 263(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2027 whether or not declaring presumptive income under section 58, is 31st October, 2027*

Illustration 05 [SM Ques.]

Mr. Vineet exercised the option of shifting out of the default tax regime and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2027 for TY 2026-27 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2027, he realized that he had not claimed deduction under section 153

TELEGRAM: CA NOTE HUB

in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21- 03-2028?

Illustration 06 [SM Ques.]

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 2025:

a) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable

b) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Illustration 07 [SM Ques.]

Explain the term "return of loss" under the Income-tax Act, 2025. Can any loss be carried forward even if return of loss has not been filed as required?

Illustration 08 [SM Ques.]

Mr. Aakash has undertaken certain transactions during the F.Y. 2026-27, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents:

	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2026-27 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Illustration 9 [PYQ Jan 2026]

Mr. Solanki, aged 52 years, has income from business and profession and income from other sources for the financial year 2026-27. He has filed his return of income for the Tax Year 2026-27 before the due date of filing of return but due to some incorrect information provided in the return of income furnished under section 263(1), the Assessing Officer considers it defective under the Income-tax Act, 2025. Discuss the provisions of the Income-tax Act, 2025 in respect of defective return.

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Illustration 10 [PYQ Sep 2024]

Rani, an Indian resident aged 34 years did not file her return of income for the T.Y. 2024-25, 2025-26 and 2026-27. She gives the following information regarding each of the T.Y.-

T.Y. 2024-25	
1. Tax payable on the total income of Rani	₹ 14,50,000
2. TDS deducted	₹ 5,00,000
T.Y. 2025-26	
1. Tax payable on the total income of Rani	₹ 5,60,000
2. TDS deducted	₹ 10,00,000
T.Y. 2026-27	
1. Tax payable on the total income of Rani	₹ 6,30,000
2. TDS deducted	₹ 2,00,000
3. Interest payable under section 423, 424 and 425 (calculated till 31st May 2027)	₹ 90,000
4. Self-assessment tax paid	₹ 1,00,000

She approaches you to file updated return on 16.5.2027. You are required to prepare a suggestion to be given to her in this respect. Your suggestion should include the financial aspect also (like payment of tax) briefly outlining the relevant provisions of the Income-tax Act.

Illustration 11 [PYQ May 2025]

Specify all the documents in which quoting of Aadhaar Number is mandatory u/s 262 of the Income-tax Act, 2025. Also explain to whom provisions of section 262 does not apply.

Illustration 12 [PYQ May 2025]

State persons who are required to apply for the allotment of PAN under section 262 of the Income-tax Act, 2025. Mention the time limit for making such application also.

Illustration 13 [PYQ Sep 2025]

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

TELEGRAM: CA NOTE HUB

(1) An income-tax return can be revised only once.
(2) Updated return cannot be filed if original return is a loss return under section 263(1)(a)(viii)

Illustration 14 [MTP May 2024]

Mr. Vishnu has undertaken certain transactions during the F.Y.2026-27, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents:

	Transaction
1.	Sale of scooter for ₹ 70,000
2.	Payment of life insurance premium of ₹ 67,000 to insurance company
3.	Purchase of plot for ₹ 9 lakhs while the stamp duty of the same is ₹ 11 lakhs
4.	Applied to PNB for issue of credit card.

Illustration 15 [MTP Jan 2025 & PYQ Jan 2025]

Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the Tax Year 2026-27 before due date prescribed under section 263(1). Advise Mr. Kailash as a tax consultant.
What are the consequences for non-filing of return of Income within the due date under section 263(1)?

Illustration 16 [RTP May 2022]

Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2016. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long-term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 85 so that no long-term capital gain is taxable. She does not have any source of income in India during the T.Y. 2026-27. Is she required to furnish her return of income? If yes, can she furnish a belated return?

Illustration 17 [RTP Nov 2022]

Mr. Vikas, a resident in India aged 80 years, is having a house property in Mumbai. He has let out the house property to ABC Ltd. for a rent of ₹ 50,000 per month from 1.4.2026. He does not have any other source of income. Is Mr. Vikas required to file his return of income for T.Y. 2026-27. If yes, why?

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Illustration 18 [PYQ Sep 2024]

Answer the following:

(i) Vegetable Ltd. filed its return of income for the T.Y. 2026-27, on 15th December 2027. On 2nd January 2027, the accountant of Vegetable Ltd. realised that he had forgotten to claim a genuine business expenditure amounting to ₹ 15 lakhs. He wants to file revised return to claim such expenditure as the assessment is not yet completed. Whether the action of the accountant of Vegetable Ltd. is valid?

(ii) Mahendra, a resident individual aged 45 years earned a salary income of ₹ 2 crores during the F.Y. 2026-27. He also earned dividend from unlisted shares amounting to ₹ 4 lakhs. He wants to file his return of income for the T.Y. 2026-27 through a Tax Return Preparer. Can he do so?

