VG STUDY HUB

# TAXATION EXAM TRAP

## THE LAST-DAY 100

100 Essential Practical Traps for Final Revision

TRAP
ANALYSE
REVISE
CLEAR

CONCEPT
TWIST
APPLICATION
EXAM READY



**Before the Exam, Revise These 100.**

By CA Vivek Gaba

*Your Gaba (VG) Sir*

Relevant for - December 2026 & Jan 2027 Exams

# Taxation Exam TRAP

**100 PRACTICAL TRAPS | LAST-DAY POCKET BOOK**

**Book Prepared by CA Vivek Gaba** | Your Gaba(VG) Sir

Read the left column, then the right. Each trap ends with a clear final result.

## Chapter 1: Basic Concepts

### Trap 1 | ₹12 lakh is the rebate limit, not the nil slab

**Question trap:** A Hindu undivided family and a resident individual each have only ₹8 lakh of ordinary taxable income under the default scheme.
**Student mistake:** The student gives both taxpayers a full rebate.

**Final result:** The nil slab ends at ₹4 lakh. The family pays ₹20,000 tax plus ₹800 cess. Only the resident individual gets the section 87A rebate: maximum ₹60,000 when total income does not exceed ₹12 lakh.

### Trap 2 | Special-rate income can leave tax payable below ₹12 lakh

**Question trap:** A default-scheme resident individual has ₹10 lakh ordinary taxable income and ₹2 lakh section 111A share gains from this year.
**Student mistake:** The student excludes the gains from the rebate limit or rebates their tax.

**Final result:** Total income is ₹12 lakh. Rebate removes the ₹40,000 slab tax. The ₹40,000 special-rate tax remains, plus ₹1,600 cess. Tax payable is ₹41,600. The rebate cannot remove tax on these special-rate gains.

### Trap 3 | A small excess above ₹12 lakh needs marginal relief

**Question trap:** A resident individual has only ₹12,10,000 ordinary taxable income under the default scheme.
**Student mistake:** The student charges the entire ₹61,500 slab tax.

**Final result:** The excess above ₹12 lakh is ₹10,000. Section 87A marginal relief of ₹51,500 leaves ₹10,000 tax plus ₹400 cess: total ₹10,400. This example has no special-rate income; do not apply its shortcut blindly where such income is present.

### Trap 4 | The old-scheme ₹5 lakh rebate limit has no similar relief

**Question trap:** An old-scheme resident individual below age 60 has only ₹5,00,010 ordinary taxable income.
**Student mistake:** The student gives rebate because the limit is exceeded by only ₹10.

**Final result:** No rebate is available. Tax before cess is ₹12,502. Old-scheme rebate requires total income not exceeding ₹5 lakh and gives no corresponding marginal relief above that limit. Non-residents cannot claim this rebate or an age-based higher basic exemption.

## Chapter 1: Basic Concepts (continued)

### Trap 5 | Specified capital gains can change the surcharge rate

**Question trap:** An individual has ₹1.8 crore ordinary income and ₹40 lakh of capital gains taxable under section 112.
**Student mistake:** The student charges 25% surcharge on every tax component.

**Final result:** Use 15% surcharge here: only the specified gain takes total income above ₹2 crore. Surcharge applies to tax. Tax on dividends and gains under sections 111A, 112 and 112A has a 15% surcharge ceiling. Check surcharge marginal relief separately.

### Trap 6 | Exempt agriculture can still increase tax on other income

**Question trap:** An old-scheme resident individual below 60 has ₹6 lakh ordinary taxable income and ₹1 lakh net agricultural income.
**Student mistake:** The student ignores agriculture while calculating tax.

**Final result:** Partial integration applies: agriculture exceeds ₹5,000 and other income exceeds the basic exemption. Tax on ₹7 lakh is ₹52,500. Subtract ₹5,000, the tax on ₹1 lakh agriculture plus ₹2.5 lakh basic exemption. Tax is ₹47,500 before cess.

### Trap 7 | Round total income and the final balance at different stages

**Question trap:** Total income is ₹8,25,005. The tax computation also includes deductions, rebate and tax already deducted.
**Student mistake:** The student subtracts rebate from income or rounds each intermediate figure.

**Final result:** Round total income to ₹8,25,010. Deductions reduce income; rebate reduces tax. After tax, rebate, surcharge and applicable relief, add 4% cess. Then subtract tax credits. Round final payable or refund to the nearest ₹10; ₹5 rounds upwards.

### Trap 8 | Tea, rubber and coffee percentages apply to profit

**Question trap:** Tea grown and manufactured in India has sales of ₹18 lakh and allowable costs of ₹8 lakh.
**Student mistake:** The student takes 40% of sales as business income.

**Final result:** Composite income is ₹10 lakh. Split it into ₹4 lakh business income and ₹6 lakh agriculture. Business shares are tea 40%, qualifying rubber 35%, coffee grown and cured 25%, and coffee also roasted and ground 40%. A mere trader cannot use these splits.

## Chapter 2: Residential Status

### Trap 1 | Check both day tests and the foreign-employment exception

**Question trap:** A foreign citizen without Indian origin stays 70 days this year and 400 days during the preceding four years.
**Student mistake:** The student uses only the 182-day test and calls the person non-resident.

**Final result:** The person is resident: the alternative requires both 60 current-year days and 365 earlier days. For an Indian citizen leaving for foreign employment, replace 60 with 182. Thus, 175 days would fail the physical-stay tests.

### Trap 2 | A visiting citizen needs more than 120 days alone

**Question trap:** An Indian citizen visits from abroad for 130 days, has ₹18 lakh relevant income and spent 400 days here in the preceding four years.
**Student mistake:** The student checks only the 120-day condition.

**Final result:** Both 120 current-year days and 365 earlier days are required. This visitor is resident but not ordinarily resident. At exactly ₹15 lakh, use 182 days instead. For the ₹15 lakh test, include foreign income from a business controlled, or profession set up, in India.

### Trap 3 | Ordinary residence needs both history conditions

**Question trap:** A current-year resident was resident in three of the preceding ten years but stayed only 700 days in the preceding seven years.
**Student mistake:** The student passes the first history test and stops.

**Final result:** The person is resident but not ordinarily resident. Ordinary residence needs residence in at least two preceding years out of ten AND at least 730 days in the preceding seven years. Special visitor and deemed-resident rules take priority.

### Trap 4 | Paying no foreign tax does not prove deemed residence

**Question trap:** An Indian citizen fails the physical-stay tests, has ₹20 lakh relevant income and paid no foreign tax.
**Student mistake:** The student automatically treats the person as deemed resident.

