Total Income

Questions with Answers

MOST

IMPORTANT



CHAPTER 15 INCOME TAX LIABILITY – COMPUTATION & OPTIMISATION

Question 1

Mr X, an individual, set up a unit in Special Economic Zone (SEZ) in FY 2019-20 for production of washing machines. The unit fulfills all the conditions of Section 10AA of the Income Tax Act, 1961. During FY 2024-25, 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 35AD. 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, 2025 and the expenditure of ₹75 lakhs was capitalized in the books on that date. Relevant details for FY 2025-26 are as follows:

Particulars	Amount (₹)
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction U/s 35AD)	1,05,00,000

Compute income tax (including AMT u/s 115JC) payable by Mr X for AY 2026-27 assuming that he has shifted out of the default tax regime prescribed u/s 115BAC.

Question 2

Mr Xavier, an Indian resident individual, set up a unit in Special Economic Zone (SEZ) in FY 2019-20 for production of mobile phones. The unit fulfills all the conditions of Section 10AA of the Income Tax Act, 1961.

During FY 2024-25, 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 35AD. Capital expenditure in respect of warehouse amounted to ₹ 63L (including cost of land ₹ 13L). The warehouse became operational wef from 1st April, 2025 and the expenditure of ₹ 63L was capitalized in the books on that date. Further details relevant for FY 2025-26 are as follows:

Particulars	Amount (₹)
Profit from operation of warehousing facility before claiming deduction u/s 35AD	1,10,00,000
Net Profit of SEZ Unit (Mobile Phone)	50,00,000
Export Sales of SEZ Unit (Mobile Phone)	90,00,000
Domestic Sales of SEZ Unit (Mobile Phone)	60,00,000

Compute income tax (including AMT u/s 115JC) payable by Mr Xavier for AY 2026-27 assuming that he has shifted out of the default tax regime prescribed u/s 115BAC.

Question 3

Compute the tax liability of Ms Kajal for AY 2026-27; a female resident aged 40 years, where her total income is ₹ 2,00,50,000 comprising of business income. Ms Kajal wishes to pay tax as per the default tax regime prescribed u/s 115BAC.

Question 4

Compute the tax liability of Mr Gupta (aged 61) under default tax regime, having total income of ₹ 1,02,00,000 for AY 2026-27. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Question 5

Mr Agarwal, aged 40 years and a resident in India, has a total income of ₹6,50,00,000, comprising LTCG taxable u/s 112 of ₹55,00,000, STCG taxable u/s 111A of ₹65,00,000 and other income of ₹5,30,00,000. Compute his tax liability for AY 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Question 6

Mr Sharma aged 62 years and a resident in India, has a total income of ₹2,30,00,000, comprising LTCG taxable u/s 112 of ₹52,00,000, STCG taxable u/s 111A of ₹64,00,000 and other income of ₹1,14,00,000. Compute his tax liability for AY 2026-27 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

Question 7

Mr Sailesh constructed a house in PY 2017-18 with 3 independent units. During PY 2025-26, Unit 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2026 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr Sailesh is occupied by the tenant. Unit 1 remains vacant for February and March 2026 when it is not put to any use.

Unit 2 (25% of the floor area) is used by Mr Sailesh for the purpose of his business, while Unit 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

- Municipal valuation - ₹ 2,88,000
- Fair rent - ₹ 2,98,000
- Standard rent under the Rent Control Act - ₹ 2,78,000
- Municipal taxes - ₹ 30,000 paid by Mr Sailesh
- Repairs - ₹ 7,000
- Interest on capital borrowed for the construction of the property - ₹ 90,000
- Ground rent - ₹ 6,000
- Fire insurance premium paid - ₹ 60,000

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure). Determine the taxable income of Mr Sailesh for AY 2026-27 if he wishes to pay tax as per the default tax regime prescribed u/s 115BAC.

Question 8

Mr Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for FY 2025-26:

Particulars	Amount (₹)
Income from salary	3,40,000
Long-term capital loss on sale of shares of Reliance Ltd. STT both at the time of acquisition & 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

Other details of brought forward losses and unabsorbed depreciation pertaining to AY 2025-26 are as follows:

Particulars	Amount (₹)
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 AY 2026-27 and the amount of loss, if any, that can be carried forward if he wishes to pay tax as per the default tax regime prescribed u/s 115BAC.

Question 9

Mr Venus, engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2026:

Particulars	(₹ in lakhs)
WDV of Plant and Machinery on 1-4-2025	25.25
New machinery purchased on 1-9-2025	10.00
New machinery purchased on 1-12-2025	8.00
Computer purchased on 3-1-2026	4.00

Additional Information:

All assets were purchased by A/c payee cheque.

All assets were put to use immediately.

New machinery purchased on 1-12-2025 and computer have been installed in the office.

During the year ended 31-3-2025, a new machinery had been purchased on 31-10-2024 for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.

Depreciation rate for machinery may be taken as 15%.

The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2025.

Compute the depreciation available to the assessee as per the provisions of the Income Tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2026 if:

(i) he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)

(ii) he pays tax under the default tax regime u/s 115BAC.

Question 10

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

Mr Suraj:

(i) Salary received as a partner from a partnership firm - ₹ 6,15,000. He is a working partner in the firm and the salary is as per the limits prescribed u/s 40(b).

(ii) Income (loss) from house property:

Brought forward loss from House - A (let out) - ₹ 96,000; Current year loss from House B (let out) - ₹ 2,30,000

(iii) Interest received on enhanced compensation ₹ 2,00,000. It relates to transfer of a land in FY 2018-19. Out of the above, ₹ 35,000 relates to PY 2025-26 and the balance relates to preceding previous years.

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

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

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

Mrs Megha:

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

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

Master Dev:

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

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

Question 11

Dr Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2026.

Receipts	(₹)	Payments	(₹)
Opening 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 IPD - 40,000; OPD - 45,000	85,000	Entertainment Expenses	1,10,000
		Purchase of Television	48,000
		Gift to daughter-in law	60,000
Dividend from shares (net)	18,900	Interest on loan for repairs to property	65,000
Fees received during the year	10,25,000	Personal medical expenses	70,000
Gifts received from relatives of patients	45,000	Deposits in PPF A/c	55,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Nursing Home expenses	3,75,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	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 44ADA.

(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) Value of fixed assets as on 01.04.2025: Nursing Home Equipments ₹ 2,20,000, Medical Books (including annual publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.

(g) Television purchased for nursing home purpose on 21.09.2025 is put to use on 03.10.2025.

(h) He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2025.

You are required to:

(i) Compute the total income and tax payable by him for AY 2026-27 as per the regular provisions of the Income Tax Act. Assume that he has exercised the option of opting out from default regime prescribed u/s 115BAC.

(ii) What will be his total income and tax payable, if he opts for the provisions of Section 44ADA? Will it be more beneficial for him to adopt 44ADA?

Question 12

Mr Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March 2026 is as under:

Expenditure	Amount (₹)	Income	Amount (₹)
To Employee's Remuneration	15,00,000	By Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To Rates and Taxes	15,000	By Interest on Savings Bank Account	25,000
To Interest Expenses	80,000.	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	36,97,500		
-	64,24,500		64,24,500

The following details relates to FY 2025-26:

(i) Mr Bhasin has 25% profit sharing in a partnership firm where his wife, Mrs Beena, is working as a manager. She is drawing a remuneration of ₹ 3,00,000 from the firm. She does not have any technical or professional qualification or experience required for the job.

(ii) Mr Bhasin owns a big house with 2 independent units. Unit-1 (with 50% floor area) has been let out for residential purposes at a monthly rent of ₹ 20,000 for the entire year. Unit-2 (with the balance 50% of the floor area) is used by Mr Bhasin as his office. Other particulars of the house are:

- Municipal Valuation : ₹ 3,60,000 p.a.
- Fair Rent : ₹ 4,20,000 p.a.
- Standard Rent under Rent Control Act : ₹ 4,00,000 p.a.

(iii) Rates and Taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.

(iv) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in FY 2012-13. Neither loan nor interest was paid till ITR due date.

(v) Based on the actual rent received for Unit-1, Mr Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.

(vi) The expenses on insurance premium of ₹ 72,000 represents lump-sum health insurance premium paid by Mr Bhasin for 3 years effective from 1st July, 2025 to 30th June, 2028 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.

(vii) The expenses on professional fees paid includes a sum of ₹ 1,00,000 paid to a Mr Raunak, an Indian resident on which no tax was deducted at source.

(viii) There was only one block containing computers which came into existence only on 2nd. April 2025 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% on the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.

(ix) Mr Bhasin has also taken a loan of ₹ 5,00,000 from nationalised bank for higher education of his son. During FY 2025-26, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr Bhasin for AY 2026-27 under regular provisions of Income-tax Act 1961, assuming that he has opted to opt out of the default tax regime as prescribed u/s 115BAC. Also calculate the total tax payable by him.

Question 13

Mr Rohit, a resident individual aged 63 years, is a qualified medical practitioner. He runs his own clinic. Income & Expenditure A/c of Mr Rohit for the year ending 31st March 2026 is as under:

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary to Staff	8,20,000	By Consultation Fees	22,00,000
To Amount paid to scientific research association approved & notified u/s 35	25,000	By Salary received from True Care Hospitals (P) Ltd	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	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 Administrative Expenses	5,90,000		
To Net Profit	8,59,000		
Total	24,68,000	Total	24,68,000

Explanatory Information:

a) He is working part-time with True Care Hospitals (P) 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 PY 2025-26, his son had undergone a medical treatment in True Care Hospitals (P) Ltd free of cost. The hospital would have charged a sum of ₹ 1,00,000 for a similar treatment to un-related patients.

b) He owns a residential house. Ground floor of the house is self-occupied by him while first floor has been rented out since 01/10/2025. The reconstruction of the house was started on 01-04-2025 and was completed on 30-092025. The monthly rent is ₹ 10,000.

c) The tenant also pays ₹ 3,000 p.m. as power back-up charges. He took a housing loan of ₹ 12 lakhs on 01-04-2025. Interest on housing loan for the period 01-04-2025 to 30-09-2025 was ₹ 60,000 and for the period 01-10-2025 to 31-03-2026 was ₹ 40,000. During the year, he also paid municipal taxes for FY 2024-25 ₹ 5,000 and for FY 2025-26 ₹ 5,000.

Other Information:

a) Conveyance expenses include a sum of ₹ 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd and vice-versa in relation to his employment.

b) 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.

c) Power & 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) Details of clinic equipments: Opening WDV of clinic equipments as on 01-04-2025 was ₹ 1,00,000 and fresh purchase made on 28-08-2025 is ₹ 25,000 which was paid in cash.

f) He also paid tuition fee of ₹ 40,000 for his grand-daughter, which has been 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 PY 2025-26.

You are required to compute his net taxable income and net tax liability for the AY 2026-27 if he has exercised the option of shifting out of the default tax regime provided under Section 115BAC(1A).

Question 14

Mr Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for PY 2025-26 after debiting/crediting the following items:

Debits:

1. ₹ 20,000 paid to a Gurudwara registered u/s 806 of the Income Tax Act, in cash where no cheques are accepted.

2. ₹ 48,000 contributed to a university approved and notified u/s 35 (1)(ii) to be used for scientific research.

3. Interest paid ₹ 1,67,000 on loan taken for purchase of e-vehicle on 15-05-2022 from a bank. The e-vehicle was purchased for the personal use of his wife.

4. His firm has purchased timber under a forest lease of ₹ $20,00,000$ for the purpose of business.

Credits:

1. Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.

2. He received ₹ $3,00,000$ from a debtor which was written off as bad in AY 2017-18. 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 AY 2017-18.

Other Information:

1. Depreciation in books of accounts is computed by applying the rates prescribed under the income tax laws.

2. Mr Krishna purchased a new car of ₹ $12,00,000$ on 1^{st} September 2025 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.

3. Mr Krishna had sold a house on 30^{th} March 2023 and deposited the LTCG of ₹ $25,00,000$ in capital gain account scheme by the due date of filing return of income for that year. On 1^{st} March 2026, he sold another house property in which he resided for ₹ 1 crore. He earned a LTCG of ₹ $50,00,000$ on sale of this property. On 25^{th} March 2026, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.

4. Mr Krishna also made the following payments during PY 2025-26:

Lump-sum premium of ₹ 30,000 paid on 30^{th} March 2026 for the medical policy taken for self and spouse. The policy shall be effective for five years, ie from 30^{th} March 2026 to 29^{th} March 2031.

₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr Krishna for AY 2026-27 assuming that he has opted to opt out of the default tax regime as prescribed u/s 115BAC.

Question 15

Mr Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/C for the year ended 31st March 2026 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp	3,14,000	By Interest on PPF A/c	60,000
To General Expenses	75,000	By Interest on Savings Bank A/c	20,000
To Electricity Expenses	65,000	By Interest on NSC (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to FY 2025-26:

(i) The expenses on Employee's Remuneration & Benefits includes:

a) Family planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.

b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.

(ii) Amount received by Mr Ashish as Employees' Contribution to EPF for the month of February 2026 - ₹ 10,000 was also deposited after the due date under the relevant Act relating to EPF.

(iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.

(iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 35,000 paid to Ms Anjaleen on 5th January, 2026 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.

(v) Written down value of the depreciable assets as on 1st April 2025 were as follows:

Professional Books - ₹90,000

Computers - ₹ 35,000

(vi) The new furniture as appearing in the Income & Expenditure A/c was purchased on 31st August 2025 and was put to use on the same day. The payment was made as under:

₹ 18,000 paid in cash at the time of purchase of new furniture on 31/08/2025.

₹19,000 paid by account payee cheque on 05/09/2025 as balance cost of new furniture and

₹ 11,000 paid in cash on 31/08/2025 to the transporter as freight charges for the new furniture.

(vii) Mr Ashish purchased a car on 02/04/2024 for ₹ 3,35,000 for personal use. However, on 30/04/2025 he brought the said car for use in his profession. The fair market value of the car as on 30/04/2025 was ₹ 2,50,000.

(viii) Mr Ashish made a contribution of ₹ 1,00,000 in his PPF A/c on 31/01/2026.

(ix) The gross professional receipts of Mr Ashish for PY 2024-25 was ₹ 52,00,000.