Illustration 19 [PYQ May 2024]

State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 2025 for the Tax Year 2026-27:

(i) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 202 had a total income of ₹ 2,90,000 for the Tax Year 2026-27.

(ii) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the Tax Year 2026-27.

(iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the Tax Year 2026-27 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income.

Illustration 20 [RTP Sep 2024]

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

(i) The turnover of Mr. Ashish's business is ₹ 65 lakhs during the T.Y. 2026-27.

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(ii) Mr. Subhash has incurred a total expenditure of ₹ 90,000 towards consumption of electricity during the T.Y. 2026-27.

(iii) Mr. Deepak has savings bank account in SBI and HDFC and a current account in Axis Bank with opening balance of ₹ 20 lakhs, ₹ 10 lakhs and ₹ 30 lakhs, respectively. He deposited ₹ 40 lakhs in SBI account, ₹ 25 lakhs in HDFC account and ₹ 75 lakhs in Axis account during the T.Y. 2026-27

(iv) Mr. Kumar, aged 50 years, has withdrawn cash of ₹ 1,20,00,000 during the T.Y. 2026-27 from his saving account in HDFC Bank. Mr. Kumar regularly filed his return of income till T.Y. 2025-26.

CHAPTER 9: INCOME TAX LIABILITY COMPUTATION

Alternate Minimum Tax [Section 206(2)]

1. **Applicability:** AMT is applicable to All assessee except Company.

Income tax payable by any person, higher of	₹
1. Income Tax payable as per Normal Provision of Income Tax	-
2. 18.5% of Adjusted Total income (ATI)	-
[Surcharge (if applicable) + Cess @ 4%]	

2. **Calculation of ATI**

	₹
Total Income as per Normal provision of Income Tax	-
Add: Deduction u/s 46 (Specified Business capital expenditure)	-
Add: Deduction under chapter VIII-C except section 149	-
Less: Depreciation u/s 33 on specified business capital expenditure	-
ATI	-

3. **Other Points**
   a) **Non-Applicability of AMT**
      i. In case of Individual/ HUF/AOP/BOI/Artificial Judicial Person, AMT shall not be applicable if ATI is up to ₹ 20 lakhs
      ii. The provision of AMT doesn't apply if assessee is not claiming deduction u/s 46 and under chapter VIII-C (Except Section 149)
      iii. If assessee is opting for provisions of Sec 202, 203 & 204.
   b) All other provisions of IT Act like Advance tax, int u/s 423/424/425 shall apply to the Assessee.

4. **AMT Credit**
   a) If AMT > Normal Income tax then excess shall be treated as AMT credit.
   b) AMT credit can be C/F and set off for 15 years.
   c) Credit can be set-off in the year in which Normal Income tax is more than AMT.
   d) The credit allowed to be set off shall be lower of:
      i. Normal Income tax - AMT.

TELEGRAM: CA NOTE HUB

ii. Balance of AMT credit

TY	Normal Tax	AMT	Tax Payable	AMT Credit Set-off	AMT Credit Balance	Net Tax Payable
2024-25	1,00,000	1,50,000	1,50,000	-	50,000	1,50,000
2025-26	1,00,000	1,60,000	1,60,000	-	50,000 + 60,000 = 1,10,000	1,60,000
2026-27	1,90,000	1,40,000	1,90,000	50,000	1,10,000 – 50,000 =60,000	1,40,000
2027-28	1,70,000	1,90,000	1,90,000	-	60,000 + 20,000 = 80,000	1,90,000
2028-29	2,50,000	1,20,000	2,50,000	80,000	80,000 – 80,000 = 0	1,70,000

TELEGRAM: CA NOTE HUB

Illustration 01 [SM Ques.]

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 80,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the year 2026-27. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2027 and his parents live in that house.

Other Information

S. No.	Particulars	Amount (₹)
1	Contribution to Public Provident Fund (PPF)	1,50,000
2	Contribution to Pension Scheme referred to in Section 124	50,000
3	Medical Insurance Premium paid for father (aged 65 years)	55,000
4	Medical Insurance Premium paid for self and spouse	32,000

Compute the total income and tax liability of Mr. A for the T.Y. 2026-27 in the most beneficial manner.

Illustration 02 [SM Ques.]

Mr. Kadam is entitled to a salary of ₹ 41,000 per month. He is given an option by his employer either to take house rent allowance or a rent-free accommodation which is owned by the company. The HRA amount payable was ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advice Mr. Kadam whether it would be beneficial for him to avail HRA or Rent-Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits": Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 202.

Illustration 03 [SM Ques.]