**Final result:** Check legal liability abroad because of residence, domicile or a similar reason. If absent everywhere, the citizen is deemed resident but not ordinarily resident. Nil payment due to deductions or exemption is not enough. Relevant income excludes statutory foreign-source income.

## Chapter 2: Residential Status (continued)

### Trap 5 | Foreign business profit and old savings are different

**Question trap:** A resident but not ordinarily resident earns foreign profit from an India-controlled business and transfers old foreign savings to India.
**Student mistake:** The student excludes the business profit but taxes the savings transfer.

**Final result:** Include the foreign business profit. Generally exclude unrelated foreign interest earned and first received abroad. Bringing old savings to India does not itself create new income. First receipt and a later bank transfer are different events.

## Chapter 3: Salaries

### Trap 1 | Salary due next month

**Question trap:** The employee joins on 1 April 2025. Monthly salary becomes due next month, with no early payment.
**Student mistake:** The student automatically taxes twelve months in the first year.

**Final result:** Tax eleven months for financial year 2025-26. March salary becomes due in April 2026. Salary is taxable when due or received, whichever happens first. An advance already taxed on receipt must not be taxed again when it becomes due.

### Trap 2 | Two employers still mean one standard deduction

**Question trap:** The employee changes jobs and receives salary from two employers during the year.
**Student mistake:** The student claims a separate standard deduction from each employer's salary.

**Final result:** Combine taxable salary and allow one annual deduction: up to ₹50,000 under the normal regime or ₹75,000 under the default regime. It cannot exceed salary. Pension from a former employer shares this limit. Family pension is separately taxable under Income from Other Sources.

### Trap 3 | Entertainment allowance and professional tax

**Question trap:** A government employee has ₹3 lakh basic salary, ₹18,000 entertainment allowance and ₹2,400 employer-paid professional tax. Another ₹600 professional tax remains unpaid.
**Student mistake:** The student deducts actual entertainment spending and unpaid tax.

**Final result:** Under the normal regime, include the allowance. Deduct the least of ₹18,000, ₹5,000 and 20% of basic salary: ₹5,000. Add employer-paid professional tax, then deduct ₹2,400. Unpaid tax is not deductible. Under the default regime, retain both additions but allow neither deduction.

## Chapter 3: Salaries (continued)

### Trap 4 | House rent allowance: check city and salary

**Question trap:** The rented home is in Ghaziabad; salary includes bonus and turnover commission.

**Student mistake:** The student applies Delhi's 50% limit and includes bonus in exemption salary.

**Final result:** Under the normal regime, exempt the least of allowance received, rent minus 10% of salary, and 40% of salary. Only Delhi, Mumbai, Kolkata and Chennai use 50%. Include basic pay, retirement-benefit dearness allowance and fixed-percentage turnover commission in salary; exclude bonus. The default regime gives no exemption.

### Trap 5 | Leave encashment: cap the earned leave

**Question trap:** A private employee retires after twenty years, with forty days' annual entitlement and 420 leave days used.

**Student mistake:** The student uses the employer's entire leave balance.

**Final result:** Cap leave at thirty days per service year: 600 - 420 = 180 days. Exempt the least of receipt, remaining ₹25 lakh ceiling, ten months' average salary and unused-leave value. Use preceding ten months' basic pay, retirement-benefit dearness allowance and turnover commission. Earlier exemption reduces the ₹25 lakh ceiling.

### Trap 6 | Gratuity: exactly six months does not round up

**Question trap:** An employee covered by the Gratuity Act serves eighteen years and six months; monthly basic pay plus dearness allowance is ₹52,000.

**Student mistake:** The student rounds service up to nineteen years.

**Final result:** Count eighteen years. Round up only when the fraction exceeds six months. The formula gives 15 ÷ 26 × ₹52,000 × 18 = ₹5,40,000. Exempt the least of this amount, actual gratuity and the available ₹20 lakh ceiling.

### Trap 7 | Pension: first find the full commuted value

**Question trap:** A private employee receives gratuity and ₹4,80,000 for commuting 40% of the pension.

**Student mistake:** The student exempts one-third of the ₹4,80,000 receipt.

**Final result:** The full commuted value is ₹4,80,000 ÷ 40% = ₹12 lakh. With gratuity, one-third of this full value is exempt: ₹4 lakh. Taxable pension is ₹80,000. Without gratuity, the exemption fraction is one-half, limited to the receipt. Remaining monthly pension is normally taxable salary.

## Chapter 3: Salaries (continued)

### Trap 8 | Provident fund: excess contribution is not income

**Question trap:** The employee contributes ₹3,40,000 to a recognised provident fund; the employer also contributes.

**Student mistake:** The student taxes the ₹90,000 excess contribution again as income.

**Final result:** Tax only interest attributable to employee contributions above ₹2.5 lakh under Other Sources. Without employer contribution, this threshold is ₹5 lakh. Separately, employer contribution above 12% of defined salary and recognised-fund interest above 9.5% are taxable under Salary. The employee's excess principal is not fresh income.

### Trap 9 | Leave travel: a hotel bill is not travel fare

**Question trap:** For the employee's eligible January 2026 Indian journey, the employer reimburses ₹30,000 permitted fare and ₹20,000 hotel costs.

**Student mistake:** The student exempts ₹50,000 and uses financial-year travel blocks.

**Final result:** Under the normal regime, exempt ₹30,000 and tax ₹20,000. The default regime exempts nothing. Blocks use calendar years: 2022-25 and 2026-29. One unused journey from 2022-25 must be used in 2026; it does not use either regular journey of 2026-29.

### Trap 10 | Employer-owned house: check the population boundary

**Question trap:** A private employer first provides its house in a city with exactly 15 lakh people.

**Student mistake:** The student puts the city in the 7.5% band.

**Final result:** Use the 2011 census. Exactly 15 lakh uses 5%; above 15 lakh up to 40 lakh uses 7.5%; above 40 lakh uses 10%. With ₹10 lakh occupation-period salary, the unfurnished value starts at ₹50,000. Deduct housing rent recovered and add the net furniture value separately.

### Trap 11 | Car benefit: ownership changes the formula

**Question trap:** For six months, an employee-director gets an employer-owned 1.5-litre car for official and personal use, with employer-paid running costs and driver.

**Student mistake:** The student taxes actual expenditure instead of the prescribed benefit.

**Final result:** Use ₹1,800 plus ₹900 for the driver monthly: ₹16,200 for six months. For an employee-owned car used for both purposes, deduct the prescribed official-use allowance from reimbursement instead. Wholly official use needs journey records and employer certification.