Compute the total income and tax liability of Mr Ashish for AY 2026-27, assuming that he has exercised the option to opt out from the default regime prescribed u/s 115BAC. Ignore provisions relating to AMT.

Question 16

Mr Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit u/s 44AB of Income Tax Act, 1961. He has provided the following information:

Profit & Loss A/c For The Year Ended 31 st March 2026:

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	15,74,500		
Total	60,61,500	Total	60,61,500

Explanatory Information:

(i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 4,50,000 and closing stock of ₹ 5,58,000 was shown.

(ii) Salaries & wages include following items:

a. Contributed 20% of basic salary in National Pension Scheme referred u/s 80CCD regarding salary paid to an employee, Mr Ganesh who has withdrawn basic salary of ₹ 3,00,000, 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 ₹ 2,40,000 was paid to them on 1st January, 2026.

(iii) Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 taken from State Bank of India for purchase of new electric car of ₹ 15,00,000. The loan was sanctioned during PY 2022-23 but it was disbursed on 01.05.2023. The car is used for personal purposes.

(iv) Depreciation allowable as per Income Tax Rules, 1962 is ₹ 4,50,000 but during the calculation of such depreciation following addition was not considered :

Motor car purchased for ₹ 3,00,000 for supply of finished goods to dealers on 25-08-2025.

(v) An asset was purchased for ₹ 6,00,000 on 17-11-2024 for conducting scientific research and the deduction was claimed u/s 35 of the Income Tax Act, 1961. This asset was sold on 05-09-2025 for a consideration of ₹ 8,00,000.

Compute the total income and tax liability of Mr Shivansh for AY 2026-27 assuming that he has exercised the option of opting out of the default regime as prescribed u/s Section 115BAC. Ignore provisions relating to AMT.

Question 17

From the following details, compute the total income of Kamal, a resident individual aged 54 years, for the year ended 31st March 2026. Tax payable need not be calculated. Kamal has opted out of Section 115BAC.

Particulars	Amount (₹)
Salary including dearness allowance	5,00,000
Bonus	15,000
Salary to servant provided by employer	12,000
Bill paid by employer for gas, electricity and water provided free of cost at his flat	14,500
Cost of laptop provided by the employer (Used both for official and personal purposes)	40,000

Following additional information is provided:

(1) Kamal purchased a flat in a Cooperative Housing Society in Delhi for ₹ 10,75,000 in April 2019 by taking loan from State Bank of India amounting to ₹ 5,00,000 @ 15% per annum interest, ₹ 65,000 from his own savings and a deposit from a Nationalized Bank to whom this flat was given on lease for 10 years at a monthly lease rental of ₹ 5,500. The outstanding amount of loan is ₹ 1,60,000.

(2) Municipal taxes paid by Kamal during PY 2025-26 are ₹ 4,500.

(3) Insurance in respect of the said flat ₹ 1,275.

(4) Kamal earned a profit of ₹ 15,000 in shares speculation business and incurred a loss of ₹ 20,200 in speculation business of cotton.

(5) During FY 2022-23, he had gifted ₹ 50,000 to his wife and ₹ 30,000 to his son who was aged 11 years then. These amounts were advanced to Mr Mohan @ 15% per annum interest.

(6) Kamal received a gift of ₹ 25,000 each from his four friends on the occasion of his birthday.

(7) He contributed ₹ 10,500 to Public Provident Fund and ₹ 6,000 to Unit Linked Insurance Plan.

(8) He deposited ₹ 60,000 in tax saver deposit with a Nationalised Bank in the name of his married son.

(9) He has taken a policy on life for his married daughter on 01.04.2025 and paid a premium of ₹ 25,000. The sum assured for policy is ₹ 2,00,000.

Question 18

Mrs SC Bose (aged 62 years), a widow of a public sector employee, who died during his service in 2012. She earns income from business of running a flower bouquet shop at Kolkata and income from royalty from writing books of science and sells in India and abroad. P&L A/c for the year ended 31st March 2026 furnished by her is given below:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,00,000	By Sales of flower bouquet	36,75,000
To Purchases	15,66,000	By Family pension from PSU through bank	3,60,000
To Salaries and wages	4,90,000	By Royalty from California University for books sold (Foreign exchange brought into India)	4,25,000
To Expenses relating to books authored by her	75,000	By Dividend (Net of TDS)	4,50,000
To Expenses in connection with dividends	12,000	By Interest on FDR (No TDS deducted)	76,000
To Repairs & Maintenance	3,25,000	By Closing stock	1,36,000
To Amount paid to IIT Chennai for scientific research projects	35,000		
To Computers & other electronic items (purchased on 01-12-2025)	4,50,000		
To Net Profit	20,69,000		
Total	51,22,000	Total	51,22,000

Additional Information:

(i) Purchases include 2 lakhs relate to flowers and creepers directly purchased from a farmer in cash on 26.09.2025.

(ii) Repairs & Maintenance includes one-time deposit of ₹ 2,00,000 paid to electricity and water department.

(iii) Computers and other electronic items includes ₹1,00,000 paid for television and washing machine for her household use.

(iv) Salary & wages includes, salary paid ₹ 2,40,000 to her illiterate brother (reasonable salary as per market rate is ₹ 1,80,000)

(v) She purchased a residential house in ₹ 110 lakhs for which loan of ₹ 75 lakhs was taken from State Bank of India. Accrued interest was ₹ 3,37,500 till 31-03-2026 which was paid on 10-04-2026. No principal amount and interest was paid by Mrs SC Bose till 31-03-2026. Ground floor of the house was used for shop and first floor was occupied for her residence.

(vi) She purchased an electric vehicle on 30-09-2025 for ₹ 25 lakhs for business purposes.

(vii) She sold 10,000 listed shares of SBCL Ltd in ₹ 11,66,000 on 11-12-2025 which were purchased for ₹ 2,65,000 on 16.08.2025. STT was paid on purchase and sale both.

Compute total income of Mrs SC Bose under default tax regime u/s 115BAC and optional tax regime of the Income Tax Act, 1961.

Question 19

Ms Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income & Expenditure A/C for the year ended March 31, 2026 reads as follows:

Expenditure	Amount (₹)	Income	Amount (₹)
Salary to staff	15,50,000	Fees earned:	
Stipend to articled assistants	1,37,000	• Audit	27,88,000
Incentive to articled assistants	13,000	• Taxation services	15,40,300
Office rent	12,24,000	• Consultancy	12,70,000
Printing & Stationery	12,22,000	Dividend on shares of Indian Companies (Gross Amount - Before 10% TDS)	10,524
Meeting, Seminar & Conference	31,600	(Gross Amount - Before 10% TDS)	
Purchase of Car	80,000	Income from UTI	7,600
Repair, Maintenance & Petrol of Car	4,000	(Gross Amount - Before 10% TDS)	
Travelling expenses	5,25,000	Honorarium received for valuation of	15,800
Municipal Tax paid for House Property	3,000	answer papers	
Net Profit	9,28,224	Rent received from residential flat let out	85,600
Total	57,17,824	Total	57,17,824

Other Information:

(i) Allowable rate of depreciation on motor car is 15%.

(ii) Value of benefits received from clients during the course of profession is ₹ 10,500.

(iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.

(iv) Repairs and maintenances of car include ₹ 2,000 for the period from 01.10.2025 to 30.09.2026. (Payment was made on 31.03.2026).

(v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Mrs Purvi in one professional assignment.

(vi) The total travelling expenses incurred on foreign tour was ₹ 32,000 which was within the RBI norms.

(vii) Medical insurance premium on the health of dependent brother & major son dependent on her amounts to ₹ 5,000 and ₹ 10,000 respectively paid in cash.

(viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

(ix) She has paid ₹ 70,000 towards advance tax during PY 2025-26.

Compute the total income and tax payable of Ms Purvi for AY 2026-27 as per the regular provisions of the Income Tax Act, 1961 and as per Section 115BAC for AY 2026-27.

Question 20

Mr Rakesh, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2026.

a) 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 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30^{th} September 2026 is ₹ 2,30,000.

b) He owns an industrial undertaking established in a SEZ and which had commenced operation during FY 2019-20. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of Section 10AA of the Income Tax Act, 1961. Profit from this industry is ₹ 25 lakhs.

c) Received ₹ 40,000 as interest on saving bank deposits.

d) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ $2,28,000$. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.

e) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.

f) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr Rakesh under normal provisions as well as u/s 115BAC for AY 2026-27. Ignore AMT provisions.

Question 21

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income Tax Act, 1961 and as per Section 115BAC for AY 2026-27. Advise Mr Siddhant whether he sould opt for Section 115BAC:

Particulars	Amount (₹)
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 2018, 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:

a) Municipal taxes paid by Mr Siddhant - ₹ 4,300 (per annum).

b) House Insurance - ₹ 860.

c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.

d) In the year 2020-21, he had gifted ₹30,000 to his wife and ₹20,000 to his son who was aged 11. The gifted amounts were advanced to Mr Rajesh, who was paying interest @ 19% per annum.

e) Siddhant received a gift of ₹ 30,000 each from four friends.

f) He contributed ₹ 50,000 to Public Provident Fund.

SOLUTIONS TO SUBJECTIVE QUESTIONS:

Answer 1

Computation Of Total Income & Tax Liability Of Mr X (As Per Regular Provisions Of Income Tax Act, 1961):

Computation Of Total Income	**Amount (₹)**	**Amount (₹)**
Profit from SEZ unit	40,00,000	
Less: Exemption/Deduction u/s 10AA {40L $\times$ 80 L/100 L $\times$ 50%}	(16,00,000)	
Business Income of SEZ Unit Chargeable to Tax		24,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD (75L - 10L Cost of Land)	(65,00,000)	
Business Income of Warehousing Facility Chargeable to Tax		40,00,000
Total Income		64,00,000
Computation Of Tax Liability		**Amount (₹)**
Tax on ₹ 64,00,000 as per applicable slab rates		17,32,500
Add: Surcharge @ 10% (Since Total Income exceeds ₹ 50L)		1,73,250
Tax + Surcharge		19,05,750
Add: Health & Education Cess @ 4%		76,230
Tax Liability		19,81,980

Computation Of 'Adjusted Total Income' & Tax Liability Of Mr X (As Per AMT Provisions):

Computation Of 'Adjusted Total Income'	**Amount (₹)**
Total Income (As Computed Above)	64,00,000
Add: Deduction/Exemption u/s 10AA	16,00,000
Add: Deduction u/s 35AD	65,00,000
Less: Depreciation u/s 32 on Building (₹ 65L @ 10%) (Assumed that the entire capital expenditure is incurred on building)	(6,50,000)
'Adjusted Total Income'	1,38,50,000

Computation Of Tax Liability	Amount (₹)
AMT @ 18.5% on ₹ 1,38,50,000	25,62,250
Add: Surcharge @ 15% (Since Adjusted Total Income exceeds ₹ 1 crore)	3,84,338
Tax + Surcharge	29,46,588
Add: Health & Education Cess @ 4%	1,17,863
Tax Liability u/s 115JC	30,64,451
Tax Liability u/s 115JC (Rounded off u/s 288B)	30,64,450

Conclusion: Since the regular income tax payable is less than AMT payable, the 'Adjusted Total Income' shall be deemed to be the total income and accordingly, the tax liability would come out to ₹ 30,64,450 (18.5% of Adjusted Total Income - Applicable Surcharge + 4% H&EC).

AMT Credit To Be Carried-Forward u/s 115JEE

Particulars	Amount (₹)
Tax Liability (As per Section 115JC)	30,64,450
Less: Tax Liability (As per regular provisions of the Income Tax Act, 1961)	(19,81,980)
AMT Credit To Be Carried-Forward	10,82,470

Answer 2

Computation Of Total Income & Tax Liability Of Mr Xavier (As Per Regular Provisions of Income Tax Act, 1961):

Computation Of Total Income	Amount (₹)	Amount (₹)
Profit from SEZ unit	50,00,000	
Less: Exemption/Deduction u/s 10AA {50L x 90L/150L x 50%}	(15,00,000)	
Business Income of SEZ Unit Chargeable to Tax		35,00,000
Profit from operation of warehousing facility	1,10,00,000	

Less: Deduction u/s 35AD (63L - 13L Cost of Land)	**(50,00,000)**	
Business Income of Warehousing Facility Chargeable to Tax		60,00,000
Total Income		95,00,000
Computation Of Tax Liability		**Amount (₹)**
Tax on ₹ 95,00,000 as per applicable slab rates		26,62,500
Add: Surcharge @ 10% (Since Total Income exceeds ₹ 50L)		2,66,250
Tax + Surcharge		29,28,750
Add: Health & Education Cess @ 4%		1,17,150
Tax Liability		30,45,900

Computation Of 'Adjusted Total Income' & Tax Liability Of Mr Xavier (As Per AMT Provisions):

Computation of 'Adjusted Total Income'	**Amount (₹)**
Total Income (As Computed Above)	95,00,000
Add: Deduction/Exemption u/s 10AA	15,00,000
Add: Deduction u/s 35AD	50,00,000
Less: Depreciation u/s 32 on Building (₹ 50L @ 10%) (Assumed that the entire capital expenditure is incurred on building)	(5,00,000)
'Adjusted Total Income'	1,55,00,000
Computation of Tax Liability	**Amount (₹)**
AMT @ 18.5% on ₹ 1,55,00,000	28,67,500
Add: Surcharge @ 15% (Since Adjusted Total Income exceeds ₹ 1 crore)	4,30,125
Tax + Surcharge	32,97,625
Add: Health & Education Cess @ 4%	1,31,905
Tax Liability u/s 115JC	34,29,530

Conclusion: Since the regular income tax payable is less than AMT payable, the 'Adjusted Total Income' shall be deemed to be the total income and accordingly, the tax liability would come out to ₹ 34,29,530 (18.5% of Adjusted Total Income + Applicable Surcharge + 4% H&EC).