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2026 and came to India for the first time on 16.03.2026. She left for USA on 19.9.2026. She returned to India again on 27.03.2027. While in India, she had purchased a show room in Mumbai on 30.04.2026, which was leased out to a company on a rent of ₹ 25,000 p.m. from 01.05.2026. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2027. She had received the following cash gifts from her relatives and friends during 1.4.2026 to 31.3.2027:

TELEGRAM: CA NOTE HUB

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000)

1. Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the T.Y. 2026-27 if she opts out of the default tax regime under section 202.
2. Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹ 18,00,000 and she is not liable to tax in USA?

Illustration 04 [SM Ques.]

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2027 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 45	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

1. Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
2. Clinic equipments are:

01.04.2026	Opening W.D.V.	₹ 5,00,000
07.12.2026	Acquired (cost) by cheque	₹ 2,00,000

TELEGRAM: CA NOTE HUB

3. Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2026, has been included in "administrative expenses".
4. She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
5. Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the year 2026-27.
6. She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
7. An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2027 for her medical insurance premium.

From the above, compute the total income of Dr. Niranjana for the T.Y. 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Illustration 05 [SM Ques.]

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2027 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled	1,37,000	Audit	27,88,000	
Assistants		Taxation services	15,40,300	
Incentive to articled	13,000	Consultancy	12,70,000	55,98,300
Assistants		Dividend on shares of X Ltd., anIndian company (Gross)		10,524
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers		15,800

TELEGRAM: CA NOTE HUB

Meeting, seminar and conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
Repair, maintenance and petrol of car	4,000			
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

1. Allowable rate of depreciation on motor car is 15%.
2. Value of benefits received from clients during the course of profession is ₹ 10,500.
3. Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
4. Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2026 to 30-09-2027.
5. Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
6. The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
7. Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
8. She invested an amount of ₹ 10,000 in National Saving Certificate.

Compute the total income and tax liability of Ms. Purvi for the T.Y. 2026-27 in a most beneficial manner.

Illustration 06 [SM Ques.]

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2027 revealed the following information:

1. The net profit was ₹ 11,20,000.
2. The following incomes were credited in the profit and loss account:
   - Income from UTI ₹ 22,000 (Gross)

TELEGRAM: CA NOTE HUB

- Interest on debentures ₹ 17,500 (Gross)
- Winnings from horse races ₹ 15,000 (Gross)

3. It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock	₹ 8,000.
Closing stock	₹ 12,000.

4. ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 45.
5. Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
6. Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
7. Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $^{3}/_{4}^{th}$ is for business purposes.
8. Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2027 for distribution of the company's product to the warehouses.
9. Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 2026 was ₹ 50,000.
10. Drawings of ₹ 10,000 debited in the books.
11. Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the T.Y. 2026-27 under optional tax regime as per normal provisions of the Act.

Illustration 07 [SM Ques.]

Balamurugan furnishes the following information for the year ended 31-03-2027:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	3,70,000
Long term capital gain u/s 197	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 202.

TELEGRAM: CA NOTE HUB

Illustration 08 [SM Ques.]

Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2026-27.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2026) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2027 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife) (paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2026 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2026 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2027) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

TELEGRAM: CA NOTE HUB

Following further information is given to you:

1. He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 2011-12, when the housing loan was taken.
2. Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
3. The written down value of assets as on 1-4-2026 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	₹ 80,000
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the T.Y. 2026-27 assuming that he has shifted out of the default tax regime under section 202.

Illustration 09 [SM Ques.]

From the following details, compute the total income and tax liability of Mr. Siddhant, aged 31 years, of Delhi both as per section 202 and as per the regular provisions of the Income-tax Act, 2025 for the T.Y. 2026-27. Advise Mr. Siddhant in which regime he should pay tax for T.Y. 2026-27:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2017, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000 @15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

TELEGRAM: CA NOTE HUB

	Particulars	(₹)
1	Municipal Taxes paid by Mr. Siddhant (per annum)	4,300
2	House Insurance	860
3	Profit from Share Speculation Business	2,700
	Loss from Cotton Speculation Business	(4,200)
4	Gift made to wife in F.Y. 2022-23	30,000
	Gift made to son (aged 11 years) in F.Y. 2022-23	20,000
	Gifted amounts advanced to Mr. Rajesh carrying interest @ 19% p.a.	—
5	Gift received from four friends (₹30,000 each)	1,20,000
6	Contribution to Public Provident Fund (PPF)	50,000

Illustration 10 [SM Ques.]

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2027:

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lakhs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2026 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2026 and interest of ₹ 7,540 from the debentures of Indian Companies on 5.5.2026.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.

TELEGRAM: CA NOTE HUB

- Donations of ₹ 11,000 to an institution approved u/s 133 and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute his total income and tax liability thereon for the T.Y. 2026-27. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 202.

Illustration 11 [SM Ques.]