## Chapter 3: Salaries (continued)

### Trap 12 | Employer gifts: combine the annual value

**Question trap:** The employee receives noncash employer gifts of ₹3,000 and ₹4,000 during the year.

**Student mistake:** The student checks each gift separately or taxes only the excess over ₹5,000.

**Final result:** Total gifts are ₹7,000. Under the rule-based approach, annual noncash gifts below ₹5,000 have nil value; at ₹5,000 or more, the whole value is taxable. Here, tax ₹7,000. Cash gifts are fully taxable. ICAI also notes the ₹2,000 excess-only view; state which view you use.

### Trap 13 | Laptop use and transfer are different

**Question trap:** An ₹80,000 employer laptop is sold to the employee for ₹10,000 after two completed years of employer use.

**Student mistake:** The student extends the exemption for laptop use to its sale.

**Final result:** Use has nil value, but transfer creates a separate benefit. Reduce cost by 50% on the reducing balance for each completed year: ₹80,000 × 50% × 50% = ₹20,000. Deduct the employee's ₹10,000 payment. The taxable benefit is ₹10,000; ignore incomplete years.

### Trap 14 | Interest-free loan: ₹20,000 is no deduction

**Question trap:** The employer's ordinary interest-free loan has a ₹1,20,000 month-end balance for six months.

**Student mistake:** The student deducts ₹20,000 before calculating interest on this larger loan.

**Final result:** The exception applies only when aggregate loans do not exceed ₹20,000. Use the full monthly closing balance and State Bank of India's similar-purpose rate on 1 April 2025. At 10%, six months give ₹6,000. Deduct interest paid by the employee; use actual balances if they change.

### Trap 15 | Employee stock options: salary value becomes cost

**Question trap:** The employee buys 100 shares at ₹120 each; exercise-date value is ₹350 and later sale price is ₹410.

**Student mistake:** The student uses ₹120 as cost for the later capital gain.

**Final result:** The salary benefit is (₹350 - ₹120) × 100 = ₹23,000. On sale, use the prescribed exercise-date value of ₹350 as cost. Capital gain is (₹410 - ₹350) × 100 = ₹6,000, before other adjustments. Do not tax the same benefit twice.

### Trap 16 | Three employer funds share one ceiling

**Question trap:** Employer contributions to a recognised provident fund, National Pension System and approved superannuation fund total ₹8.5 lakh.

**Student mistake:** The student allows a separate ₹7.5 lakh ceiling for each fund.

**Final result:** Combine all three contributions. The excess over one annual ₹7.5 lakh ceiling is taxable: ₹1 lakh here. Growth on taxable excess contributions is separately taxable under Rule 3B. Also check the recognised provident fund's 12% salary limit, without taxing the same contribution twice.

## Chapter 4: Income from House Property

### Trap 1 | Vacancy relief needs actual vacancy

**Question trap:** Expected annual rent is ₹2.4 lakh. The house loses ₹20,000 monthly rent for four vacant months.

**Student mistake:** The student always selects expected rent or treats personal-use months as vacancy.

**Final result:** Expected rent is higher of municipal value and fair rent, capped by applicable standard rent. Compare with actual rent after qualifying unrealised rent. If vacancy alone reduces actual rent to ₹1.6 lakh, gross annual value is ₹1.6 lakh. Personal use gives no vacancy relief.

### Trap 2 | Municipal tax before the 30% deduction

**Question trap:** The owner pays ₹20,000 municipal tax and ₹50,000 repairs against ₹3 lakh gross annual value.

**Student mistake:** The student deducts 30% of gross value and claims repairs separately.

**Final result:** Deduct municipal tax only if borne by the owner and actually paid during the year. Net annual value is ₹2,80,000. Deduct 30%, or ₹84,000, leaving ₹1,96,000 before interest. Repairs, insurance and collection costs get no separate deduction. Eligible interest is generally deductible on accrual.

### Trap 3 | Three personal-use houses cannot all get nil value

**Question trap:** The owner keeps three houses for personal use but cannot occupy one.

**Student mistake:** The student taxes every empty house or gives all three nil value.

**Final result:** From this assessment year, inability to occupy for any reason can qualify for nil annual value. Select up to two eligible self-occupied houses. Calculate the third as deemed let out despite receiving no rent. A house actually let during the year does not qualify for this treatment.

### Trap 4 | Personal-use months are not vacant months

**Question trap:** The whole house is let for six months and personally occupied for six months.

**Student mistake:** The student halves expected rent or claims vacancy relief for personal use.

**Final result:** Apply let-property rules to the whole house. Expected rent covers the full ownership period; actual rent covers the letting period. With annual expected rent ₹2.4 lakh and six months' rent ₹1.5 lakh, gross annual value is ordinarily ₹2.4 lakh. Compute separately identifiable floors with different uses separately.

## Chapter 4: Income from House Property (continued)

### Trap 5 | Self-occupied interest: completion deadline matters

**Question trap:** A construction loan is taken in August 2019; the house is completed in May 2025.
**Student mistake:** The student allows ₹2 lakh interest simply because construction is complete.

**Final result:** Count five years from the borrowing financial year's end: completion was required by 31 March 2025. Under the normal regime, this case normally gets only ₹30,000. Eligible self-occupied houses share the ceiling. The default regime allows no self-occupied interest deduction; completion does not remove that restriction.

### Trap 6 | Pre-construction interest: stop before the completion year

**Question trap:** The house is completed in December 2025. Interest up to March 2025 is ₹2 lakh; current-year interest is ₹90,000.
**Student mistake:** The student treats April-November 2025 interest as pre-construction interest.

**Final result:** Assuming the loan remains outstanding and interest was not deducted elsewhere, the pre-construction period ends on 31 March 2025. Claim one-fifth from the completion year, plus whole current-year interest: ₹40,000 + ₹90,000 = ₹1,30,000. Self-occupied interest limits apply to this combined amount.

### Trap 7 | Let-out interest and loss adjustment differ

**Question trap:** A let house earns ₹2.1 lakh before ₹5.1 lakh eligible interest. Taxable salary exceeds ₹2 lakh.
**Student mistake:** The student caps the interest deduction itself at ₹2 lakh.

**Final result:** Deduct full interest: loss is ₹3 lakh. Under the normal regime, adjust ₹2 lakh against salary; carry ₹1 lakh forward for eight years against house-property income. Under the default regime, adjust against other house-property income only. The remaining current loss cannot reduce salary or be carried forward.

### Trap 8 | Co-owners: split actual interest before applying ceilings

**Question trap:** Spouses equally own and occupy a house, are equal co-borrowers, and bear ₹3 lakh total qualifying interest equally.
**Student mistake:** The student gives each spouse a ₹2 lakh deduction.

**Final result:** Each spouse's interest is ₹1.5 lakh. Under the normal regime, deduct ₹1.5 lakh each, assuming the higher ceiling's conditions are met. Do not create a ₹4 lakh deduction from a ₹3 lakh expense. Ownership alone creates no interest expense. The default regime allows neither deduction.