AMT Credit To Be Carried-Forward u/s 115JEE:

Particulars	Amount (₹)
Tax Liability (As per Section 115JC)	34,29,530
Less: Tax Liability (As per regular provisions of the Income Tax Act, 1961)	(30,45,900)
AMT Credit To Be Carried-Forward	3,83,630

Part 2 - Practical Problems On Default Tax Regime {Section 115BAC}

Answer 3

Computation Of Tax Liability Of Ms Kajal For AY 2026-27 (As Per Section 115BAC):

Particulars	Amount (₹)
Tax on ₹ 2,00,50,000 as per concessional slabs given u/s 115BAC	55,95,000
➢ **First ₹ 4,00,000 - Nil**	
➢ **Next ₹ 4,00,000 - ₹ 20,000 (5%)**	
➢ **Next ₹ 4,00,000 - ₹ 40,000 (10%)**	
➢ **Next ₹ 4,00,000 - ₹ 60,000 (15%)**	
➢ **Next ₹ 4,00,000 - ₹ 80,000 (20%)**	
➢ **Next ₹ 4,00,000 - ₹ 1,00,000 (25%)**	
➢ **Balance ₹ 1,76,50,000 - ₹ 52,95,000 (30%)**	
Add: Surcharge @ 25%	13,98,750
Tax Before Marginal Relief	69,93,750
Less: Marginal Relief (WN 1)	(5,26,750)
Tax After Marginal Relief	64,67,000
Add: Health & Education Cess @ 4%	2,58,680
Tax Liability	67,25,680

WN 1	
Tax + Surcharge of 25% on Income of ₹ 2,00,50,000	69,93,750
Less: Tax (+) Surcharge of 15% on Income of ₹ 2,00,00,000	64,17,000
Increase in Tax	5,76,750
Increase in Income	50,000
Marginal Relief (5,76,750-50,000)	5,26,750

Answer 4

Computation Of Tax Liability Of Mr Gupta For AY 2026-27 (As Per Section 115BAC):

Particulars	Amount (₹)
Tax on ₹ 1,02,00,000 as per concessional slabs given u/s 115BAC	26,40,000
➢ **First ₹ 4,00,000 - Nil**	
➢ **Next ₹ 4,00,000 - ₹ 20,000 (5%)**	
➢ **Next ₹ 4,00,000 - ₹ 40,000 (10%)**	
➢ **Next ₹ 4,00,000 - ₹ 60,000 (15%)**	
➢ **Next ₹ 4,00,000 - ₹ 80,000 (20%)**	
➢ **Next ₹ 4,00,000 - ₹1,00,000 (25%)**	
➢ **Balance ₹ 78,00,000 - ₹ 23,40,000 (30%)**	
Add: Surcharge @ 15%	3,96,000
Tax Before Marginal Relief	30,36,000
Less: Marginal Relief (WN 1)	Nil
Tax After Marginal Relief	30,36,000
Add: Health & Education Cess @ 4%	1,21,440
Tax Liability	31,57,440

WN 1	
Tax + Surcharge of 15% on Income of ₹ 1,02,00,000	30,36,000
Less: Tax (+) Surcharge of 10% on Income of ₹ 1,00,00,000	28,38,000
Increase in Tax	1,98,000
Increase in Income	2,00,000
Marginal Relief (1,98,000-2,00,000)	Nil

Answers 5 & 6

To Be Discussed In Class

Answer 7

Computation Of Income From House Property Of Mr Sailesh For AY 2026-27:

Particulars	Amount (₹)
A. UNIT 1 - RENTED UNIT (50% OF TOTAL AREA)	
Step I - Computation of Expected Rent:	
• **Municipal valuation (₹** $2{,}80{,}000 \times 50\%$**)**	1,40,000
• **Fair rent (₹ 2,98,000** $\times 50\%$**)**	1,49,000
• **Standard rent (₹ 2,78,000** $\times 50\%$**)**	1,39,000
ER is higher of municipal valuation and fair rent, but restricted to standard rent	1,39,000
Step II - Computation of Gross Rent R/R & Effective Rent R/R: **Gross Rent R/R:** **Actual Rent R/R for the whole year without vacancy (₹** $20{,}000 \times 12\text{M}$**) - Unrealised Rent (₹ 20,000) = ₹ 2,20,000** **Effective Rent R/R:** **Actual Rent R/R after considering vacancy (₹** $20{,}000 \times 10\text{M}$**) - Unrealised Rent (₹ 20,000)** $= ₹1{,}80{,}000$ **Since Gross Rent R/R is more than expected rent, the assessee will be allowed the benefit of vacancy and Effective Rent R/R shall be taken as GAV.**	
Gross Annual Value (GAV)	1,80,000
Less: Municipal taxes (50% **of ₹ 30,000)**	(15,000)

Net Annual Value (NAV)	**1,65,000**
Less: Deduction u/s 24(a) {30% of NAV}	(49,500)
Less: Deduction u/s 24(b) {Interest on borrowed capital (₹ 90,000/2)}	(45,000)
Taxable Income from Let Out Portion	70,500
B. UNIT 3-SELF-OCCUPIED UNIT (25% OF TOTAL AREA)	
Net Annual Value	Nil
Less: Deduction u/s 24(a) {30% of NAV}	Nil
Less: Deduction u/s 24(b) {Not allowed as Mr Sailesh is opting for Section 115BAC}	Nil)
Taxable Income from Self-Occupied Portion	Nil
Income from House Property (₹ 70,500 + Nil)	70,500

Computation Of PGBP Income Of Mr Sailesh For AY 2026-27:

Business Income {Without Deducting Expenditure Of Unit 2(25% Floor Area Used For Business Purposes)}	**2,40,000**
Less: Expenditure In Respect Of Unit 2:	
➢ **Municipal taxes (25% of ₹ 30,000)**	(7,500)
➢ **Repairs (25% of ₹ 7,000)**	(1,750)
➢ **Interest on loan (25% of ₹ 90,000)**	(22,500)
➢ **Ground rent (25% of ₹6,000)**	(1,500)
➢ **Fire insurance premium (25% of ₹60,000)**	(15,000)
PGBP Income	1,91,750

Total Income of Mr Saliesh For AY 2026-27 is ₹ 2,62,250.

Answer 8

Computation Of Gross Total Income Of Mr Rajesh For AY 2026-27:

	Particulars	Amount (₹)	Amount (₹)
I	Income from Salary:		
	Salary Income	3,40,000	
	Less: Current year HP Loss {Since Mr Rajesh is paying tax u/s 115BAC, loss from house property is neither allowed to be set-off against any other income nor allowed to be c/f}	Nil	
	Income u/h Salary		3,40,000
II	Income from House Property:		
	Net Annual Value (NAV) {Self-Occupied Property}	Nil	
	Less: Deduction u/s 24(a) {30% of NAV}	Nil	
	Less: Deduction u/s 24(b) {Where Section 115BAC is opted for, interest u/s 24(b) is not allowed in case of a self-occupied property}	Nil	
	Income u/h HP		Nil
III	Income from Business/Profession:		
	Profit and gains from manufacturing business	96,000	
	Add: Additional depreciation not allowable in case of Section 115BAC	4,000	
	Less: B/f loss from manufacturing business	(35,000)	
	Less: B/f unabsorbed normal depreciation	(10,000)	
	Income u/h PGBP		55,000
IV	Capital Gains:		
	LTCG on sale of house property	1,40,000	
	Less: LT capital loss on sale of shares on which STT is paid can also be set-off as per Section 74, since LTCG gain arising on sale of such shares is taxable u/s 112A	(1,15,000)	
	Income u/h Capital Gains		25,000

V	**Income from Other Sources:**	
	Winnings from lottery tickets {As per Section 58, no expenditure is allowed from lottery winnings}	40,000
Gross Total Income		4,60,000

Note: As per Section 74A, loss from the activity of owning & maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Therefore, the loss of ₹ 50,000 from the activity of owning and maintaining race horses is being c/f to AY 2027-28.

Answer 9

Part 1 - Assessee Has Exercised The Option Of Shifting Out Of The Default Tax Regime:

Particulars	P&M (₹ In Lakhs)	Computer (₹ In Lakhs)
Normal Depreciation	5.89	0.8
Additional Depreciation	3.00	Nil
Total	8.89	0.8

Part 2 - Assessee Pays Tax Under The Default Tax Regime:

Particulars	P&M (₹ In Lakhs)	Computer (₹ In Lakhs)
Normal Depreciation	5.89	0.8
Additional Depreciation	Nil	Nil
Total	5.89	0.8

Answer 10

Computation Of Total Income Of Mr Suraj, Mrs Megha & Minor Son Dev For AY 2026-27:

Particulars	Mr Suraj {Default Regime}	Mrs Megha {Normal Provisions}
House Property:		
Annual Value {As per Section 27, Mrs Megha is the deemed owner of the house property transferred to minor son without consideration? (₹ 35,000 × 12 Months)		4,20,000

Less: Deduction @ 30% of NAV		**(1,26,000)**
Note: Since Mr Suraj is paying tax under default tax regime, no adjustment shall be allowed in resect of HP losses against any other income. Inter-head adjustment of HP losses as per Section 71 as well as c/f of losses as per Section 71B is not permissible.		2,94,000
PGBP:		
Salary from partnership firm	6,15,000	
Less: Current year loss from business of his wife is allowed to be set off in the hands of Mr Suraj since funds for business is gifted by him. Out of ₹ 8,10,000, loss shall be adjusted to against current year PGBP income to the extent of ₹ 6,15,000 and the balance loss shall be adjusted against other incomes.	(6,15,000)	
Other Sources:		
• Interest on enhanced compensation {Taxable in the year of receipt after allowing standard deduction of 50% u/s 57}	1,00,000	
• Gift from grandfather's sister {Taxable u/s 56(2)(x) since grandfather's sister is not a relative and the amount of gift exceeds ₹ 50,000}	1,25,000	
• Dividend on shares (gross)	50,000	
• Maturity proceeds from LIC {Exempt u/s 10(10D) since the annual premium payable does not exceed 10% of sum assured; further the limit of ₹ 5 L in respect of annual premium shall not be applicable as the pqlicy has been taken before 1st April 2023}	Exempt	
Less: Set-off of remaining business loss of ₹ 1,95,000	(1,95,000)	
Taxable Income	80,000	2,94,000

Note: Gift of house property from Mrs Megha to Master Dev shall be exempt in the hands of Master Dev since the gift is received from his mother (ie, a relative). Therefore, Master's Dev income shall be nil.

Part 3 - Comprehensive Practical Problems On Computation Of Total Income & Tax Liability As Per General Provisions Of The Income Tax Act, 1961

Answer 11

(i) Computation Of Total Income And Tax Payable By Dr Rohan for AY 2026-27 As Per Regular Provisions:

Particulars	(₹)	(₹)
House Property:		
Annual value [Assuming residential property self-occupied]	Nil	
Less: Section 24(b) {Interest on loan for repairs to property, ₹ 40,000, restricted to}	(30,000)	
Loss From Self-Occupied Property		(30,000)
[Can be set-off against PGBP Income or Other Sources Income]		
Profits & Gains Of Business/Profession:		
• Fees from visits to other hospitals [5,85,000/90%]	6,50,000	
• Fees for March 2025 received in April 2025 [Fees for March 2025 is chargeable to tax during PY 2025-26, since Dr Rohan is following cash system of accounting]	85,000	
• Fees received during the year	10,25,000	
• Gifts received from relatives of patients [taxable as business income]	45,000	
Sub-Total	18,05,000	
Permissible Deductions:		
• Salary to staff {Salary paid to his sister who is a qualified nurse in cash disallowed u/s 40 A(3), since such cash payment exceeds ₹ 10,000 } [₹ 3,50,000 - ₹ 60,000]	2,90,000	
• Taxes and insurance	26,000	
• Entertainment expenses, including dinner to doctors {Assuming that the entire sum was incurred wholly and exclusively for business purposes}	1,10,000	
• Interest on loan for repair to property to the extent relating to business [₹65,000 - ₹ 40,000, relating to residential property]	25,000	
• Nursing home expenses	3,75,000	

• Professional fees paid for consulting services	1,20,000	
• Depreciation on nursing home equipment [2,20,000 × 15%]	33,000	
• Depreciation on medical books [35,000 × 40%]	14,000	
• Depreciation on laptop [40,000 × 40%]	16,000	
• Depreciation on Television [48,000 × 15%, since the television is put to use for 180 days during the PY 2025-26]	7,200	
	10,16,200	
Sub-Total PGBP Income (Gross Receipts - Permissible Deductions)		7,88,800
Other Sources:		
• Dividend from shares [18,900/90%]	21,000	
• Honorarium for painting services in Jai Hind Art School [22,500/90%]	25,000	
• Interest on income-tax refund	1,500	
• Income earned by daughter in law from asset gifted to her by Dr Rohan {To be clubbed in the hands of Dr Rohan as per Section 64}	10,000	
Income u/h Other Sources		57,500
Gross Total Income		8,16,300
Less: Deduction Under Chapter VI-A		
Deduction u/s 80C (Deposits in PPF)	55,000	
Deduction u/s 80D (Medical expenses to the extent of ₹ 50,000 since Dr Rohan is a senior citizen, assuming he has not taken any medical insurance policy)	50,000	
Deduction u/s 806 (Donation towards PM CARES Fund)	10,000	(1,15,000)
Total Income		7,01,300

Tax Payable		
Upto ₹ 5,00,000 [Since Dr Rohan is aged 80 years or above]	Nil	
₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300 @20%]	40,260	40,260
Add: HEC @ 4%		1,610
Tax Liability		41,870
Less: TDS on fees from visits to other hospitals	65,000	
Less: TDS on dividend from shares	2,100	
Less: TDS on honorarium for painting services	2,500	(69,600)
Tax Refundable		27,730

(ii) Computation Of Total Income And Tax Payable By Dr Rohan For AY 2026-27 If He Opts For Section 44ADA:

Particulars		**(₹)**
House Property: **Loss from self-occupied property**		(30,000)
Profits & Gains Of Business/Profession: **Income from profession [18,05,000 × 50%] [No other expenditure or depreciation is allowed]**		9,02,500
Other Sources:		57,500
Gross Total Income		9,30,000
Less: Deduction under Chapter VI-A		(1,15,000)
Total Income		8,15,000
Tax Payable		
Upto ₹ 5,00,000	Nil	
₹ 5,00,001 to ₹ 8,15,000 [3,15,000 @20%]	63,000	63,000
Add: HEC @4%		2,520

Tax Liability	**65,520**
Less: TDS	(69,600)
Tax Refundable	4,080

Note: Since tax refundable in case Dr Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.