From the following particulars furnished by Mr. X for the year ended 31.3.2027, you are requested to compute his total income and tax payable for the T.Y. 2026-27, assuming that he opts out of the default tax regime under section 202.

1. Mr. X retired on 31.12.2026 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
2. He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
3. On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
4. He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
5. After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2027.
6. Mr. X has deposited ₹ 1,00,000 in public provident fund.

Illustration 12 [SM Ques.]

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the year ended 31.3.2027:

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land on 15.5.2026 at Mumbai taxable	1,00,000	1,00,000

TELEGRAM: CA NOTE HUB

4.	Short-term capital gain on sale of shares on 23.4.2026 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the T.Y. 2026-27 and tax thereon assuming both exercised the option to shift out of the default tax regime.

Illustration 13 [SM Ques.]

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

1. Depreciation ₹ 15,40,000
2. Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
3. He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
4. Dividend income from Indian companies ₹ 15,00,000

Additional information –

1. Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2026 which was put to use on 1.1.2027. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 2026.
2. Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2026 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2027 has been paid on 31.3.2027 and the same has been debited to profit and loss account.
3. Advance tax paid during the year is ₹ 17,50,000
4. Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.

TELEGRAM: CA NOTE HUB

5. He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2020.
6. He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
7. On 1.7.2026, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

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

Illustration 14 [SM Ques.]

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2027:

1. He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
2. As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2020.
3. He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2020-21. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2027. This industrial undertaking fulfills all the conditions of section 144 of the Income-tax Act, 2025. Profit from this industry is ₹ 40 lakhs.
4. He employed 20 new employees for the said industrial undertaking during the year 2026-27. Out of 20 employees, 12 were employed on 1st May 2026 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2026 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.

TELEGRAM: CA NOTE HUB

5. He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
6. He also sold his vacant land on 01.12.2026 for ₹ 16 lakhs. The stamp duty value of land at the time of transfer was ₹ 17 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time. CII – F.Y. 2001-02: 100; F.Y. 2026-27: 400.
7. He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the T.Y. 2026-27 under default tax regime.

Illustration 15 [SM Ques.]

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2020-21 for production of washing machines. The unit fulfills all the conditions of section 144 of the Income-tax Act, 2025. During the financial year 2025-26, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 46. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2026 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.
Relevant details for the F.Y. 2026-27 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2027	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 46)	1,05,00,000

Compute income-tax (including AMT) liability of Mr. X for T.Y. 2026-27 both as per section 202 and as per regular provisions of the Income-tax Act, 2025 for T.Y. 2027-28. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

TELEGRAM: CA NOTE HUB

Illustration 16 [RTP Jan 2026]

Mr. Vaibhav, a resident individual aged 46 years, engaged in the business of plywood and sculptures, maintains his books of account under section 63. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended on 31.3.2027 shows a net profit of ₹ 51,42,000 after debiting/ crediting the following:

1. During the year, Mr. Vaibhav had taken professional services from a lawyer in relation to a business dispute. The legal fees were amounted to ₹ 1,00,000. Tax has been deducted on time but did not deposit it with the government within the due date. The TDS was later on deposited on 15th November 2027.
2. Vaibhav had renovated his office by engaging in the services of his brother, as the existing office premises had become very old and required refurbishment. The total payment made for the renovation amounted to ₹ 2,50,000 which is reasonable to the extent of ₹ 1,50,000
3. He purchased goods worth ₹ 30,000 from Vishnu & Co., a micro enterprise, on March 01, 2026. According to the written agreement between them, the payment was to be made by 05th April 2027. However, he made payment to Vishnu & Co on 15th April 2027.
4. Depreciation as per profit and loss account is ₹ 13,66,000.

Additional Information:

a) As per restructuring agreement with the bank, the bank has converted unpaid interest of ₹ 6,00,000 into a new loan account repayable in 20 equal annual installments. The first installment was paid in March 2027. Vaibhav claimed the entire interest amount of ₹ 6,00,000 as an expense while computing his business income.

b) Depreciation as per Income-tax Rules, 2026 is ₹ 12,00,000.

c) He contributed ₹ 50,000 towards Tier I account of NPS during the year. Further, he has invested in five-year term deposit of ₹ 1.5 lakhs.

d) He employed 90 new employees during the T.Y. 2026-27, the details of whom are as follows:

No. of employees	Date of employment	Regular / Casual	Total monthly emoluments per employee (₹)
20	1.4.2026	Regular	24,000
25	1.5.2026	Casual	24,500
30	1.8.2026	Regular	26,000

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15	1.9.2026	Casual	23,500

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

e) Mr. Vaibhav had sculptures in the form of capital assets acquired in January 2016, for ₹ 1,80,000. Later on, in F.Y. 2025-26, he started sculpture business and converted these capital assets into stock- in-trade for his business. Fair market value at the time of conversion was ₹3,50,000. Subsequently, he sold the stock-in-trade on June 10, 2025, for ₹ 5,00,000. No entry has been made in books for conversion and sale of converted sculptures.