## Chapter 4: Income from House Property (continued)

### Trap 9 | Rent arrears remain taxable after sale

**Question trap:** The former owner receives ₹90,000 untaxed rent arrears after selling the property.
**Student mistake:** The student ignores the amount because the recipient is no longer the owner.

**Final result:** Tax the arrears under House Property in the receipt year, even after ownership ends. Allow the 30% deduction: ₹27,000 here. Taxable income is ₹63,000. Do not again deduct municipal tax or repairs, or count the amount twice as arrears and current rent.

## Chapter 5: Profits and Gains of Business or Profession

### Trap 1 | Do not adjust the starting profit twice

**Question trap:** The stated profit already deducts tax depreciation, but income tax is also debited.
**Student mistake:** You deduct depreciation again and allow income tax as a business expense.

**Final result:** Add back the debited income tax. Do not deduct tax depreciation again. If the accounts deducted book depreciation instead, add it back and deduct eligible tax depreciation. Remove credited income belonging to another head and calculate it under that head.

### Trap 2 | Employee and employer provident-fund shares have different deadlines

**Question trap:** Both shares are paid after the provident-fund deadline but before the return due date.
**Student mistake:** You allow both shares because payment precedes the return deadline.

**Final result:** Disallow the employee's share: the relevant fund-law deadline controls, and later payment does not cure the delay. The employer's own share ordinarily qualifies if paid by the section 139(1) return due date. Check each share separately, even when paid together.

### Trap 3 | Failure to deduct tax does not always disallow the whole expense

**Question trap:** Resident professional fees of ₹1 lakh were debited, but required tax was never deducted.
**Student mistake:** You disallow the full fee.

**Final result:** Without applicable relief based on the recipient's tax compliance, add back 30%, or ₹30,000. Covered non-resident payments face 100% disallowance. Tax deducted during the year and paid by the return due date can preserve deduction. First check whether deduction of tax was required.

## Chapter 5: Profits and Gains of Business or Profession (continued)

### Trap 4 | Combine cash payments to one person on one day

**Question trap:** Two business-expense payments of ₹6,000 and ₹5,000 reach one supplier in cash on one day.
**Student mistake:** You test payments separately or disallow only ₹1,000.

**Final result:** Without a Rule 6DD exception, disallow the entire ₹11,000. Exactly ₹10,000 does not cross the limit. Payments for plying, hiring or leasing goods carriages use ₹35,000. An earlier allowed bill later settled in prohibited cash becomes business income in the payment year.

### Trap 5 | Not every unpaid expense must be disallowed

**Question trap:** Year-end expenses include unpaid employee bonus, an ordinary supplier bill and bank interest converted into a loan.
**Student mistake:** You disallow every unpaid expense or treat conversion into a loan as payment.

**Final result:** Section 43B covers specified liabilities. Employee bonus ordinarily qualifies if paid by the return due date. Ordinary supplier bills are not automatically covered; check the separate micro/small-enterprise rule. Converting covered interest into another loan is not actual payment.

### Trap 6 | Small-enterprise dues: the return deadline will not help

**Question trap:** A qualifying small-enterprise bill becomes overdue in February but is paid in June.
**Student mistake:** You deduct it in the year ending March because June precedes the return deadline.

**Final result:** Deduct it in the payment year. The allowed period is 15 days without a written agreement, or the agreed period up to 45 days, from acceptance or deemed acceptance. Payment after 31 March within that period is not delayed. Medium enterprises are excluded.

### Trap 7 | Partner remuneration: apply the revised ceiling

**Question trap:** A firm's tax-adjusted book profit before remuneration is ₹10 lakh; eligible remuneration is ₹7 lakh.
**Student mistake:** You use the old slab or deduct the full ceiling.

**Final result:** The ceiling is 90% of ₹6 lakh plus 60% of ₹4 lakh = ₹7.8 lakh. Deduct only ₹7 lakh. The first slab allows the higher of ₹3 lakh or 90%; losses allow ₹3 lakh. Payment requires an individual working partner and valid deed authority.

### Trap 8 | A provision for bad debts is not a write-off

**Question trap:** An ordinary business debits a provision for doubtful debts without writing off specific customer debts.
**Student mistake:** You allow the provision because customers may never pay.

**Final result:** Add back the provision. Deduction normally requires an actual write-off of a debt previously included in income, or a qualifying banking/money-lending loan. For later recovery, first cover any original debt portion not allowed as a deduction; tax only the excess.

## Chapter 5: Profits and Gains of Business or Profession (continued)

### Trap 9 | Related-party payments: disallow only the excessive portion

**Question trap:** A business pays a specified related person ₹1.8 lakh for genuine services reasonably worth ₹1.3 lakh.
**Student mistake:** You disallow the full payment because the recipient is related.

**Final result:** On these facts, disallow only ₹50,000 and allow ₹1.3 lakh. Judge excess using market value, business needs and benefit received. Use section 40A(2)'s specified-person list; the gift-tax definition of relative is different. A reasonable related-party payment is not automatically disallowed.

### Trap 10 | Depreciation: check acquisition year before halving the rate

**Question trap:** A machine bought last year is first used this year for fewer than 180 days.
**Student mistake:** You halve normal depreciation only because use is below 180 days.

**Final result:** The half-rate restriction requires acquisition in the current year and use below 180 days in that year. Here, depreciation is not halved for that reason. Exactly 180 days allows the full rate. Ownership and business use remain necessary; land and goodwill do not qualify.

### Trap 11 | Additional depreciation depends on the tax regime

**Question trap:** An eligible individual manufacturer buys a new qualifying machine this year and uses it for 120 days.
**Student mistake:** You allow the full 20% immediately, including under the default regime.

**Final result:** Under the normal scheme, allow 10% additional depreciation now and the remaining 10% next year. Calculate normal depreciation separately. The default regime denies additional depreciation. Trading alone does not qualify; used machinery, office appliances and road vehicles are excluded.

### Trap 12 | Cash paid for a machine reduces depreciable cost

**Question trap:** A ₹2 lakh machine is bought with ₹50,000 cash on one day and the balance by bank transfer.
**Student mistake:** You depreciate ₹2 lakh or exclude only ₹40,000.

**Final result:** Exclude the full prohibited ₹50,000, leaving ₹1.5 lakh before other adjustments. The acquisition-payment limit is ₹10,000 per person per day. Recoverable goods and services tax and asset-linked subsidies reduce cost. Interest up to first use is capitalised; loan principal is not an expense.

## Chapter 5: Profits and Gains of Business or Profession (continued)

### Trap 13 | A machine sale follows the asset-block rules

**Question trap:** An asset block has ₹6 lakh opening value, ₹2 lakh additions and ₹5 lakh net sale proceeds.
**Student mistake:** You calculate a separate loss on the machine sold.