Answer 12

Computation Of Total Income Of Mr Bhasin For AY 2026-27:

Particulars	Amount (₹)	Amount (₹)
Income u/h PGBP :		
Net Profit as per Income & Expenditure A/c	36,97,500	
Add: Inadmissible Expenses		
• Municipal taxes pertaining to 50% let-out portion (10,000 × 50%)	5,000	
• Interest on loan taken for construction of house for 50% let-out portion (80,000 × 50%)	40,000	
• Interest on loan taken for construction of house pertaining to 50% portion used as office (80,000 × 50%) {Disallowed as per Section 43B as the same hasn't been paid till the last date of filing of return of income; interest on loan taken from nationalized bank is allowed to be deducted only if paid till the last date of filing of return of income}	40,000	
• Notional rent of Unit-2 used for the purposes of profession {Notional expenses are not allowed to be debited}	2,40,000	
• Insurance premium {It's a personal expenditure, not allowed to be debited to P&L A/c}	72,000	
• 30% of professional fees paid to Mr Raunak {Since the professional turnover of Mr Bhasin for preceding FY exceeds ₹ 50L, Mr Bhasin is required to deduct TDS on such payment u/s 194J. 30% expenditure is being disallowed as per Section 40(a)(ia) as the payment was made without deduction of TDS}	30,000	

• Excess depreciation on computers {₹ 1,20,000-40% of ₹ 2L}			40,000	
Less: Ineligible Incomes				
• Interest on savings bank account			(25,000)	
• Lottery winnings			(99,500)	
• Rent received.			(2,40,000)	
Income u/h Business/Profession				38,00,000
Income u/h Salary				
Remuneration received by Mrs Beena clubbed in the hands of Mr Bhasin {Since Mrs Beena doesn't possess any technical/professional qualification, remuneration received by Mrs Beena from a partnership firm (in which Mr Bhasin has substantial interest) shall be clubbed in the hands of Mr Bhasin as per Sec 64}			3,00,000	
Less: Standard deduction u/s 16(ia)			(50,000)	
Income u/h Salary				2,50,000
Income u/h House Property (From Let-Out Portion):				
Gross Annual Value (Higher of Actual Rent & Expected Rent)			2,40,000	
Actual Rent (₹ $20,000 \times 12$)	₹ 2,40,000			
Expected Rent (50% of ₹ 4,00,000)	₹ 2,00,000			
Less: Municipal Taxes			(5,000)	
Net Annual Value			2,35,000	
Less: Deduction u/s 24(a) @ 30% of NAV			(70,500)	
Less: Interest on capital borrowed u/s 24(b)			(40,000)	
Income u/h House Property				1,24,500
Income from Other Sources:				
• Interest on savings bank account			25,000	
• Lottery winnings (No expense is allowed to be deducted from lottery income)			1,00,000	

Income u/h Other Sources		1,25,000
Gross Total Income		42,99,500
Less: Deduction u/s 80D (Medical insurance premium paid for single premium policy to be apportioned in four instalments as the policy is effective for 4 FYs, ie FY 2025-26 to FY 2028-29) (₹ 72,000/4 years)		(18,000)
Less: Deduction u/s 80E (Interest paid on loan taken for higher education of son)		(40,000)
Less: Deduction u/s 80TTA (Interest paid on savings bank account, subject to maximum ₹ 10,000)		(10,000)
Total Income		42,31,500

Computation Of Tax Liability:

Particulars	Amount (₹)
Tax on causal income of ₹ 1,00,000 @ 30% u/s 115BBE	30,000
Tax on normal income of ₹ 41,31,500 as per standard slabs of ₹ 2,50,000	10,51,950
Sub-Total	10,81,950
Add: Health & Education Cess @ 4%	43,278
Tax Liability	11,25,228
Less: TDS on lottery winnings @30% u/s 194B	(30,000)
Tax Liability (After Rounding off u/s 288B)	10,95,230

Answer 13

Computation Of Total Income Of Mr Rohit For PY 2025-26:

Particulars	Amount (₹)	Amount (₹)
I. House Property:		
1) Income From Let-Out Portion:		Nil
Gross Annual Value (₹ 10K × 6 Months) { In the absence of any information about fair rent, municipal rent & standard rent, Actual Rent R/R is taken as GAV}	60,000	

Less: Municipal taxes {Total amount paid during the year} (₹10,000 × 50%)	**(5,000)**	
Net Annual Value (NAV)	55,000	
Less: Deduction u/s 24(a) {30% of NAV}	(16,500)	
Less: Deduction u/s 24(b) {(₹ 60,000 + ₹40,000) × 50%}	(50,000)	
Income/(Loss)	(11,500)	
2) Income From Self-Occupied Portion:		
Gross Annual Value	Nil	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	Nil	
Less: Deduction u/s 24(a) {30% of NAV}	Nil	
Less: Deduction u/s 24(b) {Maximum deduction of ₹ 30,000 since loan has been taken for reconstruction of the house}	(30,000)	
Income/(Loss)	(30,000)	
Net Loss u/h House Property {Loss set-off against salary income as per Section 71}	(41,500)	
II. Salary:		
➢ **Basic Salary (₹ 13,000 × 12 months)**	1,56,000	88,500
➢ **Transport Allowance (₹ 2,000 × 12 months) {Fully Taxable}**	24,000	
➢ **Cost of treatment for son in True Care Hospitals (P) Ltd {Exempt as value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite}**	Exempt	
Less: Standard Deduction u/s 16(ia)	(50,000)	
Net Income u/h Salary (Before Adjustment Of Loss)	1,30,000	
Less: House Property loss set-off as per Section 71	(41,500)	
Net Income u/h Salary (After Adjustment Of Loss)	88,500	

III. Income From Business/Profession:		
Net Profit as per Income & Expenditure A/c	8,59,000	7,30,000
Add: Ineligible Expenses		
• Excessive salary paid to sister-in law {Disallowance provisions shall not apply since sister-in law does not fall within the definition of relative}	Nil	
• Municipal taxes paid for house property included in administrative expenses	10,000	
• Generator fuel charges incurred for providing power back-up to the tenant included in power & fuel expenses	6,000	
• Conveyance expenses (for commuting to employer's office & return)	12,000	
• Interest on housing loan	1,00,000	
• Interest on education loan for son	26,000	
Less: Eligible Expenses/Ineligible Incomes		
• Salary received from True Care Hospitals (P) Ltd	(1,80,000)	
• Rental income from house property	(78,000)	
• Dividend from foreign company	(10,000)	
• Donation to scientific research association notified u/s 35 {Weighted deduction of 100% available; thus no additional deduction available)	-	
• Depreciation on clinical equipment (15% of ₹ 1 lakh) {No depreciation shall be allowed on the equipment of ₹ 25,000 purchased on 28^{th} August 2025 since the entire payment of ₹ 25,000 has been made in a single day by way of cash)	(15,000)	
Net Income u/h PGBP	7,30,000	
IV. Other Sources:		
➢ Dividend from foreign companies	10,000	22,000
➢ Power back-up charges from the tenant (₹ $3,000 \times 6$ months)	18,000	
Less: Generator fuel charges incurred for providing power back-up	(6,000)	

Gross Total Income	**8,40,500**
Less: Deduction u/s 80C {No deduction is available where tuition fee is paid for grand-daughter}	Nil
Less: Deduction u/s 80E {Interest paid on education loan taken from bank for higher education of son is available as deduction u/s 80E; however no deduction is available for principal repayment?	(26,000)
Total Income	8,14,500

Computation Of Tax Liability Of Mr Rohit For PY 2025-26:

Particulars	Amount (₹)
Tax on ₹ 8,14,500 at slab rates	72,900
Add: Health & Education Cess @ 4%	2,916
Tax Liability (Rounded-Off u/s 288B)	75,820

Note: Mr Rohit is a medical professional and if he claims that his PGBP income is lower than ₹ 11,00,000 (ie, 50% of gross receipts of ₹ 22,00,000) and his total income exceeds the maximum amount not chargeable to tax, he would be required to maintain books of accounts and get them audited from an accountant by virtue of Section 44ADA.

Answer 14

Computation Of Total Income Of Mr Krishna for AY 2026-27:

Particulars	(₹)	(₹)
I. Income From Business Or Profession:		
Net Profit as per P&L A/c	5,64,44,700	
Add: Items Of Expenditure Debited But Not Allowable While Computing Business Income		
• Donation to Gurudwara in cash {Not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income}	20,000	

• Interest on loan taken for purchase of e-vehicle {Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income}	**1,67,000**	
Less: Items Of Income Credited But Not Taxable Or Taxable Under Any Other Head		
• Royalty on patent {Not taxable as business income since Mr Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income}	(4,00,000)	
• Bad debt recovered {Actual bad debt is ₹ 2 lakhs, ie ₹ 5 lakhs less ₹ 3 lakhs, being the amount of bad debt recovered. Bad debt written off earlier in P&L A/c is ₹ 3 lakhs. Therefore, effectively bad debt has been charged excessively to P&L A/c in earlier years to the extent of ₹ 1 lakh. Such excess amount of ₹ 1 lakh needs to be added to P&L A/c. Further, the entire recovery of ₹ 3 lakhs has already been credited to P&L A/c, which now needs to be removed. So, with respect to this transaction, effectively ₹ 2 lakhs needs to be reduced from P&L A/c}	(2,00,000)	
Less: Allowable Expenditure		
• Contribution to a university approved and notified u/s 35(1)(ii) for scientific research {Eligible for deduction @ 100%. Since 100% of the expenditure is already debited to P&L A/c, nothing needs to be done separately}	Nil	
• Depreciation on car {₹ 12 lakhs × 15%; car put to use for more than 180 days }	(1,80,000)	
Net Income u/h PGBP		5,58,51,700
Capital Gains:		
LTCG on sale of house property	50,00,000	
Less: Exemption u/s 54 {Capital gain of ₹ 25 L in capital gain account scheme is not taxable in PY 2025-26, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 75 L invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹50 lakhs being LTCG on sale of house property during PY 2025-26}	(50,00,000)	-

Income From Other Sources:		
Royalty on patent {Taxable u/h other sources since he is engaged in furniture manufacturing business}		4,00,000
Gross Total Income		5,62,51,700
Less: Deduction u/s 80D		(10,000)
• Mediclaim premium for self and spouse {In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. (₹ 30,000/6) years, being relevant previous years in which the insurance is in force}	5,000	
• Preventive health check up of self and spouse {Preventive health check-up paid in cash is allowed to the extent of ₹ 5,000]	5,000	
Less: Deduction u/s 80EEB {Since the loan is sanctioned by bank during PY 2022-23, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000 }		(1,50,000)
Less: Deduction u/s 806 {Donation of ₹ 20,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash}		Nil
Less: Deduction u/s 80RRB {Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakhs}		(3,00,000)
Total Income		5,57,91,700

Computation Of Tax Liability Of Mr Krishna For AY 2026-27:

Particulars	**(₹)**	**(₹)**
Tax On Total Income Of ₹ 5,57,91,700		1,65,47,510
• Upto ₹ 3,00,000	Nil	
• ₹ 3,00,001 - ₹ 5,00,000 [@ 5% of ₹ 2 lakhs]	10,000	
• ₹ 5,00,001 - ₹ 10,00,000 [@ 20% of ₹ 5,00,000]	1,00,000	
• ₹ 10,00,001 - ₹ 5,57,91,700 [@ 30% of ₹ 5,47,91,700]	1,64,37,510	
Add: Surcharge @ 37%, since total income exceeds ₹ 5,00,00,000		61,22,579
Tax (+) Surcharge		2,26,70,089
Add: H&EC @ 4%		9,06,804

Tax Liability	**2,35,76,893**
Less: TCS u/s 206C(1) @ 2% on ₹ 20 lakhs, ie timber	(40,000)
Less: TCS u/s 206C(1F) @ 1% of ₹ 12 lakhs, ie sale of motor car where consideration exceeds ₹ 10 L	(12,000)
Less: TDS u/s 194-IA @ 1% of ₹ 1 crore, ie sale of immovable property where consideration is ₹ 50L or more	(1,00,000)
Tax Payable	2,34,24,893
Tax Payable (Rounded Off u/s 288B)	2,34,24,890

Answer 15

Computation Of Total Income Of Mr Ashish For AY 2026-27:

Particulars	(₹)	(₹)
I. Income From Business Or Profession:		
Excess of income over expenditure	39,43,000	
Add: Items Debited But Not Allowable While Computing Business Income:		
• Family planning expenditure incurred for employees {Not allowable as deduction since expenditure on family planning for employees is allowed only to a company assesse/not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income}	20,000	
• Salary payment to sister-in-law in excess of market rate {Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" for the purpose of Section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr Ashish's sister-in-law}	Nil	
• Employees' Contribution to EPF {Sum received by the assessee from his employees as contribution to EPF is income of the employer. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2026 is deposited after the due date under the relevant Act, deduction would not be available}	10,000	

• Medical expenses for the treatment of father {Not allowed as deduction since it is a personal expenditure/not an expenditure incurred for the purpose of business of Mr Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income}	80,000	
• Commission to Ms Anjaleen without deduction of TDS {Mr Ashish would be liable to deduct TDS on commission since his gross receipts from profession exceeded ₹ 50 lakhs during FY 2024-25. Since commission has been paid without deduction of TDS, hence 30% of ₹ 35,000, being commission paid without deducting tax at source, would be disallowed u/s 40(a)(ia) while computing the business income of AY 2026-273	10,500	
• Depreciation as per books of accounts	90,000	
• Purchase of furniture {Not allowable, since it is a capital expenditure}	48,000	
Less: Depreciation As Per Income Tax Rules:		
• On Professional Books (₹ 90,000 × 40%)	(36,000)	
• On Computers (₹ 35,000 × 40%)	(14,000)	
• On Furniture {₹19,000 × 10%, since it has been put to use for more than 180 days during the year: Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an a/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2025 in cash would not be included in the actual cost of furniture}	(1,900)	
• On Car (₹ 3,35,000 xx15%) {Actual cost of car would be the purchase price of the car to Mr Ashish, ie ₹ 3,35,000 }	(50,250)	
Less: Incomes Credited But Not Taxable Or Taxable Under Any Other Head:		
• Interest on Public Provident Fund {Exempt}	(60,000)	
• Interest on savings bank account {Taxable u/h "Other Sources"}	(20,000)	
• Interest on NSC VIII Issue (3rd Year) {Taxable u/h "Other Sources"}	(21,000)	
Net Income u/h Business/Profession		39,98,350