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

Illustration 17 [RTP May 2026]

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

1. ₹ 25,000 paid to creditor for goods in cash.
2. Gross interest received from saving bank account ₹ 15,000.
3. Contribution to notified approved research association for scientific research ₹ 1,10,000.
4. He paid a job charges for the value addition on the fabrics ₹ 1,10,000 without deduction of tax to job worker by an account payee cheque.
5. Normal depreciation of ₹ 4,50,000 as per Income-tax Rules, 2026 including depreciation on ₹ 15 lakhs, being the cost of new machinery purchased and put to use on 01-09-2026.
6. Subsidy of 20% on new machinery under technology upgradation fund Scheme from the Central Government which was credited to profit and loss account.
7. Insurance expenses include ₹ 50,000 deposited with life insurance Corporation of India for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.
8. General expenses include revenue expenditure incurred for promoting family planning amongst its employees of ₹ 75,000.
9. On 01-03-2027, Mr. Yuvaan purchased raw material for ₹ 30,000 from Kanha & Co., a medium enterprise as per MSMED Act, 2006, for which the payment was made on 18-04-2027. There was no agreement for payment period between them.

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Additional Information:

a) Mr. Yuvaan repaid housing loan principal and interest of ₹ 75,000 and ₹ 80,000 respectively, availed for purchase of let-out house property.
b) He received rent of ₹ 3,50,000 from his let-out house property. The municipal taxes of ₹ 40,000 for this house was paid by him on 30-04-2027.
c) He received ₹ 75,000 by pre-mature withdrawals from deposit including interest ₹ 5,000, in post office time deposit, eligible for deduction under Section 123.
d) He sold a gold bracelet on 01-05-2026 for ₹ 5,00,000, which was acquired for ₹ 40,000 on 01-03-2006. A diamond was embedded onto bracelet on 01-05-2008 of ₹ 50,000.

Required:

Compute the total income and tax liability of Mr. Yuvaan for the tax year 2026-27 under default tax regime and optional tax regime.
The turnover of the business for the financial year 2025-26 is ₹ 250 lakhs and for F.Y. 2026-27 is ₹ 300 lakhs.

Illustration 18 [RTP Jan 2026]

Mr. K is a 48-year-old resident individual. The details of income earned for the T.Y. 2026-27 from diversified businesses and investment portfolio are as under:

1. He runs two businesses:
   - A manufacturing business with profit of ₹ 10,00,000.
   - A speculative business with loss of ₹ 7,00,000.
2. He incurred a loss of ₹ 2,15,000 from a let-out property and also earned an income of ₹ 50,000 from the activity of owning and maintaining race horses. For earning this income, he incurred an expense of ₹ 5,000.
3. He has earned short-term capital gains of ₹ 50,000 from equity shares sold on 10.05.2026 on which STT was paid, and long-term capital loss of ₹ 75,000 from other assets sold on 15.10.2026.
4. Mr. K took divorce from his wife in April 2026 and the custody of their minor son is given to Mrs. K. Following the divorce, he transferred ownership of house property to his wife. During the financial year, the property generated rental income of ₹ 5,00,000.

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5. Mr. K deposits cash of ₹ 50,000 every month into the bank account of his minor son. During the T.Y. 2026-27, interest income of ₹ 25,000 is generated in his son's bank account.
6. He has also contributed a sum of ₹ 2 lakh to an electoral trust and incurred expenditure of ₹ 30,000 on advertisement in a brochure of a political party.
7. He authored an investment portfolio book and received royalty income of ₹ 4,10,000 during the T.Y. 2026-27 from a publisher in Germany. The royalty is calculated at 16% of book sales value. He incurred ₹ 60,000 as expenditure for earning this income. Out of the total royalty, ₹ 2,90,000 was remitted to India by 31st August 2027, and the balance remained in abroad till 30.9.2027.

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

Illustration 19 [RTP Sep 2025]

Mr. Shobhit, a resident individual aged 54 years, engaged in the manufacture of spare parts of cars. He follows the mercantile system of accounting and regularly files his return of income. The profit and loss account for the year ended 31.3.2027 shows a net profit of ₹ 57,25,000 after debiting/ crediting the following:

1. During the year, Mr. Shobhit purchased plant and machinery for ₹ 55 lakhs for which he took loan from a scheduled bank. (Date of loan 1.5.2026 and rate of interest 11% p.a.). The asset was acquired on 1.7.2026 and put to use on 1.9.2026. The entire interest amount is debited to the profit and loss account.
2. On 1.4.2026, the production manager working in the factory of Mr. Shobhit took voluntary retirement from the services. Mr. Shobhit paid him ₹ 8,00,000 as compensation for his services under the Voluntary Retirement Scheme.
3. Mr. Shobhit purchased raw material from M/s Kamal & Sons, a micro enterprise, and M/s Hitesh & Sons, a medium enterprise, for ₹ 51,000 and ₹ 75,000, respectively on 15.3.2027. As per the written agreement with them, both the payment has to be made by 10.4.2027. Mr. Shobhit made the payment to M/s Kamal & Sons on 9.4.2027 and to M/s Hitesh & Sons on 15.11.2027.
4. He contributed 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD which is debited to the profit and

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loss account. Basic salary of the employees aggregate to ₹ 10 lakhs and dearness allowance is 40% of basic salary and it forms part of retirement benefit.

5. Depreciation debited to profit and loss account is ₹ 27,50,000.
6. He received ₹ 13,850 as income-tax refund out of which ₹ 3,850 is interest on refund. The entire amount is credited to profit and loss account.

Additional Information:

a) Mr. Shobhit purchased a new computer on 31st August, 2026 and was put to use on the same day in his office. The payment was made as under:
   - ₹ 28,000 paid in cash at the time of purchase of new computer on 31/08/2026
   - ₹ 25,000 paid by account payee cheque on 05/09/2026 as balance cost of new computer

b) WDV (as per the Income-tax Act, 2025) of different assets as on 1.4.2026:
   Plant and machinery ₹ 8,00,000;
   Factory Building ₹ 6,45,000

c) He paid ₹ 50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is ₹ 8,00,000 and the policy was taken on 1.4.2016.

d) He also paid ₹ 45,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2018.

e) On 1.10.2026, he withdrew ₹ 1.50 crores in cash from two current accounts maintained by him with PNB Bank of India. There are no other withdrawals during the year.

f) Mr. Shobhit had sold a house on 30th March, 2024 and deposited the long-term capital gains of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st July, 2026, he sold another house property in which he resided for ₹ 1 crore. He earned a long-term capital gain (without indexation benefit) of ₹ 50,00,000 on sale of this property. On 5th January, 2027, he withdrew the whole money out of his capital gain account and invested ₹ 60 lakhs on construction of a house in Mumbai. The construction of the house completed on 23rd March 2027. cost of acquisition of the house property is ₹ 60 lakhs.

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

Illustration 20 [PYQ Jan 2025]

Mr. Rohit, a resident individual, aged 65 years, is a qualified medical practitioner. He runs his own clinic. Income & Expenditure A/c of Mr. Rohit for the year ending March 31st 2027 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	8,20,000	By Consultation Fees	22,00,000
To Administrative Expenses	5,90,000	By Salary received from Care Hospital Pvt. Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from HP	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & notified u/s 45	25,000		
To Net Profit	8,59,000		
Total	24,68,000	Total	24,68,000

Following is the further information relating to Financial Year 2026-27:

1) He is working part-time with Care Hospital Pvt. Ltd. His Salary details are as under:

Basic Pay	₹ 13,000 p.m.
Transport Allowance	₹ 2,000 p.m.
Total	₹ 15,000 p.m.

Further, during T.Y. 2026-27 his son had undergone a medical treatment in Care Hospital Pvt. Ltd. free of cost. The hospital would have charged a sum of ₹ 1,00,000 for a similar treatment to unrelated patients.

2) He owns a residential house. The ground floor of the house (50% portion) is self-occupied by him while first floor of the house (50% portion) has been rented out

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since 01/10/2026. The reconstruction of the entire house was started on 01.04.2026 and was completed on 30.09.2026. The monthly rent is ₹ 10,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. He took a housing loan of ₹ 12 lakhs on 01.04.2026. Interest on housing loan for the period 01.04.2026 to 30.09.2026 was ₹ 60,000 and for the period 01.10.2026 to 31.03.2027 was ₹ 40,000.
During the year, he also paid municipal taxes for the F.Y. 2025-26 ₹ 4,000 and F.Y. 2026-27 ₹ 6,000.

3) Other Information:
   a) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Rohit, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rate is ₹ 20,000 per month.
   b) Conveyance expenses include a sum of ₹ 12,000 incurred for conveyance from house to Care Hospital Pvt. Ltd. and vice-versa in relation to his employment.
   c) Power and fuel expenses include a sum of ₹ 6,000 incurred for generator fuel for providing power back up to the tenant.
   d) Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for his house.
   e) Clinic Equipment details are:
      Opening W.D.V. of Clinic Equipment as on 01.04.2026 was ₹ 1,00,000 and fresh purchase made on 28.08.2026 for ₹ 25,000 which was paid in cash.
   f) He also paid tuition fees of ₹ 40,000 for his Grand Daughter, which is debited to his capital a/c.
   g) He availed a loan of ₹ 8,00,000 from bank for higher education of his son. He repaid principal of ₹ 50,000 and interest of ₹ 26,000 during T.Y. 2026-27.