**Final result:** The block balance is ₹3 lakh. If an asset remains, apply block depreciation rules; there is no separate machine loss. If all assets leave the block, ₹3 lakh becomes a short-term capital loss. Proceeds exceeding opening value plus additions create short-term capital gain.

### Trap 14 | Do not deduct research cost and depreciation together

**Question trap:** A business buys a qualifying research machine for ₹2 lakh and claims its full cost under section 35.
**Student mistake:** You also deduct depreciation or use old weighted deduction rates.

**Final result:** Allow the eligible ₹2 lakh research deduction once, with no further depreciation on that cost. Land does not qualify. For research spending before business commencement, check the preceding three-year window; qualifying revenue costs require certified research salary or materials.

### Trap 15 | Presumptive business tax: separate the ceiling and rate tests

**Question trap:** An eligible trader has low cash receipts, but some sales remain unpaid by the return deadline.
**Student mistake:** You apply 6% throughout and deduct depreciation again.

**Final result:** The ₹2 crore ceiling becomes ₹3 crore if cash receipts are within 5% of turnover; non-account-payee instruments count as cash. Apply 6% to permitted-mode receipts by the return due date, 8% otherwise, or higher declared earnings. No further ordinary deductions apply; still reduce asset written-down value.

### Trap 16 | Presumptive professional tax: the ₹50 lakh ceiling can rise

**Question trap:** A resident individual architect receives ₹60 lakh, only 2% in cash.
**Student mistake:** You reject presumptive taxation because receipts exceed ₹50 lakh.

**Final result:** The ceiling rises to ₹75 lakh if cash receipts are within 5%; non-account-payee instruments count as cash. Declare 50%, or ₹30 lakh, unless declaring higher earnings. Ordinary expenses are already covered. Eligible resident firms can also qualify, but limited liability partnerships and Hindu undivided families cannot.

## Chapter 5: Profits and Gains of Business or Profession (continued)

### Trap 17 | Goods vehicles: count ownership months, including part-months

**Question trap:** A qualifying operator buys a 13-tonne gross-weight goods vehicle on 31 January and keeps it through March.
**Student mistake:** You count only operating days or two complete months.

**Final result:** Count three ownership months: ₹1,000 × 13 × 3 = ₹39,000. Heavy vehicles exceed 12,000 kilograms; exactly 12,000 kilograms uses ₹7,500 monthly. Ownership must never exceed ten goods carriages during the year. Use higher declared actual earnings, if any.

### Trap 18 | The ₹10 crore audit threshold needs both cash tests

**Question trap:** Business turnover is ₹4 crore, with 3% cash receipts and 7% cash payments.
**Student mistake:** You skip audit because turnover is below ₹10 crore.

**Final result:** The higher threshold fails because cash payments exceed 5%. Aggregate receipts and aggregate payments must each satisfy the 5% limit; test more than sales and purchases. Non-account-payee instruments count as cash. Here the ordinary ₹1 crore business threshold applies, so audit is required.

## Chapter 6: Capital Gains

### Trap 1 | A gift does not restart cost or holding period

**Question trap:** A daughter sells jewellery two months after her father gifts it. He owned it for years.
**Student mistake:** The student uses nil cost and treats the gain as short-term.

**Final result:** Use the father's cost under the applicable cost rules and include his holding period. Gift-date market value is not automatically the cost. Inheritance follows the same principle. If another receipt was actually taxed under section 56(2)(x), use that taxed value as prescribed.

### Trap 2 | An old debt fund and an old unlisted bond differ

**Question trap:** Specified debt-fund units and an unlisted bond bought in 2022 are sold during financial year 2025-26.
**Student mistake:** The student gives both investments the same treatment because they are old.

**Final result:** Section 50AA covers specified fund units acquired from 1 April 2023. These older units give long-term capital gain under ordinary holding-period rules. The unlisted bond gives deemed short-term capital gain because its transfer is on or after 23 July 2024; its earlier purchase date does not protect it.

## Chapter 6: Capital Gains (continued)

### Trap 3 | Conversion into trading stock delays capital-gains tax

**Question trap:** An investment is converted into trading stock and sold later. Another question reverses the conversion.
**Student mistake:** The student taxes both conversions immediately or postpones both until sale.

**Final result:** For investment becoming stock, tax the capital gain in the stock-sale year. Conversion-date fair market value separates capital gain from business profit. For stock becoming investment, recognise prescribed conversion value in business income immediately, deducting stock cost normally. That value becomes capital cost; the capital holding period starts at conversion.

### Trap 4 | Rights shares and bonus shares have different costs

**Question trap:** A buyer pays ₹20 for a rights entitlement and ₹80 to the company. Bonus shares were separately allotted in 2025.
**Student mistake:** The student uses nil cost for everything received through existing shares.

**Final result:** The buyer's rights-share cost is ₹100. The original shareholder's renounced right normally has nil cost, giving ₹20 gain. Direct subscription uses the amount paid to the company. These 2025 bonus shares have nil cost and their own holding period from allotment; original shares retain their cost.

### Trap 5 | Crossing 110% changes the entire sale value

**Question trap:** Land held as a capital asset sells for ₹50 lakh. Its applicable stamp duty value is ₹55.10 lakh.
**Student mistake:** The student adds only the excess above ₹55 lakh to the price.

**Final result:** Subject to valuation relief, use the full ₹55.10 lakh. At exactly ₹55 lakh, use the actual ₹50 lakh price. An earlier agreement-date value requires fixed consideration and eligible non-cash payment on or before that agreement. A cash advance does not qualify.

### Trap 6 | Basic exemption and the annual equity-gain limit differ

**Question trap:** A resident individual has unused basic exemption and eligible gains under sections 111A and 112A.
**Student mistake:** The student taxes every rupee and gives each investment a separate ₹1.25 lakh limit.

**Final result:** First adjust unused basic exemption as permitted. Section 111A uses 20%. Aggregate eligible section 112A gains annually; only the excess above ₹1.25 lakh attracts 12.5%. This threshold does not remove income from total income. The default-scheme rebate cannot cancel this special-rate tax.

## Chapter 6: Capital Gains (continued)

### Trap 7 | The 2018 value cannot create an artificial loss

**Question trap:** Eligible pre-February 2018 shares cost ₹100. Their 31 January 2018 market value is ₹180 and sale price ₹150.
**Student mistake:** The student deducts ₹180 and reports a ₹30 loss.

**Final result:** Take the lower of that market value and sale price: ₹150. Then take the higher of this figure and actual cost: ₹150. Gain is nil. At a ₹90 sale price, cost remains ₹100 and the genuine ₹10 loss survives.