II. Income From Other Sources:		
• Interest on savings bank account	20,000	
• Interest on National Savings Certificates VIII Issue (3rd Year)	21,000	41,000
Gross Total Income		40,39,350
Less: Deduction u/s 80 C		(1,21,000)
• Contribution to PPF	1,00,000	
• Interest on NSC (3rd Year) (Reinvested)	21,000	
Less: Deduction u/s 80D		(50,000)
Medical expenses for father's treatment {Since Mr Ashish's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000}		
Less: Deduction u/s 80TTA		(10,000)
Interest on savings bank account to the extent of ₹ 10,000		
Total Income		38,58,350

Computation Of Tax Liability Of Mr Ashish For AY 2026-27:

Particulars	(₹)
Tax on total income of ₹ 38,58,350 as per slab rates	9,70,005.00
Add: H&EC @ 4%	38,800.20
Tax Liability	10,08,805.20
Tax Liability (Rounded Off u/s 288B)	10,08,810

Answer 16

Computation Of Total Income Of Mr Shivansh For AY 2026-27:

Particulars	(₹)	(₹)
(I) Income From Business Or Profession:		
Net Profit	15,74,500	
Add: Items Debited But Not Allowable/Item Not Credited But Taxable While Computing		
• **Employer's contribution to NPS in excess of** 14% **of salary - Employer's contribution to the extent of 14% of salary (ie, basic salary plus dearness allowance forming part of salary) would be allowed as deduction. Thus, excess contribution, ie ₹ 24,000 {₹ 60,000, being 20% of ₹** $3{,}00{,}000$ **less ₹ 50,400 being 14% of ₹** $3{,}60{,}000$ **(₹** $3{,}00{,}000 + 20\%$ **of ₹** $3{,}00{,}000$ **)} has to be added back.**	9,600	
• **VRS Expenditure:** $1/5^{th}$ **of expenditure on VRS is allowable over a period of five years** $\mathrm{u/s}$ **35DDA. Since whole amount of expenditure is debited to P&L A/c,** $4/5^{th}$ **has to be added back (₹ 2,40,000 × 4/5).**	1,92,000	
• **Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, ₹** $1{,}65{,}000$ **[** $₹12{,}00{,}000 \times 15\% \times 11/12$ **] has to be added back, since the same forms part of interest on loan debited to P&L A/C.**	1,65,000	
• **Sale proceeds of asset acquired for conducting scientific research taxable as business income** $\mathrm{u/s41}$ **(3) in the year of sale to the extent of lower of ₹** $6{,}00{,}000$ **(being the deduction allowed** $\mathrm{u/s35}$ **) and ₹**$8{,}00{,}000$ **(being the sale proceeds)**	6,00,000	
• **Undervaluation of closing stock (₹** $5{,}58{,}000 \times 10/90$ **)**	62,000	
• **Depreciation as per books of** $\mathrm{A/C}$	6,17,000	
Less: Items Not Debited But Allowable While Computing Business Income		
• **Depreciation as per Income Tax Rules**	(4,50,000)	
• **Depreciation on Motor car purchased for supply of finished goods (₹ 3L x 15%)**	(45,000)	
• **Undervaluation of opening stock (₹** $4{,}50{,}000 \times 10/90$ **)**	(50,000)	
Less: Incomes Credited To P&L A/c But Not Taxable Or Taxable Under Any Other Head:		
• **Profit on sale of asset of scientific research (Taxable u/h "Capital Gains")**	(2,00,000)	
• **Winning from lottery (Taxable u/h "Income From Other Sources")**	(31,500)	

Net Income u/h Business/Profession		**24,43,600**
(II) Capital Gains:		
STCG On Sale Of Asset Acquired For Conducting Scientific Research:		
Sales consideration	8,00,000	
Less : Cost of acquisition	(6,00,000)	
Short-Term Capital Gain		2,00,000
(III) Income From Other Sources:		72,000
• Winnings from lottery (₹ 31,500 × 100/70)	45,000	
• Interest on enhanced compensation {50% deduction available u/s 57; balance 50% taxable)	27,000	
Gross Total Income		27,15,600
Less: Deduction u/s 80EEB {Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of ₹ 1,50,000}		(1,50,000)
Total Income		25,65,600

Computation Of Tax Liability Of Mr Shivansh For AY 2026-27:

Particulars	Amount (₹)
• Tax on winnings from lottery of ₹ 45,000 @ 30% u/s 115BB	13,500
• Tax on normal income of ₹ 25,20,600 as per the applicable slab rate of ₹ 3,00,000 as Mr Shivansh is a senior citizen	5,66,180
Tax before Health & Education Cess	5,79,680.00
Add: H&EC @ 4%	23,187.20
Tax Liability	6,02,867.20
Tax Liability (Rounded Off u/s 288B)	6,02,870

Answer 17

Computation Of Gross Total Income Of Mr Kamal For AY 2026-27:

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Salary including dearness allowance	5,00,000	
• Bonus	15,000	
• Value of Perquisites:		
➢ Salary of servant provided by employer [Sec 17(2)(iii); Rule 3(3)]	12,000	
➢ Free gas, electricity and water [Sec 17(2)(iii); Rule 3(4)]	14,500	
➢ Laptop [Sec 17(2)(viii); Rule 3(7)(vii)]	Nil	
Less: Standard Deduction of ₹ 50,000u/s16 (ia)	(50,000)	4,91,500
Income u/h PGBP :		
Income from share speculation business	15,000	
Less: Loss from cotton speculation business	(20,200)	
Net loss from speculation business to be carried forward	(5,200)	Nil
Income u/h House Property:		
Gross Annual Value (₹ 5,500 × 12 months)	66,000	
Less: Municipal Taxes paid	(4,500)	
Net Annual Value	61,500	
Less: Deduction u/s 24(a) {30% of NAV}	(18,450)	
Less: Deduction u/s 24(b) {Interest on loan from SBI @ 15% of ₹1,60,000}	(24,000)	
Income u/h House Property		19,050
Income u/h Other Sources:		
• Interest income earned from advancing money to minor son after allowing an exemption of ₹ 1,500 u/s 10 (32) (₹ 4,500 - ₹ 1,500)	3,000	
• Interest income of spouse clubbed (₹ 50,000 × 15%)	7,500	
• Gift (₹ 25,000 × 4)	1,00,000	1,10,500

Gross Total Income	**6,21,050**
Less: Deduction u/s 80C	
• Public Provident Fund & Unit Linked Insurance Plan	(16,500)
• Tax saver deposit with Nationalized bank in the name of his married son does not qualify for deduction u/s 80C. The deposit has to be in Mr Kamal's name.	Nil
• Life Insurance Premium (paid to insure life of married daughter is allowable) (Deduction restricted to 10% of ₹ 2L since policy taken on or after 01.04.2012)	(20,000)
Total Income	5,84,550

Notes:

1. No separate deduction is available for insurance of ₹1,275, while computing income u/h "house property".

2. It is assumed that ₹1,60,000 is the loan outstanding at the beginning of the year and there is no principal repayment of housing loan during the year qualifying for deduction u/s 80C. Interest u/s 24 has, accordingly, been calculated @ 15% of ₹ 1,60,000.

3. It is assumed that Mr Kamal's total income, before including minor's income, is higher than that of his spouse.

4. Net loss from speculation business to be c/f [As per section 73, any loss from speculation business can be set-off only against income from another speculation business. Hence, the net loss from speculation business in the current year has to be c/f to the next year for set-off against speculative business income for that year. Such loss can be c/f for a maximum of four succeeding AYs].

Answer 18

Computation Of Taxable Income Of Mrs SC Bose for AY 2026-27 As Per Regular Provisions Of Income Tax Act:

Particulars	Amount (₹)	Amount (₹)
I. Income From House Property (Self-Occupied Portion, 1st Floor}:		
Net. Annual Value	Nil	
Less: Deduction u/s 24(b) for interest on housing loan taken for purchase of house, ie ₹ 1,68,750 (₹ 3,37,500/2). 50% of total interest is allowed as deduction u/s 24(b) as 50% of the house is used for business purposes.	1,68,750	
Loss From House Property	(1,68,750)	(1,68,750)

II. Income From Business/Profession:		
Net profit as per Income and Expenditure account	20,69,000	
Add: Items Of Expenditure Not Allowable While Computing Business Income		
• Computers & other electronics items purchased {Not allowed since the same is capital expenditure}	4,50,000	
• Expenses incurred in connection with dividends {Not allowed since the expense is in respect of dividend income taxable u/h Other Sources}	12,000	
• Expenses relating to books authored by her {Allowed as deduction considering royalty income is taxable u/h PGBP}	Nil	
• Payment of security deposit made to electricity department (Not allowed as the same is not in the nature of expenditure}	2,00,000	
• Payment of ₹ 2,00,000 paid to farmers for purchases in cash [Section 40(A)(3) is not applicable if payment is made to farmers in cash}	Nil	
• Excessive salary paid to related person, ie brother {₹ 2,40,000- ₹ 1,80,000}	60,000	
Less: Allowable Expenditure & Ineligible Incomes		
• Depreciation on computers and other electronic items purchased during the year {(₹ 4,50,000 - ₹ 1,00,000) × 40% x $\frac{1}{2}$} {No depreciation is allowable on ₹1L since the asset was purchased for personal use. On the remaing amount, depreciation would be allowed at half rate since the asset purchased on 1-12-2025 and put to use for less than 180 days)	(70,000)	
• Depreciation on electronic vehicle purchased on 30-09-2025 put to use for more than 180 days (₹ 25,00,000 × 40%)	(10,00,000)	
• Depreciation on ground floor of house used for shop (₹ 1,10,00,000 × 10% × 50%)	(5,50,000)	
• Interest on housing loan for purchase of house {50% portion of interest is allowed as deduction as the ground floor is used for business purpose}	(1,68,750)	
• Family pension from PSU	(3,60,000)	
• Dividend	(4,50,000)	
• Interest on FDR	(76,000)	
Net Income u/h PGBP		1,16,250

III. Income From Capital Gains:		
Full Value of consideration	11,66,000	
Less: Cost of acquisition	(2,65,000)	
STCG u/s 111A (Taxable @ 20%)		9,01,000
IV. Income From Other Sources:		
• Dividends {Gross dividend of ₹ 5,00,000 less deduction of expenses of ₹ 12,000, subject to maximum limit of 20% of gross dividend}	4,88,000	
• Interest on FDR	76,000	
• Family pension of ₹ 3,60,000 from PSU after allowing deduction of ₹ 15,000 u/s 57 {ie, Lower of 1/3rd of ₹ 3,60,000 or ₹ 15,000}	3,45,000	
Net Income u/h Other Sources		9,09,000
Gross Total Income		17,57,500
Less: Deduction u/s 80QQB {Deduction for royalty income of ₹ 3,50,000 (ie, ₹ 4,25,000 - expenses of ₹ 75,000), restricted to ₹ 3,00,000}		(3,00,000)
Less: Deduction u/s 80TTB {Interest on fixed deposit receipt}		(50,000)
Total Income		14,07,500

Computation Of Net Taxable Income Of Mrs SC Bose for AY 2026-27 As Per Default Tax Regime:

Particulars	Amount (₹)
Total Income as per regular provisions of the Income Tax Act, 1961	14,07,500
Add: Interest on borrowings for self-occupied property {₹3,37,500/2}	1,68,750
Add: 100% deduction u/s 35(2AA) for amount paid to IIT Chennai from scientific research projects	35,000
Add: Deduction u/s 80QQB	3,00,000
Add: Deduction u/s 80TTB	50,000
Less: Extra deduction available in respect of family pension {₹ 25,000 - ₹ 15,000)	(10,000)
Total Income As Per The Provisions Of Section 115BAC	19,51,250

Answer 19

I. Computation Of Total Income & Tax Liability Without Considering Provisions Of Section 115BAC:

Computation Of Total Income Of Ms Purvi (As Per Regular Provisions Of The Income Tax Act, 1961):

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Income & Expenditure A/c	9,28,224	
Add: Inadmissible Expenses/Eligible Incomes:		
• Value of benefits received	10,500	
• Purchase of Car	80,000	
• Municipal Tax	3,000	
• Payment made in cash in excess of ₹ 10,000 {Sec40 A(3)**}**	30,000	
Less: Ineligible Incomes/Eligible Expenses:		
• Dividend on shares	(10,524)	
• Income from Unit Trust of India	(7,600)	
• Honorarium received	(15,800)	
• Rent received	(85,600)	
• Depreciation of car ($80{,}000 \times 15\%$**) (Note 1)**	(12,000)	
Income u/h Business/Profession		9,20,200
Income u/h House Property:		
Gross Annual Value	85,600	
Less: Municipal Taxes	(3,000)	
Net Annual Value	82,600	
Less: Deduction u/s 24(a) @ 30% of NAV	(24,780)	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from House Property		57,820

Income u/h Other Sources:		
• Dividend from Indian Company	10,524	
• Income from UTI	7,600	
• Honorarium received	15,800	
Income from Other Sources		33,924
Gross Total Income		10,11,944
Less: Deduction u/s 80C (NSC)		(10,000)
Less: Deduction u/s 80D (Not available since medical insurance premium is paid in cash)		Nil
Total Income		10,01,944
Total Income (Rounded off u/s 288A)		10,01,940

Computation Of Tax Liability Of Ms Purvi (As Per Regular Provisions Of The Income Tax Act, 1961):

Particulars	Amount (₹)
Tax on ₹ 10,01,940 at slab rates	1,13,082.00
Add: Health & Education Cess @ 4%	4,523.28
Tax Liability	1,17,605.28
Less: Advance Tax	(70,000.00)
Less: TDS (₹ 1,052 + ₹ 760)	(1,812.00)
Tax Payable	45,793.28
Tax Payable (Rounded off u/s 288B)	45,790.00

Note 1: It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has*been provided for u/s 32.

Note 2: Incentive to articled assistants for passing IPCC examination in their first attempt is deductible u/s 37(1).

Note 3: Repairs and maintenance paid in advance for the period 1.4.2026 to 30.9.2026 (ie for 6 months amounting to ₹ 1,000) is allowable since Ms Purvi is following the cash system of accounting.