You are required to compute his net taxable income and net tax liability for the T.Y. 2026-27 if he has exercised the option of shifting out of the default tax regime.

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Illustration 21 [RTP May 2025]

Mr. Ganesh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing furniture. He is subject to tax audit under Income-tax Act, 2025. He has provided following information:

Profit & Loss account for the year ended 31st March, 2027

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	64,30,000	By Gross Profit	2,57,30,000
To Salaries & wages	80,00,000	By Winning from lottery (Net of TDS @30%)	31,500
To Interest on loans	7,50,000	Bad debt recovered	3,00,000
To Depreciation	6,17,000		
To Professional fees	12,70,000		
To Rent, rates & taxes	22,80,000		
To Travelling & Conveyance	11,40,000		
To Loss on sale of asset for scientific research	2,00,000		
To Net Profit	53,74,500		
	2,60,61,500		2,60,61,500

Other information:

1. Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 14,50,000 and Closing stock of ₹ 15,58,000 was shown.
2. Salaries & wages include following items:
   a) Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ramesh who has withdrawn basic salary of ₹ 5,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
   b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 3,40,000 was paid to them on 1st January, 2026.
3. Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 which was taken from State Bank of India on 01.05.2022 for purchase of new electric car of ₹ 15,00,000. The car is used for personal purpose. No amount is repaid so far.
4. Depreciation allowable as per Income-tax Rules, 2026 is ₹ 4,50,000 but during the calculation of such depreciation following addition was not considered:

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Motor car purchased for ₹ 3,00,000 for supply of finished goods to dealers on 25-08-2026.

5. An asset was purchased for ₹ 6,00,000 on 23.7.2023 for conducting scientific research and the deduction was claimed under section 45 of the Income-tax Act, 2025. This asset was sold on 05-09-2026 for a consideration of ₹ 4,00,000.
6. Administrative expenses include expenditure of ₹ 1,75,000, paid to a scientific research association approved under section 45. Out of ₹ 1,75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.
7. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2020-21. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for tax year 2020-21.

Compute the total income and tax liability of Mr. Ganesh for the tax year 2026-27 assuming that he wants to pay tax under section 202.

Illustration 22 [PYQ Sep 2024]

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹ 8 lakhs as on April 1, 2025. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the year ended on March 31, 2027 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

1. Travelling expenses includes ₹ 2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which ₹ 40,000 is incurred in Indian currency and ₹ 2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.
2. Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.
3. General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
4. Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2026.

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5. Expenditure of ₹ 75,000, was paid to a scientific research association approved under section 35. Out of ₹ 75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.
6. He let out first floor of his commercial building to Mr. Aman on April 1, 2026 and received rent of ₹ 35,000 per month. Municipal taxes ₹ 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹ 10,000 (relating to ground floor) was debited to the statement of profit and loss.
7. He sold a piece of commercial land for ₹ 44 lakhs on 12th April, 2026. He had acquired the land for 40 lakhs on 1st January, 2025. The gain of 4,00,000 is credited to the statement of profit and loss.

Additional Information:

1. Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹ 49,000 on March 10, 2027. However, the payment to M/s. Paul Industries was made on April 5, 2027 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹ 1,34,000 in cash on April 5, 2027 for purchase of raw material on March 31, 2027. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
2. Mr. Raman acquired a registered trademark on July 15, 2026 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2027. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
3. Mr. Raman bought a car for personal use on 12th April, 2023 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2026. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.
4. He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2026.
5. He has paid tuition fees of ₹ 25,000 for the education of his daughter to a college.
6. During the year, Mr. Raman has incurred ₹ 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and ₹ 4,500 was for his parents who are super senior citizens.
7. Donation paid to a registered political party by way of cheque ₹ 20,000.

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Compute the total income and tax payable for tax year 2026-27 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman?

Illustration 23 [PYQ Nov 2022]

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2027.

Receipts	₹	Payments	₹
Op. Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2025 received in April, 2025		Entertainment Expenses	1,10,000
IPD 40,000 OPD 45,000	85,000	Purchase of Television	48,000
Dividend from shares (net)	18,900	Gift to daughter-in-law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c.	55,000
Income Tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof, fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

(a) He keeps his books of accounts on cash basis and has not opted for the provisions of section 58.

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(b) Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.

(c) Entertainment expenses include ₹ 25,000 for dinner to doctors in a five-star hotel.

(d) Interest on loan for repairs to property includes ₹ 40,000 for his residential property.

(e) His daughter in law earned income of ₹ 10,000 from the amount received as gift.