### Trap 8 | Old-property protection reduces tax, not current income

**Question trap:** A resident individual sells long-term land acquired before 23 July 2024. Indexation gives lower tax.
**Student mistake:** The student uses the indexed gain in current total income.

**Final result:** Calculate current gain without indexation, taxed at 12.5%. Old-law indexed tax at 20% caps the tax only. Apply eligible exemptions and unused basic exemption in both calculations. A loss arising only in that indexed comparison cannot be carried forward. Resident Hindu undivided families also qualify; companies and non-residents do not.

### Trap 9 | Section 54F may require more than the gain

**Question trap:** An eligible individual sells a long-term plot: net proceeds ₹60 lakh, gain ₹20 lakh and eligible house investment ₹30 lakh.
**Student mistake:** The student exempts the whole gain because house cost exceeds it.

**Final result:** Section 54F relief is ₹20 lakh × ₹30 lakh ÷ ₹60 lakh = ₹10 lakh. Full relief requires eligible investment covering net consideration. Section 54, for a qualifying residential-house sale, compares gain with eligible house cost. Both cap recognised new-house cost at ₹10 crore.

### Trap 10 | An early return brings the deposit deadline forward

**Question trap:** A taxpayer files early, then deposits unspent section 54F money before the normal return due date.
**Student mistake:** The student allows relief because the statutory due date has not passed.

**Final result:** The deposit is late. Make the eligible Capital Gains Accounts Scheme deposit before filing and no later than the section 139(1) due date. A normal fixed deposit does not qualify. Section 54 concerns unspent gain; section 54F concerns net consideration, subject to its ₹10 crore deposit restriction.

## Chapter 6: Capital Gains (continued)

### Trap 11 | Section 54B can cover a short-term gain

**Question trap:** An individual sells taxable urban agricultural land farmed by his father during the preceding two years. Short-term gain is ₹7 lakh; eligible replacement land costs ₹5 lakh.

**Student mistake:** The student rejects relief because the gain is short-term or the father farmed the land.

**Final result:** Both facts can qualify. Purchase the replacement agricultural land within two years after transfer. Relief is the lower of gain and eligible cost: ₹5 lakh. The remaining ₹2 lakh stays taxable.

### Trap 12 | April does not restart the ₹50 lakh bond limit

**Question trap:** Eligible long-term land gain is ₹80 lakh. Notified-bond investments are ₹50 lakh in February and ₹30 lakh in April.

**Student mistake:** The student claims ₹80 lakh relief by using two financial years.

**Final result:** Even if both investments fall within six months of transfer, section 54EC relief is capped at ₹50 lakh across the transfer year and following year. Qualifying long-term land or building is required. The Capital Gains Accounts Scheme cannot extend this six-month deadline.

## Chapter 7: Income from Other Sources

### Trap 1 | Check gifts by category, not by donor.

**Question trap:** Friends give cash of ₹30,000 and ₹25,000, plus free jewellery worth ₹40,000 during the year.

**Student mistake:** The student gives each donor a separate limit or taxes only the excess.

**Final result:** After excluding exempt gifts, total money separately from free specified movable property. The whole ₹55,000 cash total is taxable. Jewellery of ₹40,000 stays below its separate ₹50,000 limit. Exactly ₹50,000 does not trigger tax.

### Trap 2 | Check the relationship from the recipient's side.

**Question trap:** A maternal uncle gives his nephew ₹1 lakh. Another question reverses the gift's direction.

**Student mistake:** The student exempts both gifts because both people belong to one family.

**Final result:** The mother's brother is the nephew's listed relative, so the gift to the nephew is exempt. The nephew is not the uncle's listed relative. The reverse ₹1 lakh money gift is wholly taxable unless another exemption applies.

### Trap 3 | Free and cheap property have different tests.

**Question trap:** A friend transfers non-agricultural investment land free, or sells it for ₹30 lakh.

**Student mistake:** The student applies 10% tolerance even to the free gift.

**Final result:** For free land, its whole stamp-duty value is taxable if above ₹50,000. For cheap land, tax the whole difference only if it exceeds the higher of ₹50,000 and 10% of price. A value of ₹33.20 lakh gives ₹3.20 lakh income. Check exemptions first.

## Chapter 7: Income from Other Sources (continued)

### Trap 4 | Dividend does not get an automatic 20% deduction.

**Question trap:** Ordinary dividend is ₹1 lakh; related interest is ₹28,000 and collection charges are ₹2,000.

**Student mistake:** The student deducts all expenses or automatically deducts 20% of dividend.

**Final result:** Allow eligible actual interest, limited to 20% of gross ordinary dividend. Deduct ₹20,000 here; taxable dividend is ₹80,000. Collection charges are disallowed. If actual interest were ₹8,000, deduct only ₹8,000. Without interest expense, there is no deduction.

### Trap 5 | Share buy-back creates two separate tax items.

**Question trap:** A domestic company buys back shares in December 2025 for ₹3.20 lakh; their cost was ₹2 lakh.

**Student mistake:** The student reports only ₹1.20 lakh as dividend.

**Final result:** For a covered buy-back from 1 October 2024, the whole ₹3.20 lakh is dividend; cost and interest are not deductible. Separately, nil sale consideration creates a ₹2 lakh capital loss. Its holding period decides the loss category. It cannot reduce dividend.

### Trap 6 | Family pension belongs to Other Sources.

**Question trap:** After an employee dies, the spouse receives annual family pension of ₹90,000.

**Student mistake:** The student treats it as salary and claims the salary standard deduction.

**Final result:** After checking specific exemptions, deduct the lower of one-third of family pension and ₹15,000 under the normal regime, or ₹25,000 under the default regime. Taxable income is ₹75,000 or ₹65,000 respectively. The limits are annual; the salary standard deduction is unavailable.

### Trap 7 | Use lottery winnings before tax deduction.

**Question trap:** The winner receives ₹70,000 after ₹30,000 tax deduction and spent ₹5,000 on lottery tickets.

**Student mistake:** The student taxes the cash received after deducting ticket cost.

**Final result:** Gross winnings are ₹1 lakh, not ₹65,000 or ₹70,000. Ticket cost is disallowed. Apply 30% tax, plus applicable surcharge and cess, and then allow credit for ₹30,000 tax deducted. Do not reduce lottery winnings using an unused basic exemption limit.

### Trap 8 | Tax compensation interest in the receipt year.

**Question trap:** Taxable compensation interest of ₹2.40 lakh is received in February 2026 for four earlier years; legal fees are ₹15,000.

**Student mistake:** The student spreads the interest across years or deducts legal fees separately.

**Final result:** Include the interest under Other Sources for assessment year 2026-27. The fixed 50% deduction leaves ₹1.20 lakh taxable. No additional deduction for those legal fees is allowed. Examine the principal compensation separately.