Note 4: ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to Income & Exp A/c, no further adjustment is required. Further, the balance amount of travelling expenses has been assumed to be incurred on domestic tours in connection with professional work.

II. Computation Of Total Income & Tax Liability Considering Provisions Of Section 115BAC:

Computation Of Total Income Of Ms Purvi (As Per Section 115BAC Of The Income Tax Act, 1961):

If Ms Purvi opts for special provisions u/s 115BAC, her HP income, PGBP income and Other Sources income would remain same because deductions claimed by her under these heads are also allowable even u/s 115BAC. However, deductions u/s 80C-80U are not allowable where Section 115BAC is opted for. Therefore, if Ms Purvi opts for Section 115BAC, her total income would be recomputed as ₹ 10,11,940.

Computation Of Tax Liability Of Ms Purvi (As Per Section 115BAC Of The Income Tax Act, 1961):

Particulars	Amount (₹)
Tax on ₹ 10,11,940 as per concessional slabs given u/s 115BAC	41,194.00
Add: Health & Education Cess @ 4%	1,647.76
Tax Liability	42,841.76
Less: Advance Tax	(70,000.00)
Less: TDS (₹ 1,052 + ₹ 760)	(1,812.00)
Tax Refundable (As Per Section 115BAC of The Income Tax Act, 1961	28,970.24
Tax Refundable (Rounded off u/s 288B)	28,970.00

Final Conclusion: Since tax liability as per the provisions of Section 115BAC is lower than the tax liability under the regular provisions of the Income Tax Act, 1961, it would be beneficial for Ms Purvi to opt for Section 115BAC. Since she is having income from business/profession during PY 2025-26, if she opts for Section 115BAC for PY 2025-26, the said provisions would apply for subsequent assessment years as well.

Answer 20

I. Computation Of Total Income & Tax Liability Without Considering Provisions Of Section 115BAC:

Computation Of Total Income & Tax Liability Of Mr Rakesh (As Per Regular Provisions Of The Income Tax Act):

Computation Of Total Income	Amount (₹)	Amount (₹)
Income u/h House Property:		
• Self-Occupied Portion (Ground Floor):		
Net Annual Value	Nil	
Less: Deduction u/s 24(a) @ 30% of NAV	Nil	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from self-occupied property	Nil	
• Let-Out Portion (First Floor):		
Gross Annual Value (In the absence of any other information, rent received is taken as GAV)	2,28,000	
Less: Municipal Tax (₹ $60{,}000/2$**)**	(30,000)	
Net Annual Value	1,98,000	
Less: Deduction u/s 24(a) @ 30% of NAV	(59,400)	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income from let out house property	1,38,600	
Net Income u/h House Property		1,38,600
Income u/h PGBP:		
Income from SEZ Unit	25,00,000	
Less: Exemption u/s 10AA {Since PY 2025-26 is the 7^{th} **year of operation of SEZ unit, benefit available u/s 10AA shall be 50% of export profits. Export Profits = ₹** $25\ \text{L} \times$ **₹** $140\ \text{L}/$ **₹** $200\ \text{L} =$ **₹ 17.5 L ; thus** 50% **of export profits shall be ₹** $8{,}75{,}000$**}**	(8,75,000)	
Net Income u/h Business/Profession		16,25,000

Income u/h Other Sources:		
• Royalty from artistic book net of expenses incurred for earning royalty	2,48,000	
• Interest on savings bank deposits	40,000	
Income u/h Other Sources		2,88,000
Gross Total Income		20,51,600
Less: Deduction u/s 80C {Tuition fee paid for maximum of two children is allowable (₹ $14K \times 2$**)}**		(28,000)
Less: Deduction u/s 80C {Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr Rakesh}		(39,000)
Less: Deduction u/s 80C {Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr Rakesh}		Nil
Less: Deduction u/s 80QQB {₹ $2{,}88{,}000 \times 15/18 = ₹2{,}40{,}000$**, restricted to amount brought into India in convertible foreign exchange ₹** $2{,}30{,}000$ **minus ₹ 40,000 expenses already allowed as deduction while computing royalty income}**		(1,90,000)
Less: Deduction u/s 80TTA (Interest on savings bank account)		(10,000)
Total Income		17,84,600
Computation of Tax Liability		**Amount (₹)**
Tax on Normal Income of ₹ 17,84,600 as per the standard slab of ₹ 2,50,000		3,47,880
Add: Health & Education Cess @ 4%		13,915
Tax Liability		3,61,795
Tax Liability (Rounded off u/s 288B)		3,61,800

II. Computation Of Total Income & Tax Liability Considering Provisions Of Section 115BAC:

Individuals/HUFs exércising option u/s 115BAC are not allowed to claim the benefit of deduction/exemption u/s 10AA and deductions u/s 80C-80U except 80JJAA.

Computation Of Total Income & Tax Liability Of Mr Rakesh (As Per Section 115BAC of The Income Tax Act):

Computation of Total Income	Amount (₹)
Total Income (Computed Above As Per Regular Provisions)	17,84,600
Add: Deduction/Exemption u/s 10AA	8,75,000
Add: All Deductions u/s 80C-80U except 80JJAA	2,67,000
Total Income	29,26,600
Computation of Tax Liability	**Amount (₹)**
Tax on Normal Income of ₹ 29,26,600 as per as per concessional slabs given u/s 115BAC	4,57,980
Add: Health & Education Cess @ 4%	18,319
Tax Liability	4,76,299
Tax Liability (Rounded off u/s 288B)	4,76,300

Final Conclusion: Since tax liability as per Section 115BAC is higher than the tax liability under normal provisions of the Act, it is beneficial for Mr Rakesh to opt out of the default tax regime as prescribed u/s 115BAC.

Answer 21

I. Computation Of Total Income & Tax Liability Without Considering Provisions Of Section 115BAC:

Computation Of Total Income. Of Mr Siddhant (As Per Regular Provisions Of The Income Tax Act, 1961):

Particulars	Amount (₹)	Amount (₹)
Income u/h Salary:		
• Salary including dearness allowance	4,35,000	
• Bonus	15,000	
• Salary of servant provided by employer [Sec 17(2)(iii); Rule 3(3)]	12,000	
• Free gas, electricity and water [Sec 17(2)(iii); Rule 3(4)]	11,000	
Less: Standard Deduction of ₹ 50,000 u/s 16 (ia)	(50,000)	4,23,000
Income u/h Business/Profession:		
Income from share speculation business	2,700	
Less: Loss from cotton speculation business	(4,200)	
Net loss from speculation business to be c/f	(1,500)	Nil

Income u/h House Property:		.
Gross Annual Value (Rent receivable is taken as GAV in the absence of other information) (₹3,500 × 12**)**	42,000	
Less: Municipal Taxes paid	(4,300)	
Net Annual Value	37,700	
Less: Deduction u/s 24(a) (30% of NAV)	(11,310)	
Less: Deduction u/s 24(b) (Interest on loan from LIC @ 15% of ₹ 1,60,000)	(24,000)	
Income u/h House Property		2,390
Income u/h Other Sources:		
• **Interest income earned from advancing money to minor son after allowing an exemption of ₹** 1,500 **u/s** 10 **(32)** {(₹20,000 × 19%**) - ₹ 1,500**}	2,300	
• **Interest income of spouse clubbed (₹** 30,000 × 19%**)**	5,700	
• **Gift (₹** 30,000 × 4**)**	1,20,000	1,28,000
Gross Total Income		5,53,390
Less: Deduction u/s 80C (Public Provident Fund)		(50,000)
Total Income		5,03,390

Since Siddhant's total income as per the normal provisions exceeds ₹ 5,00,000, he would not be eligible for rebate u/s 87A.

Computation Of Tax Liability Of Mr Siddhant (As Per Regular Provisions Of The Income Tax Act, 1961):

Particulars	Amount (₹)
Tax on total income of ₹ 5,03,390 **at slab rates**	13,178.00
Add: Health & Education Cess @ 4%	527.12
Tax Liability (Rounded Off u/s 288B)	13,710

Note 1: It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2026.

Note 2: Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction u/s 80GG in respect of rent paid by him for his accommodation in Delhi, because one of the conditions to be satisfied for claiming deduction u/s 80GG is that the assessee should not own any residential accommodation in the same place.

II. Computation Of Total Income & Tax Liability Considering Provisions Of Section 115BAC:

Computation Of Total Income Of Mr Siddhant (As Per Section 115BAC of The Income Tax Act, 1961):

Particulars	Amount (₹)
Total Income as per regular provisions of the Income Tax Act	5,03,390
Less: Extra benefit in respect of standard deduction available u/s 16(ia)	25,000
Add: Exemption u/s 10(32) as it would not be available under the special provisions	1,500
Add: Deduction u/s 80C as deductions u/s 80C-80U are not allowable under the special provisions	50,000
Total Income (As Per Section 115BAC of The Income Tax Act, 1961)	5,29,890

Computation Of Tax Liability Of Mr Siddhant (As Per Section 115BAC of The Income Tax Act, 1961):

Particulars	Amount (₹)
Tax on total income of ₹ 5,29,890 as per concessional slabs given u/s 115BAC	6,494750
Less: Rebate u/s 87A (Available since total income doesn't exceed ₹ 12,00,000)	(6,494.50)
Tax Liability (As Per Section 115BAC of The Income Tax Act, 1961)	Nil

Final Conclusion: Since Mr Siddhant is not liable to pay any tax under default tax regime u/s 115BAC, it would be beneficial for him to continue under the default tax regime for AY 2026-27.

(b) ₹ 1,03,060

(c) ₹ 2,35,990

(d) ₹ 2,33,680

6. Mr. Subhash, an Indian citizen, is currently in employment with an overseas company located in Country X. During the previous year 2025-26, he comes to India for 135 days. He is in India for 100 days, 50 days, 76 days and 45 days in the financial years 2021-22, 2022-23, 2023-24 and 2024-25, respectively. His annual income for the previous year 2025-26 is as follows:

Particulars	Amount (₹)
Income from salary earned and received in Country X	2,00,000
Income earned and received from a house property situated in Country X	5,00,000
Income deemed to be accrued and arise in India	2,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	4,00,000

Determine the residential status of Mr. Subhash for the assessment year 2026-27. He is not liable to pay tax in Country X.

7. Ms. Nisha is a marketing manager in Rose Ltd. She gives you the following details for P.Y. 2025-26:

(i) Basic salary of ₹ 45,000 p.m.

(ii) Dearness Allowance of ₹ 10,000 p.m. (30% is for retirement benefits)

(iii) Bonus of one-month basic salary

(iv) She contributes 18% of her salary (Basic Pay + DA) towards recognised provident fund and the company contributes the same amount.

(v) Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Nisha from 1st November, 2025

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.

(vi) The company pays medical insurance premium of ₹ 18,000 to effect insurance on the health of Ms. Nisha.

(vii) Her employer gave him a rent free accommodation in Mumbai from 1.4.2024. The house was taken on lease by Rose Ltd. for ₹ 12.000 p.m. The perquisite value of such accommodation for the P.Y. 2024-25 was ₹ 55,000.

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(viii) Company incurred expenses on the treatment of her daughter abroad including stay expenses of ₹ 1,50,000 as permitted by the RBI.

(ix) 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 Assessment Year 2026-27 under optional tax regime.

8. Mr. Vipul furnished the following details for the previous year 2025-26:

(i) Loss from House Property (computed) in India – ₹ 2,60,000

(ii) Income from business in India – ₹ 8,60,000

(iii) Short Term Capital Gain on sale of equity shares listed in recognized stock exchange (STT paid) – ₹ 1,99,800

(iv) Income from card game (Gross) – ₹ 1,02,500

(v) Loss from betting (Gross) – ₹ 87,500

(vi) Expenses of Lottery Income – ₹ 7,500

(vii) Income from Lottery Income – ₹ 38,500 (Net of TDS)

(viii) Loss from the activity of owning and maintaining camels for races – ₹ 20,000

(ix) Income from the activity of owning and maintaining race horses – ₹ 97,800

(x) Long term capital gain on sale of land – ₹ 25,000

(xi) Income of minor daughter Riya from script writing for Television series - ₹ 15,000

(xii) Interest income of minor son Saurabh who suffers from disability specified in section 80U - ₹ 2,50,000

Following are the brought forward losses:

- Loss from Textile Business pertaining to A.Y. 2014-15 – ₹ 7,000
- Long-term capital loss pertaining to A.Y. 2017-18 – ₹ 1,12,500
- Short term capital loss pertaining to A.Y. 2018-19 – ₹ 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.

9. Examine the applicability and determine the amount of tax deduction/ collection at source as per the Income-tax Act, 1961 for the A.Y. 2026-27 in the following situations:

(i) ABC Ltd. sells a flat to Mr. Jatin for ₹ 47 lakhs on 15.5.2025. 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.

(ii) State Government of Jharkhand grants a lease of coal mine to M/s XYZ Ltd. on 1.5.2025 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 P.Y. 2025-26. The turnover of XYZ Ltd. and M/s LMN, PSU, for the F.Y. 2024-25 amounted to ₹ 5.5 crores and ₹ 11 crores, respectively.

10. 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:

(i) ₹ 25,000 paid to creditor for goods in cash.

(ii) Gross interest received from saving bank account ₹ 15,000.

(iii) Contribution to notified approved research association for scientific research ₹ 1,10,000.

(iv) 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.

(v) Normal depreciation of ₹ 4,50,000 as per Income-tax Rules, 1962 including depreciation on ₹ 15 lakhs, being the cost of new machinery purchased and put to use on 01-09-2025.

(vi) Subsidy of 20% on new machinery under technology upgradation fund Scheme from the Central Government which was credited to profit and loss account.

(vii) 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.

(viii) General expenses include revenue expenditure incurred for promoting family planning amongst its employees of ₹ 75,000.

(ix) On 01-03-2026, 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 18-04-2026. There was no agreement for payment period between them.

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 30-04-2026.

(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 80C.

(d) He sold a gold bracelet on 01-05-2025 for ₹ 5,00,000, which was acquired for ₹ 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹ 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2025-26:376)

Required:

Compute the total income and tax liability of Mr. Yuvaan for the assessment year 2026-27 under default tax regime and optional tax regime.

The turnover of the business for the financial year 2024-25 is ₹ 250 lakhs and for F.Y. 2025-26 is ₹ 300 lakhs.