(f) Fixed Assets values as on 01.04.2026 are as under: -

Nursing Home Equipment's	₹ 2,20,000
Medical Books (incl. annual publications ₹ 10,000)	₹ 35,000
Laptop	₹ 40,000.

(g) Television purchased for nursing home purpose on 21.09.2026 is put to use on 03.10.2025.

(h) He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2026.

You are required to:
Compute the total income and tax payable by him for T.Y. 2026-27 as per the regular provisions of the Income-tax Act, 2025. Assume that he has not opted for section 202.
What will be his total income and tax payable, if he opts for the provisions of section 58 Will it be more beneficial for him to adopt Section 58?

Illustration 24 [MTP May 2022]

From the given information, you are required to compute the tax payable by Mr. Akash, a manufacturer and distributor of fertilizers and other agricultural products, aged 61 years, for the T.Y. 2026-27.

Trading and Profit and Loss Account of Mr. Akash

Particulars	Amount (in ₹)	Particulars	Amount (in ₹)
To Opening Stock	24,21,000	By sales	3,12,50,100
To Purchases	2,28,00,500	By Closing stock	26,00,100
To Direct expenses	4,12,040		
To Freight inward	2,92,000		
To Gross Profit c/d	79,24,660		
	3,38,50,200		3,38,50,200

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To Salaries and wages	17,12,000	By Gross Profit b/d	79,24,660
To General expenses	3,65,000	By Dividend income from Indian companies (Gross)	17,20,000
To Rates and taxes	2,20,000	By Interest received on FDs (Net of tax)	1,08,000
To Interest paid On late payment of GST	2,845	By Rent received	7,20,000
To Income-tax paid for F.Y. 2025-26	3,45,000	By Income-tax refund	18,000
To Interest paid to NBFC	1,20,000		
To Depreciation	1,82,000		
To Net Profit	75,43,815		
	1,04,90,660		1,04,90,660

Additional information:

(i) Closing stock of F.Y. 2026-27 was undervalued by ₹ 25,000.

(ii) Rates and taxes include ₹ 1,000 paid towards late filing of his Income-tax return for Tax Year 2025-26 under section 428 of income-tax Act.

(iii) Salaries include ₹ 15,000 paid on single day by way of cash to his accountant.

(iv) Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while payment of interest.

(v) An amount of ₹ 45,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.

(vi) General expenses include advertisement expense of ₹ 20,000 paid by cheque towards an advertisement in a souvenir published by local political party.

(vii) Income-tax refund includes ₹ 2,000 towards interest.

(viii) Depreciation charged is as per Income-tax Rules, however, it does not include depreciation on a new Maruti Van purchased and put to use on 23rd September, 2026 for his business use. The cost of the vehicle is ₹ 2,10,000.

(ix) Advance Tax paid during the year is ₹ 15 lakhs.

(x) Turnover for the year ending 31.03.2026 was ₹ 3.08 crores.

(xi) Tax has been deducted at source on income, wherever required.

Mr. Akash does not want to opt for the provisions of section 202.

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Illustration 25 [RTP Sep 2024]

Mr. Anand, a resident Indian aged 45 years, has provided you the following information for the year ended on 31.03.2027

(i) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 200 lakhs. Export turnover received in India in convertible foreign exchange on or before 30.9.2027 is ₹ 120 lakhs. This industrial undertaking fulfills all the conditions of section 144 of the Income-tax Act, 2025. Profit from this industry is ₹ 35 lakhs.

(ii) Mr. Anand sold equity shares of different Indian companies on 14th March, 2027:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares	FMV as on 31.1.2018
Sam Ltd.	₹ 150	₹ 120 (STT paid at acquisition)	2nd Feb, 2027	2000	-
Jam Ltd.	₹ 100	₹ 72 (STT paid at acquisition)	16th April, 2017	1250	50

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration.

(iii) He made payment of ₹ 90,000 on 1.9.2026 vide cheque towards medical insurance as lumpsum premium for himself and his wife till 31.8.2030. He also made cash payment of ₹ 7,500 towards preventive health checkup for himself and his wife.

(iv) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 16% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2027 is ₹ 2,50,000.

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(v) He received income-tax refund of ₹15,750 (including interest ₹ 1,750) relating to the T.Y. 2025-26.

(vi) He occupies ground floor of his residential building and has let out first floor for residential use for a monthly rent of ₹ 15,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both floors are of equal size. He has taken a loan from bank of ₹ 50 lakhs for the construction of this property in 2020 and has repaid ₹ 2,05,000 (including interest ₹1,00,000) during the year 2026-27.

(vii) Mr. Anand deposited ₹ 1,30,000 in Public Provident Fund and ₹ 80,000 in 5 years term deposit in the name of his minor son, Aman.

You are required to compute the total income and tax liability of Mr. Anand under default regime as well as under normal provisions for the T.Y. 2026-27. Ignore AMT provisions.

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