## Chapter 8: Clubbing of Income

**Trap 1 | An exempt spouse gift can still cause clubbing.**

**Question trap:** A husband gifts his wife a deposit. She separately reinvests its interest; they remain married.
**Student mistake:** The student exempts every later receipt or clubs even interest earned on interest.

**Final result:** The gift is exempt, but interest from the gifted deposit is included in the husband's income. Interest from separately investing only that first interest belongs to the wife. Renewing or replacing the original gifted deposit does not stop clubbing.

**Trap 2 | Separate a minor's talent income from investment income.**

**Question trap:** A minor singer earns fees and interest. Married parents have no earlier clubbing; the mother has higher other income.
**Student mistake:** The student assigns both amounts to the child or selects the father.

**Final result:** Singing fees belong to the child. Ordinary interest is included with the mother. The normal regime exempts up to ₹1,500 included income per child; the default regime does not. Assume no qualifying disability under section 80U.

**Trap 3 | Relatives' holdings count for spouse remuneration.**

**Question trap:** A husband holds 12% voting power; his father holds 9% in the company paying his wife.
**Student mistake:** The student checks only 12% and skips clubbing.

**Final result:** Together, 21% crosses the 20% test, checked anytime during the year. The exception requires technical or professional qualifications and pay solely from applying that knowledge and experience. Otherwise, when clubbing first applies, include the remuneration with the spouse having higher other income.

**Trap 4 | Use the business investment ratio on 1 April.**

**Question trap:** On 1 April, a wife's continuing business has ₹5 lakh investment, including ₹2 lakh gifted by her husband. Profit is ₹1.50 lakh.
**Student mistake:** The student clubs all profit or uses the closing investment ratio.

**Final result:** Use both investment amounts on the first day of the financial year. Include ₹1.50 lakh × ₹2 lakh ÷ ₹5 lakh = ₹60,000 with the husband. The remaining ₹90,000 belongs to the wife.

## Chapter 9: Set-off and Carry-forward of Losses

**Trap 1 | Capital losses work only in the permitted direction.**

**Question trap:** A question gives ₹70,000 long-term capital loss and only ₹20,000 short-term capital gain.
**Student mistake:** The student combines them because both are capital items.

**Final result:** A long-term loss reduces only long-term gains. A short-term loss can reduce either kind of capital gain. Neither reduces another income head. Here, ₹20,000 remains taxable; the eligible ₹70,000 loss is carried forward. The same direction applies to eligible brought-forward capital losses.

**Trap 2 | Current business loss differs from an old loss.**

**Question trap:** The taxpayer has bank interest, salary and an ordinary business loss brought forward from last year.
**Student mistake:** The student adjusts the old loss against bank interest.

**Final result:** An eligible brought-forward ordinary business loss reduces only the same taxpayer's business or professional profit, even from another business. Current ordinary business loss can reduce eligible income under other heads, including bank interest, but cannot reduce salary. First identify the loss year.

**Trap 3 | Restricted business losses cannot reduce ordinary shop profit.**

**Question trap:** Under the normal regime, a question gives speculation loss, section 35AD specified-business loss and ordinary shop profit.
**Student mistake:** The student combines all three business amounts.

**Final result:** Speculation loss reduces only speculation profit. Specified-business loss reduces only specified-business income, even if that profitable business did not claim section 35AD. Neither loss reduces ordinary shop profit. The reverse can work: an eligible ordinary business loss may reduce speculation profit.

**Trap 4 | Check both adjustment order and loss-return dates.**

**Question trap:** The question gives current depreciation, old business loss, old depreciation and original loss-return dates.
**Student mistake:** The student uses old depreciation first or ignores late filing.

**Final result:** Deduct current depreciation, then eligible old business loss, then old depreciation. A late original return blocks carry-forward of business, capital, speculation, specified-business and racehorse losses. Eligible house-property loss and unabsorbed depreciation are exceptions. Late filing alone does not block otherwise permitted current-year adjustment.

## Chapter 9: Set-off and Carry-forward of Losses (continued)

**Trap 5 | Special income cannot absorb ordinary losses.**

**Question trap:** One virtual digital asset gives ₹40,000 gain; another gives ₹25,000 loss. The question also includes business loss and lottery winnings.

**Student mistake:** The student nets every income and loss together.

**Final result:** Tax the ₹40,000 digital-asset gain without reducing the ₹25,000 loss. That loss cannot be adjusted against other income or carried forward. Business loss cannot reduce lottery winnings. Unexplained income covered by section 115BBE also cannot absorb any loss.

## Chapter 10: Deductions from Gross Total Income

**Trap 1 | Your own pension contribution has a separate deduction limit.**

**Question trap:** An employee has ₹1.50 lakh of eligible section 80C payments and contributes ₹40,000 to the National Pension System.

**Student mistake:** The student rejects the pension deduction because the section 80C limit is already full.

**Final result:** Under the normal regime, section 80CCD(1B) allows another ₹40,000, making the total ₹1.90 lakh. Its separate ceiling is ₹50,000. Never deduct the same contribution twice. These personal deductions are unavailable under the default regime.

**Trap 2 | The employer's pension contribution has different limits.**

**Question trap:** A private employer contributes ₹1.40 lakh to the National Pension System; the employee's qualifying salary is ₹10 lakh.

**Student mistake:** The student allows only 10% even under the default regime.

**Final result:** Include the contribution in salary first. Section 80CCD(2) allows ₹1 lakh under the normal regime or ₹1.40 lakh under the default regime. Salary means basic pay plus qualifying dearness allowance. The deduction is outside the ₹1.50 lakh common ceiling and cannot exceed the actual contribution.

**Trap 3 | Parents share one health-insurance deduction limit.**

**Question trap:** A 40-year-old electronically pays ₹28,000 for own health insurance and ₹54,000 for resident parents aged 65.

**Student mistake:** The student gives each parent a separate ₹50,000 limit.

**Final result:** Under the normal regime, allow ₹25,000 for self and ₹50,000 for both parents together: total ₹75,000. Parents need not be dependent. Premiums require non-cash payment. Cash preventive check-ups are permitted, but their combined ₹5,000 limit stays within the relevant group ceilings.

## Chapter 10: Deductions from Gross Total Income (continued)

**Trap 4 | Apply the donation ceiling before its deduction percentage.**

**Question trap:** Adjusted gross total income is ₹6 lakh; eligible non-cash donations are ₹20,000 for family planning and ₹80,000 to ordinary approved charity.