SUGGESTED ANSWERS

Question No.	Answer
1.	**(b)** ₹ 8,01,960
2.	**(c)** Nil
3.	**(a)** ₹ 12,01,960
4.	**(d)** ₹ 2,040
5.	**(a)** ₹ 1,13,460

6. Mr. Subhash is an Indian citizen in employment in Country X. He comes on a visit to India during the P.Y.2025-26 for 135 days. His stay in India in the four immediately preceding previous years is as follows:

P.Y. 2021-22 – 100 days

P.Y. 2022-23 – 50 days

P.Y. 2023-24 – 76 days

P.Y. 2024-25 – 45 days

Total – 271 days

Mr. Subhash, an Indian citizen, visiting India in the P.Y.2025-26, would be a resident in India for A.Y.2026-27, if he satisfies either of the following conditions –

(i) He is in India for 182 days or more during the P.Y.2025-26 or

(ii) He is in India for a period of 120 days or more during the P.Y.2025-26 and his stay in India in the four immediately preceding previous years is 365 days or more if his total income (excluding income from foreign sources) exceeds ₹ 15 lakhs.

Since he did not satisfy either of the conditions, Mr. Subhash is a non-resident in P.Y. 2025-26 as per section 6(1).

However, he would be deemed resident under section 6(1A) if his total income (excluding income from foreign sources) exceeds ₹ 15 lakhs irrespective of the period of his stay in India in the relevant previous year.

Computation of Total Income (excluding income from foreign sources) of Mr. Subhash

Particulars	Amount (₹)
Income from salary earned and received in Country X (income from a foreign source, hence, to be excluded)	-
Income earned and received from a house property situated in Country X (income from a foreign source, hence, to be excluded)	-
Income deemed to be accrued and arise in India	2,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arise in India	4,00,000
Total Income (excluding income from foreign sources) of Mr. Subhash	**16,00,000**

Since Mr. Subhash is an Indian citizen having total income (excluding income from foreign sources) exceeding ₹ 15 lakhs and not liable to tax in Country X, he would be a deemed resident in P.Y. 2025-26 as per section 6(1A). He would be treated as resident but not ordinarily resident.

7. Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Nisha for A.Y.2026-27

Particulars		₹
Basic Salary [₹ 45,000 x 12]		5,40,000
Dearness allowance [₹ 10,000 x 12]		1,20,000
Bonus		45,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 18% x [(₹ 45,000 + ₹ 10,000) x 12] – 12% x {[₹ 45,000 + ₹ 3,000 (being 30% of ₹ 10,000)] x 12} = ₹ 1,18,800 – ₹ 69,120 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		49,680
Perquisite value		
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employee - the perquisite value would be ₹ 900 p.m. [₹ 900 × 5 months]		4,500
Medical insurance premium of ₹ 18,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite		-

Value of rent free accommodation [Lower of ₹ 62,100 i.e., 10% of ₹ 6,21,000 (₹ 5,40,000, being salary + ₹ 36,000, being DA forming part of retirement benefit + ₹ 45,000, being bonus) or ₹ 1,44,000, being rent paid by the employer]	62,100	
As per Rule 3, value of perquisite in case of accommodation continued to be provided to an employee for more than one previous year, shall not exceed the amount calculated for first previous year, as multiplied by the amount which is a ratio of CII for the previous year for which the value is calculated and CII for the previous year in which accommodation was initially provided to the employee.		
Accordingly, value of perquisite for P.Y. 2025-26 to be restricted to = ₹ 55,000 x 376/363	56,970	56,970
Medical expenditure including stay expenses of ₹ 1,50,000 incurred by employer for treatment of her daughter outside India [Exempt since it is permitted under RBI guidelines]		-
Travel expense of ₹ 80,000 incurred by employer on foreign travel for medical treatment [Travel expenses would be exempt, since Ms. Nisha's gross total income before including travel expenditure does not exceed ₹ 8 lakhs.]		-
Gross Salary		**8,16,150**
Less: Standard deduction under section 16(ia)		50,000
Salary chargeable to tax		**7,66,150**

8. Computation of Gross total income of Mr. Vipul for the A.Y. 2026-27

	Particulars	Amount (₹)	Amount (₹)
(i)	**Profits and gains of business or profession**		
	Income from business in India	8,60,000	
	Less: Set-off of loss from activity of owning and maintaining camel for races	20,000	
		8,40,000	
	Less: Loss from house property of ₹ 2,60,000 can be set-off against any other head of income to the extent of ₹ 2,00,000.	2,00,000	
	***Note** – Loss from activity of owning and maintaining camel for races and loss from house property can first be set off against short term capital gains and then against business income.*		
		6,40,000	
	Less: Unabsorbed loss from textile business pertaining to A.Y. 2014-15 cannot be set-off against the business income of the A.Y. 2026-27, since loss can be carried forward for a maximum of eight assessment years.	-	6,40,000
(ii)	**Capital Gains**		
	Short Term Capital Gain on sale of equity shares listed in a recognized stock exchange (STT paid)	1,99,800	
	Less: Short-term capital loss of A.Y. 2018-19	90,200	1,09,600

	Long term capital Gain on Sale of land	25,000	
	Less: Long-term capital loss pertaining to A.Y. 2017-18 cannot be set-off against LTCG of the A.Y. 2026-27, since such loss can be carried forward for a maximum of eight assessment years.	-	25,000
(iii)	**Income from other sources**		
	Income from card game	1,02,500	
	Income from Lottery [Expenses of Lottery income are not allowed as a deduction] [₹ 38,500/(100-30)]	55,000	
	Income from the activity of owning and maintaining race horses	97,800	
	Income of ₹ 15,000 of minor daughter Riya from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]	-	
	Income of ₹ 2,50,000 of minor son Saurabh who suffers from disability specified in section 80U [Since minor child Saurabh is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]	-	2,55,300
Gross Total Income			**10,29,900**

Item eligible for carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Current year loss from House property	60,000
Loss from betting can neither be set off against any other income, nor can it be carried forward.	-

9. (i) Section 194-IA requires deduction of tax @1% of consideration for transfer or stamp duty value, whichever is higher, by every transferee responsible for paying any sum as consideration for transfer of immovable property (land, other than agricultural land, or building or part of building) to a resident transferor.

Tax is not required to be deducted at source where the total amount of consideration for the transfer of immovable property and the stamp duty value both are less than ₹ 50 lakhs. Consideration for transfer of any immovable property includes, *inter alia,* club membership fee, car parking fee, maintenance fee, which are incidental to transfer of the immovable property.

In the present case, since the consideration for transfer of flat by Mr. Jatin to ABC Ltd. is ₹ 53,40,000 (₹ 47 lakhs + ₹ 2,40,000, being ₹ 10,000 x 12 x 2 + ₹ 3 lakhs + ₹ 1 lakh) which is not less than ₹ 50 lakhs, Mr. Jatin is required to deduct tax @1% on ₹ 53,40,000, being higher of consideration and stamp duty value.

Tax deductible by Mr. Jatin would be ₹ 53,400.

(ii) State Government is required to collect tax at source @ 2% u/s 206C(1C) on ₹ 7 crores, being the charges for lease of coal mine.

Accordingly, TCS = 2% x ₹ 7 crores = ₹ 14,00,000

Every person, being a seller, is required to collect at source @1% under section 206C(1) on sale of coal to a buyer. However, a public sector company is not covered within the definition of buyer.

Accordingly, M/s XYZ Ltd. is not required to collect tax at source on sale of coal to M/s LMN, a PSU.

However, since the turnover of M/s LMN, a PSU exceeds ₹ 10 crores during the P.Y. 2024-25, it is required to deduct tax at source under section 194Q @0.1% of sum exceeding ₹ 50 lakhs paid to M/s XYZ Ltd.

Accordingly, TDS = 0.1% x ₹ 1.50 crores = ₹ 15,000.

10. Computation of total income of Mr. Yuvaan for A.Y. 2026-27 under default tax regime

	Particulars	₹	₹	₹
I	**Income from house property**			
	Rent received (GAV)		3,50,000	
	Less: Municipal taxes [Will be allowed only in the year of actual payment. Since it was paid on 30.4.2026 i.e., after the end of the relevant previous year, it will be allowed only in P.Y. 2026-27.		-	
	NAV		3,50,000	
	Less: Deduction under section 24			
	- 30% of NAV	1,05,000		
	- interest on housing loan	80,000	1,85,000	
				1,65,000
II	**Income from business or profession**			
	Net profit as per profit and loss account		20,00,000	
	***Add*: Items of expenditure not allowable while computing business income**			
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure by virtue of	25,000		

		section 40A(3), since such amount exceeds ₹ 10,000 and paid in cash]		
	-	Contribution to notified approved research association for scientific research [Not allowable under default tax regime]	1,10,000	
	-	Job charges without deduction of tax [30% of ₹ 1,10,000] [Mr. Yuvaan's turnover for the P.Y. 2024-25 exceeds ₹ 1 crore, hence, he is liable to deduct tax at source u/s 194C on Job charges of ₹ 1,10,000. Since he has not deducted tax at source on ₹ 1,10,000, 30% would be disallowed under section 40(a)(ia)]	33,000	
	-	Insurance deposited with LIC of India for the maintenance of her mother [Personal expenses not allowable under section 37]	50,000	
	-	Revenue expenditure incurred for promoting family planning [Allowable only in case of company and not allowable for non-corporate assessee]	75,000	
	-	Purchases made from Kanha & Co., a medium enterprise [Disallowance under section 43B(h) is not applicable on	-	2,93,000

	payment to a medium enterprise. Accordingly, allowable on due basis during the P.Y. 2025-26]			
			22,93,000	
	Less: **Items credited but not taxable or taxable under other heads**			
	- Gross interest received from saving bank account	15,000		
	- Subsidy on new machinery [Subsidy on new machinery has to be reduced from actual cost of machinery]	3,00,000	3,15,000	
			19,78,000	
	Add: Depreciation claimed on subsidy received for new machinery [₹ 15 lakhs x 20% x 15%]		45,000	
	Less: Additional depreciation on new machinery [Not allowable under default tax regime]		-	20,23,000
III	**Capital Gains**			
	Long term capital gain on sale of gold bracelet since it is held for more than 24 months			
	Sale consideration		5,00,000	
	Less: Cost of acquisition		40,000	
	Less: Cost of improvement		50,000	
	Long term capital gains			4,10,000
IV	**Income from other sources**			
	- Gross interest received from saving bank account		15,000	

- Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mr. Yuvaan]		75,000	90,000
Gross Total Income			**26,88,000**
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Housing loan repayment [Not allowed under default tax regime]		-	
Deduction under section 80DD			
Deposit with life insurance Corporation of India for the maintenance of her mother [Not allowed under default tax regime]		-	
Deduction under section 80TTA			
Interest on saving bank account [Not allowed under default tax regime]		-	-
Total Income			**26,88,000**

Computation of tax liability of Mr. Yuvaan for A.Y. 2026-27 under default tax regime

Particulars	₹	₹
Tax @12.5% on LTCG of ₹ 4,10,000 on sale of gold bracelet		51,250
Tax at slab rate on balance income of ₹ 22,78,000		

Upto ₹ 4,00,000	Nil	
₹ 4,00,001 – ₹ 8,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 8,00,001 – ₹ 12,00,000 [@10% of ₹ 4 lakhs]	40,000	
₹ 12,00,001 – ₹ 16,00,000 [@15% of ₹ 4 lakhs]	60,000	
₹ 16,00,001 – ₹ 20,00,000 [@20% of ₹ 4 lakhs]	80,000	
₹ 20,00,001 - ₹ 22,78,000 [@ 25% of ₹ 2,78,000]	69,500	2,69,500
		3,20,750
Add: Health and education cess@4%		12,830
Tax liability		**3,33,580**

Computation of total income of Mr. Yuvaan for A.Y. 2026-27 under optional tax regime

Particulars	₹
Gross Total Income as per default tax regime	**26,88,000**
Less: Contribution to notified approved research association for scientific research [Allowable as deduction under section 35(1)(ii) under optional tax regime]	1,10,000
Less: Additional depreciation on new machinery [(₹ 15,00,000 - ₹ 3,00,000) x 20%]	2,40,000
Gross Total Income as per optional tax regime	23,38,000
Less: Deduction under Chapter VI-A	
Deduction under section 80C	
Housing loan repayment	75,000
Deduction under section 80DD	
Deposit with life insurance Corporation of India for the maintenance of her mother	1,25,000
Deduction under section 80TTA	
Interest on saving bank account	10,000
Total Income as per optional tax regime	**21,28,000**

Computation of tax liability of Mr. Yuvaan for A.Y. 2026-27 under optional tax regime

Particulars	₹	₹
Tax @12.5% on LTCG of ₹ 4,10,000 on sale of gold bracelet		51,250
Tax at slab rate on balance income of ₹ 17,18,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 - ₹ 17,18,000 [@ 30% of ₹ 7,18,000]	2,15,400	3,27,900
		3,79,150
Add: Health and education cess@4%		15,166
Tax liability		3,94,316
Tax liability (Rounded off)		**3,94,320**

Division B – Descriptive Questions

*Question No. **1** is compulsory*

*Attempt any **two** questions from the remaining **three** questions*

1. Mr. Ayush, a resident individual, aged 62 years, is a qualified medical practitioner. He runs his own clinic. Income & Expenditure A/c of Mr. Ayush for the year ending 31.3.2026 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	7,20,000	By Consultation Fees	74,28,000
To Administrative Exp.	11,64,000	By Salary received from True Care Hospitals (P) Ltd.	10,80,000
To Rent of clinic	5,76,000	By Rental Income from House Property	2,40,000
To Conveyance Expenses	1,44,000	By Dividend from Foreign Companies (gross)	60,000
To Power & Fuel	1,44,000		
To Interest on Housing Loan	2,20,000		
To Interest on Education Loan for son	1,56,000		
To Amount paid to scientific research association approved & notified under section 35	1,50,000		
To net profit	55,34,000		
Total	**88,08,000**	**Total**	**88,08,000**

(i) He is working part-time with True Care Hospitals (P) Ltd. His salary details are as under:

Basic Pay	₹ 85,000 p.m.
Transport Allowance	₹ 5,000 p.m.
Total	₹ 90,000 p.m.

Further, during P.Y. 2025-26, his son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 1,60,000 for a similar treatment to unrelated patients.

(ii) He owns a residential house. The reconstruction of the house was started on 01.04.2025 and was completed on 30.09.2025. After reconstruction, ground floor of the house is self-occupied by him while first floor has been rented out since 1.10.2025. Both the floors are of equal area. The monthly rent is ₹ 40,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. He took a housing loan of ₹ 25 lakhs for reconstruction on 01.04.2025. Interest on housing loan for the period 01.04.2025 to 30.09.2025 was ₹ 1,20,000 and for the period 01.10.2025 to 31.03.2026 was ₹ 1,00,000. During the year, he also paid municipal taxes for the F.Y. 2024-25: ₹ 5,000 and for F.Y. 2025-26: ₹ 5,000.

Other information:

(a) Conveyance expenses include a sum of ₹ 48,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and *vice versa* in relation to his employment.

(b) Power & fuel expenses include a sum of ₹ 10,000 incurred for generator fuel for providing power back-up to the tenant.

(c) Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for his house.

(d) Clinic equipment's details are:

Opening W.D.V. of clinic equipment as on 01-04-2025 was ₹ 5,00,000 and fresh purchase made on 28-08-2025 is ₹ 75,000 which was paid in cash.

(e) He also paid tuition fee of ₹ 40,000 for his grand-daughter, which has been debited to his Capital A/c.

(f) He availed a loan of ₹ 25,00,000 from bank for higher education of his son. He repaid principal of ₹ 3,00,000 and interest of ₹ 1,56,000 during P.Y. 2025-26.

You are required to compute the total income of Mr. Ayush for the A.Y. 2026-27 under both the regimes. **(15 Marks)**

2. (a) Mr. Dhruv, an Indian citizen aged 32 years, a Central Government officer serving in the Ministry of Corporate Affairs, left India for the first time on 31.03.2025 due to transfer to High Commission of UK. He did not visit India any time during the previous year 2025-26. He received the following income for the previous year 2025-26:

(i)	Salaries received for services rendered in London (computed)	20,00,000
(ii)	Foreign Allowances	10,00,000
(iii)	Interest on saving bank deposit in State Bank of India	1,00,000

Mock Test Paper - Series I: March, 2026

Date of Paper: 20th March, 2026

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(a)
	(ii)	(c)
	(iii)	(b)
2.	(i)	(a)
	(ii)	(c)
	(iii)	(d)

MCQ No.	Most Appropriate Answer
3.	(a)
4.	(d)

Division B – Descriptive Questions

1. Computation of total income of Mr. Ayush for A.Y. 2026-27 under default tax regime

	Particulars	₹	₹	₹
I	**Income from Salaries**			
	Basic Pay (₹ 85,000 x 12)		10,20,000	
	Transport Allowance (₹ 5,000 x 12) [Fully taxable]		60,000	
	Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is excluded from the definition of perquisite]		Nil	
	Gross Salary		**10,80,000**	

	Less: Standard deduction u/s 16 [Actual salary or ₹ 75,000, whichever is less]		75,000	
				10,05,000
II	**Income from House Property**			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV = ₹ 40,000 p.m. x 6 months]		2,40,000	
	Less: Municipal taxes paid by him in the P.Y.2025-26 pertaining to let out portion [(₹ 5,000 + ₹ 5,000)/2], allowable since it is paid during the year, even if it relates to earlier years		5,000	
	Net Annual Value (NAV)		2,35,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,35,000	70,500		
	(b) Interest on housing loan [(₹ 1,20,000 (+) ₹ 1,00,000)/2]	1,10,000	1,80,500	
			54,500	
	Self-occupied portion [Ground Floor]			
	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on housing loan for reconstruction [Not allowed under default tax regime]	Nil	Nil	
				54,500
III	**Profits and gains of business or profession**			
	Net profit as per Income and Expenditure account		55,34,000	

***Less*: Items of income to be treated separately under the respective head of income**		
(i) Salary received from True Care Hospitals (P) Ltd.	10,80,000	
(ii) Rent from house property	2,40,000	
(iii) Dividend from foreign companies (gross)	60,000	
		13,80,000
		41,54,000
***Less*: Allowable expenditure**		
• Depreciation on Clinic equipment		
On Opening WDV ₹ 5,00,000 @15%	75,000	
On additions during the year ₹ 75,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost.	Nil	75,000
		40,79,000
***Add*: Items of expenditure not allowable while computing business income**		
(i) Interest on housing loan for reconstruction of residential house	2,20,000	
(ii) Interest on education loan for son	1,56,000	
(iii) Amount paid to scientific research association approved & notified under section 35, not allowed under default tax regime	1,50,000	
(iii) Conveyance expenses in relation to his employment with True Care Hospitals debited to Income and Expenditure A/c, not allowed	48,000	
(iv) Power and fuel expenses incurred for providing power back up to tenant not deductible	10,000	

	(v) Municipal tax paid relating to residential house included in administrative expenses, not deductible	10,000	5,94,000	46,73,000
IV	**Income from Other Sources**			
	Power back up charges from tenant (₹ 3,000 p.m. x 6 months)	18,000		
	Less: Actual expenditure incurred for providing power back up	10,000	8,000	
	Dividend from foreign companies		60,000	68,000
	Gross Total Income			**58,00,500**
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C [Not allowed under default tax regime]		Nil	
	Deduction under section 80E [Not allowed under default tax regime]		Nil	Nil
	Total income			**58,00,500**

Computation of total income of Mr. Ayush for A.Y. 2026-27 under optional tax regime

Particulars	₹
Gross Total Income under default tax regime	**58,00,500**
Add: Difference in standard deduction under section 16	25,000
	58,25,500
Less: Interest on housing loan for reconstruction of house [Self occupied portion], restricted to	30,000
Less: Amount paid to scientific research association approved & notified under section 35	1,50,000
Gross Total Income as per optional tax regime	**56,45,500**
Less: Deduction under Chapter VI-A	
Deduction under section 80C – Tuition fee paid for grand child is not allowable	Nil
Deduction under section 80E - Interest on loan taken for higher education of his son is deductible [principal repayment is not deductible]	1,56,000
Total Income as per optional tax regime	**54,89,500**

3.7.2025	New machinery purchased during the year, payment made by an account pay cheque.	7,25,000
10.3.2026	Sold one of the old machineries	75,000

She does not have any other fixed assets employed in the business.

(b) Incurred loss of ₹ 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.

(c) Commission paid to one agent allowed as deduction in earlier assessment year amounting ₹ 50,000, has now been received back during previous year 2025-26, from the agent due to settlement with commission agent.

(d) She received a gold coin (bullion) worth ₹ 55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2025-26.

(e) She deposited a sum of ₹ 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.

(f) She also sold her vacant land on 01.12.2025 for ₹ 15,25,000. The land was purchased in May 2013 and the cost of acquisition of such land was ₹ 4.8 lakhs.

The CII for the F.Y. 2025-26 and 2013-14 are 376 and 220, respectively.

You are required to compute the total income and tax liability of Mrs. Natasha for the assessment year 2026-27 under both the regimes. Give brief note wherever necessary.

(15 Marks)

2. (a) Mrs. Reshma, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending 31.03.2026:

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profit from business carried on in Orissa	80,000
3	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris)	42,000
4	Loss from business carried on in Canada (though profits are not received in India, business is controlled from Dehradun)	(46,000)

5	Unabsorbed depreciation of business in Canada	16,000
6	Profit from Indonesia business (controlled form Delhi) and 60% of profit deposited in a bank in Indonesia and 40% received in India	70,000

Determine the gross total income of Reshma for the A.Y. 2026-27 ignoring the provisions of section 115BAC on the assumption that she is:

(1) Resident but not ordinarily resident in India

(2) Non-resident in India. **(6 Marks)**

(b) Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2026-27. (State applicable provision and give brief reasons for your answer, wherever applicable)

(i) Manoj, a part time director of ABC Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2025 to 31.03.2026. **(1 Mark)**

(ii) Mr. Aggarwal, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹ 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P. He has received the interest on saving account of ₹ 15,000 during the P.Y. 2025-26. His pension is also credited in this account. In the same bank he has deposited ₹ 10 lakhs in a 5 years Term Deposit @7% simple interest on 01.07.2025. He has no other income. He has opted out of the default tax regime. **(3 Marks)**

3. (a) Mr. Aditya owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @8% of the Municipal Value were paid during the year by Mr. Aditya. He made the following payments in respect of the house property during the previous year 2025-26:

Light and Water charges	₹ 2,000
Repairs	₹ 1,45,000
Interest on loan taken for the repair of property	₹ 36,000

Mr. Aditya has taken a loan of ₹ 5,00,000 in July, 2020 for the construction of the above house property. Construction was completed on 30th June, 2023. He

Mock Test Paper - Series II: April, 2026

Date of Paper: 6th April, 2026

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(a)
	(ii)	(c)
	(iii)	(c)
	(iv)	(d)
	(v)	(b)
	(vi)	(a)

MCQ No.	Most Appropriate Answer
2.	(a)
3.	(b)

Division B – Descriptive Questions

1. Computation of total income of Mrs. Natasha for A.Y. 2026-27 under default tax regime

	Particulars	₹	₹	₹
I	**Income from business or profession**			
	Net Profit as per profit and loss account		15,61,000	
	***Add*: Disallowances not considered while computing business income**			
	- Job charges without deduction of tax [30% of ₹ 90,000] [Mrs. Natasha's turnover for the P.Y. 2024-25 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on job charges of ₹ 90,000. Since Mrs. Natasha has not deducted tax at source on ₹ 90,000, 30% would be disallowed u/s 40(a)(ia).	27,000		
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as	25,000	52,000	

	business expenditure as per section 40A(3), since such amount exceeds ₹ 10,000 and paid in cash]		
			16,13,000
	***Less*: Items credited but not taxable while computing business income**		
	- Subsidy on new machinery [20% x ₹ 7,25,000] [Subsidy received from Central Government on new machinery is to be reduced from actual cost.]	1,45,000	
	- Interest on capital from partnership firm [₹ 2,00,000/15% x 3%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm u/s 40(b) even for sleeping partner. Consequently, interest @ 12% p.a. would be the business income of Mrs. Natasha u/s 28. Hence, 3% would not be taxable as business income of Mrs. Natasha]	40,000	1,85,000
			14,28,000
	***Add*: Items not credited but taxable while computing business income**		
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2025-26, Mrs. Natasha received back such amount due to settlement, the same would be deemed as her income u/s 41(1)]		50,000
			14,78,000
	Less: Depreciation as per Income-tax Rules		
	Opening WDV of machinery 4,75,000		
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2025-26 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central 5,80,000		

	Government on new machinery is to be reduced from actual cost (₹ 7,25,000 – ₹ 1,45,000).				
		10,55,000			
	Less: Sale proceeds	75,000			
	WDV as on 31.3.2026 before depreciation for P.Y. 2025-26	9,80,000			
	Depreciation @15% on ₹ 9,80,000		1,47,000		
	Additional Depreciation [Not allowable under default tax regime]		-	1,47,000	
				13,31,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income			1,17,500	
					12,13,500
II	**Capital Gains**				
	Long term capital gain on sale of vacant land since it is held for more than 24 months				
	Sales consideration			15,25,000	
	Less: Cost of acquisition			4,80,000	
					10,45,000
III	**Income from Other Sources**				
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]				55,000
	Gross Total Income				**23,13,500**
	***Less:* Deduction under Chapter VI-A**				
	Deduction under section 80DD [Not allowable under default tax regime]				-
	Total Income				**23,13,500**

Computation of tax liability of Mrs. Natasha for A.Y.2026-27 under default tax regime

Particulars	₹
Tax on total income of ₹ 23,13,500	
Tax on LTCG on sale of vacant land	
As the asset is a long-term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.	
Tax @20% with indexation	
Sale consideration = ₹ 15,25,000	
Cost of acquisition = ₹ 4,80,000 x 376/220 = ₹ 8,20,364	
Gain = ₹ 7,04,636	
Tax @20% = ₹ 7,04,636 x 20% = ₹ 1,40,927	
Tax @12.5% without indexation	
Tax @12.5% = ₹ 10,45,000 x 12.5% = ₹ 1,30,625	
Tax on LTCG on sale of vacant land @12.5% without indexation	1,30,625
Tax on other income of ₹ 12,68,500 at slab rates	70,275
	2,00,900
Add: Health and education cess@4%	8,036
Tax liability	**2,08,936**
Tax liability (rounded off)	**2,08,940**

Computation of total income of Mrs. Natasha for A.Y. 2026-27 under optional tax regime

Particulars	₹
Gross Total Income as per default tax regime	**23,13,500**
Less: Additional depreciation on new machinery @20% on ₹ 5,80,000	1,16,000
Gross Total Income as per optional tax regime	21,97,500
***Less:* Deduction under Chapter VI-A**	
Deduction under section 80DD [Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹ 1,25,000 in case of severe disability irrespective of amount deposited with LIC]	1,25,000
Total Income as per optional tax regime	**20,72,500**

Computation of tax liability of Mrs. Natasha for A.Y.2026-27 under optional tax regime

Particulars	₹
Tax on total income of ₹ 20,72,500	
Tax on LTCG on sale of vacant land @12.5% without indexation (as computed above)	1,30,625
Tax on other income of ₹ 10,27,500 at slab rates	1,20,750
	2,51,375
Add: Health and education cess@4%	10,055
Tax liability	**2,61,430**

2. (a) Computation of gross total Income of Mrs. Reshma for the A.Y. 2026-27

	Particulars of income	Resident but not ordinarily Resident (₹)	Non-Resident (₹)
1	Salary income received in Malaysia for services rendered there (Note 1)	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	50,000	50,000
		1,50,000	1,50,000
2	Profit from business carried on in Orissa [Since it accrues or arises in India]	80,000	80,000
3	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris) [Since it accrues or arises outside India]	Nil	Nil
4	Loss from business carried on in Canada (business is controlled from Dehradun)	(46,000)	Nil
5	Unabsorbed depreciation of business in Canada	(16,000)	Nil
6	Profit from Indonesia business (business is controlled from Delhi)	70,000	28,000
Gross Total Income		**2,38,000**	**2,58,000**

Note 1 - Income from "Salaries" payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.