**Student mistake:** The student deducts 50% of the entire ₹80,000 charity donation.

**Final result:** Under the normal regime, the restricted-donation ceiling is 10% of ₹6 lakh: ₹60,000. Allocate ₹20,000 to the 100% category first, then ₹40,000 to the 50% category. Deduction = ₹20,000 + ₹20,000 = ₹40,000. A cash donation above ₹2,000 is wholly ineligible.

**Trap 5 | Cap specified-disease expenses before subtracting reimbursement.**

**Question trap:** A resident individual pays ₹1.60 lakh for a dependent resident father aged 65; insurance reimburses ₹30,000.

**Student mistake:** The student subtracts reimbursement first and then claims ₹1 lakh.

**Final result:** For eligible prescribed-disease treatment under the normal regime, cap ₹1.60 lakh at ₹1 lakh first. Then subtract ₹30,000: deduction ₹70,000 under section 80DDB. Obtain the required specialist prescription. The father must be wholly or mainly dependent; an ordinary medical bill alone is insufficient.

**Trap 6 | Savings interest and fixed-deposit interest use different deductions.**

**Question trap:** A resident aged 67 receives ₹12,000 bank savings interest and ₹46,000 bank fixed-deposit interest.

**Student mistake:** The student claims both ₹10,000 under section 80TTA and ₹50,000 under section 80TTB.

**Final result:** Under the normal regime, section 80TTB alone allows ₹50,000 from the ₹58,000 interest; ₹8,000 remains taxable. Section 80TTA instead allows eligible taxpayers up to ₹10,000 for savings interest only; it excludes fixed deposits. Both deductions are unavailable under the default regime.

## Chapter 11: Alternate Minimum Tax

**Trap 1 | Add back only specified deductions and pay the higher tax.**

**Question trap:** A normal-regime individual aged 40 has ordinary taxable income of ₹16 lakh after section 80C and an eligible ₹10 lakh section 35AD deduction. Related depreciation would be ₹1 lakh.

**Student mistake:** The student adds back section 80C too, or adds both tax liabilities together.

**Final result:** Adjusted income = ₹16 lakh + ₹10 lakh - ₹1 lakh = ₹25 lakh, above the ₹20 lakh limit. Alternate minimum tax = ₹25 lakh × 18.5% × 104% = ₹4,81,000. Regular tax is ₹3,04,200; pay ₹4,81,000. This tax does not apply under the default regime.

## Chapter 12: Advance Tax and Tax Deducted at Source

**Trap 1 | Goods and property use different tax-deduction bases.**

**Question trap:** A business with preceding-year turnover above ₹10 crore buys ₹60 lakh goods from one resident seller during the year. Another buyer purchases a resident's flat; its price and stamp duty value are both ₹60 lakh.

**Student mistake:** The student deducts tax only above ₹50 lakh in both cases.

**Final result:** Section 194Q deducts 0.1% on the ₹10 lakh excess: ₹1,000. Section 194-IA deducts 1% on the higher full consideration or stamp duty value once either reaches ₹50 lakh. Here, deduct ₹60,000.

**Trap 2 | Combine partner interest and remuneration before testing the threshold.**

**Question trap:** On or after 1 April 2025, a firm credits ₹18,000 interest and ₹12,000 remuneration to one partner's capital account.

**Student mistake:** The student tests each item separately or waits for cash withdrawal.

**Final result:** Section 194T combines salary, remuneration, commission, bonus and interest to each partner. Once the annual total exceeds ₹20,000, deduct 10% on the whole covered amount: ₹3,000 here. Deduct at earlier credit or payment; capital-account credit counts. Exempt profit shares are different.

**Trap 3 | The rent payer decides the tax-deduction section.**

**Question trap:** A salaried individual and a company each pay resident landlords ₹60,000 monthly building rent for twelve months.

**Student mistake:** The student uses the same rate or taxes only the last month's rent.

**Final result:** If section 194-I does not cover the individual, section 194-IB deducts 2% on the covered annual rent: ₹14,400, using its year-end or tenancy-end rule. The company deducts 10% under section 194-I: ₹6,000 monthly at earlier credit or payment.

**Trap 4 | A director's sitting fee has no minimum threshold.**

**Question trap:** A company pays a resident non-employee director ₹35,000 sitting fees during the year.

**Student mistake:** The student allows the ₹50,000 professional-fee threshold and deducts no tax.

**Final result:** Section 194J deducts 10% on the full ₹35,000: ₹3,500. Non-salary director fees have no minimum threshold. The ₹50,000 annual threshold applies separately to professional fees, technical fees, royalty and non-compete payments. An employee-director's salary instead follows section 192.

## Chapter 12: Advance Tax and Tax Deducted at Source (continued)

**Trap 5 | The 90% test does not determine the interest amount.**

**Question trap:** A taxpayer liable for advance tax has assessed tax of ₹1 lakh after relevant credits, but paid only ₹80,000 advance tax.

**Student mistake:** The student charges interest only on the ₹10,000 gap up to 90%.

**Final result:** Section 234B charges 1% per month or part from 1 April of the assessment year on the full ₹20,000 shortfall. One month's interest is ₹200. Adjust for later payments. Paying 90% does not automatically remove section 234C interest.

**Trap 6 | The instalment tolerance differs from the interest base.**

**Question trap:** Tax on returned income after relevant credits is ₹1 lakh; ₹11,000 is paid by 15 June under normal advance-tax instalments.

**Student mistake:** The student calculates interest only on the gap up to 12%.

**Final result:** June payment of at least 12% avoids that instalment's interest; otherwise calculate from 15%. Interest = (₹15,000 - ₹11,000) × 1% × 3 = ₹120. September tests 36% but calculates from 45%. Assume no qualifying unexpected-income relief.

**Trap 7 | Late deduction and late deposit have separate interest periods.**

**Question trap:** Tax of ₹10,000 was deductible on 20 June, deducted on 10 July, and deposited on 20 August.

**Student mistake:** The student uses 1% throughout or starts deposit interest after its payment deadline.

**Final result:** Late deduction attracts 1% monthly from the deductible date to deduction: June and July give ₹200. Late deposit attracts 1.5% from deduction to deposit: July and August give ₹300. Each part of a calendar month counts. Total interest is ₹500.

**Trap 8 | No tax deduction does not mean tax-free interest.**

**Question trap:** A resident aged 67 receives ₹90,000 bank fixed-deposit interest. Another resident receives ₹12,000 interest on a loan to a company.

**Student mistake:** The student uses the bank threshold for the company or treats the threshold as an income deduction.

**Final result:** The senior's bank threshold is ₹1 lakh, so no tax is deducted. The company's threshold is ₹10,000: deduct 10% on all ₹12,000, giving ₹1,200. The senior's normal-regime section 80TTB deduction remains limited to ₹50,000.



Primary references: Income Tax Department and ICAI study material. Linked trap titles open source references.